

*Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules*

The Terraces at San Joaquin Gardens

As of and for the Year ended December 31, 2017

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Report of Independent Auditors

To the Members of the Board of Directors
The Terraces at San Joaquin Gardens
(a Member of HumanGood)

Report on the Financial Statements

We have audited the accompanying financial statements of The Terraces at San Joaquin Gardens (a Member of HumanGood), which comprise the continuing care liquid reserve schedules, Forms 5-1 through Form 5-5, as of and for the year ended December 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserves of The Terraces at San Joaquin Gardens as of and for the year ended December 31, 2017, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by The Terraces at San Joaquin Gardens on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules of Attachment I to Form 5-1 and 5-2: Interest Expense Reconciliation, Attachment II to Form 5-4: Deductions from Operating Expenses, Attachment III to Form 5-4: Operating Expenses from Financial Statements, Attachment IV to Form 5-5: Schedule of Qualifying Assets – Debt Service Reserve, Description of Reserves Under SB 1212, and Per Capita Cost of Operations, presented as supplementary schedules, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, taken as a whole.

Restriction on Use

Our report is intended solely for the information and use of management and the board of directors of The Terraces at San Joaquin Gardens and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.



San Francisco, California
April 30, 2018

Continuing Care Liquid Reserve Schedules

The Terraces at San Joaquin Gardens
Form 5-1
Long-Term Debt Incurred in a Prior Fiscal Year
(Including Balloon Debt)
For the Year Ended December 31, 2017

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	09/26/12	\$ 610,000	\$ 2,779,831		\$ 3,389,831
2	10/1/2012 SubA				\$ -
3	10/1/2012 SubB				\$ -
4					\$ -
5					\$ -
6					\$ -
7					\$ -
8					\$ -
TOTAL:			\$ 2,779,831	\$ -	\$ 3,389,831

*(Transfer this amount to
Form 5-3, Line 1)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

The Terraces at San Joaquin Gardens
Form 5-2
Long-Term Debt Incurred During Fiscal Year
(Including Balloon Debt)
For the Year Ended December 31, 2017

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$ -
2					\$ -
3					\$ -
4					\$ -
5					\$ -
6					\$ -
TOTAL:		\$ -	\$ -	-	\$ -

*(Transfer this amount to
Form 5-3, Line 2)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

The Terraces at San Joaquin Gardens
Form 5-3
Calculation of Long-Term Debt Reserve Amount
For the Year Ended December 31, 2017

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$ 3,389,831
2	Total from Form 5-2 bottom of Column (e)	\$ -
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$ 118,000
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$ 3,507,831

The Terraces at San Joaquin Gardens
Form 5-4
Calculation of Net Operating Expenses
For the Year Ended December 31, 2017

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		\$ 30,147,000
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	\$ 2,779,831	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$ -	
c.	Depreciation	\$ 4,741,526	
d.	Amortization	\$ 899,474	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$ 2,854,046	
f.	Extraordinary expenses approved by the Department	\$ -	
3	Total Deductions		\$ 11,274,877
4	Net Operating Expenses		\$ 18,872,123
5	Divide Line 4 by 365 and enter the result.		\$ 51,704
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u>\$ 3,877,833</u>

PROVIDER: The Terraces at San Joaquin Gardens
COMMUNITY _____

The Terraces at San Joaquin Gardens
Form 5-5
Annual Reserve Certification
December 31, 2017

ANNUAL RESERVE CERTIFICATION

Provider Name: The Terraces at San Joaquin Gardens
 Fiscal Year Ended: 12/31/2017

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2017 and are in compliance with those requirements.

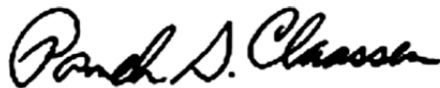
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$ <u>3,507,831</u>
[2] Operating Expense Reserve Amount	\$ <u>3,877,833</u>
[3] Total Liquid Reserve Amount:	\$ <u>7,385,664</u>

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<u>Qualifying Asset Description</u>	(market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	\$ -	\$ 5,447,000
[5] Investment Securities	\$ -	\$ 11,832,000
[6] Equity Securities	\$ -	\$ -
[7] Unused/Available Lines of Credit	\$ -	\$ -
[8] Unused/Available Letters of Credit	\$ -	\$ -
[9] Debt Service Reserve	\$ 4,366,507	(not applicable)
[10] Other:	_____	_____
(describe qualifying asset)		
Listed for Reserve Obligation: [11]	\$ 4,366,507	[12] \$ 17,279,000
Reserve Obligation Amount: [13]	\$ 3,507,831	[14] \$ 3,877,833
Surplus/(Deficiency): [15]	\$ 858,676	[16] \$ 13,401,167

Signature:



 (Authorized Representative)

Date: April 27, 2018

 SVP Finance/Chief Financial Officer
 (Title)

Supplementary Schedules

The Terraces at San Joaquin Gardens
Attachment to Form 5-1 & 5-2
Interest Paid During Fiscal Year
State of California – Department of Social Services
For the Year Ended December 31, 2017

Description	Amount
Cash Paid for Interest per Audited Financial Statements	\$ 6,963,228
DSS exclusions:	
Interest paid on Affiliate Subordinated Debt (1)	(4,183,397)
DSS Cash Paid For Interest: Form 5-1 & 5-2 Column C	\$ 2,779,831

(1) Discretionary payments of \$4,183,397 were made to an Affiliate (American Baptist Homes of the West) during the year ended December 31, 2017. These payments were for interest expense incurred in previous years. Calculations of Affiliate subordinated interest to be paid were performed in accordance with section 8.17 of the loan agreement dated September 1, 2012 between TSJG and the California Statewide Communities Development Authority based on amounts available for twelve month periods ending September 30, 2016 and 2017. In addition, such calculations were reviewed with the bond underwriter and provided in draft and discussed on a disclosure call with bondholders prior to payment.

The Terraces at San Joaquin Gardens
Attachment II to Form 5-4
Deductions from Operating Expenses
State of California – Department of Social Services
For the Year Ended December 31, 2017

Line	Description	
2e	Total Revenues received during the fiscal year for services to residents who did not have continuing care contracts	
	Monthly Fees – Private (Non-Contract) - Resident Living	\$ 47,276
	Monthly Fees – Private (Non-Contract) - Assisted Living	1,239,522
	Monthly Fees – Private (Non-Contract) - Health Center	1,288,519
	Monthly Fees – Private (Non-Contract) - Memory Care	273,648
	Physical Therapy – Private (Non-Contract)	3,612
	Occupational Therapy – Private (Non-Contract)	570
	Speech Therapy – Private (Non-Contract)	160
	Drugs - Private (Non-Contract)	150
	Laboratory - Private (Non-Contract)	199
	Chargeable Supplies – Private (Non-Contract) - Assisted Living	19
	Chargeable Supplies – Private (Non-Contract) - Health Center	371
	Total for Line 2e	\$ 2,854,046
	Residential Living Fees Reconciliations	
	Monthly Fees – Private (Non-Contract) Contract	\$ 47,276
		9,291,635
	Total Residential Fees	\$ 9,338,911
	Assisted Living Fees Reconciliation	
	Monthly Fees – Private (Non-Contract)	\$ 1,239,522
	Chargeable Supplies – Private (Non-Contract)	19
	Chargeable Drugs - Private (Contract)	16
	Contract	2,217,478
	Total Assisted Living Fees	\$ 3,457,035
	Health Center Fees Reconciliation	
	Monthly Fees – Private (Non-Contract)	\$ 1,288,519
	Physical Therapy – Private (Non-Contract)	3,612
	Occupational Therapy – Private (Non-Contract)	570
	Speech Therapy – Private (Non-Contract)	160
	Drugs - Private (Non-Contract)	150
	Laboratory - Private (Non-Contract)	199
	Chargeable Supplies – Private (Non-Contract)	371
	Total (Non-Contract)	1,293,581
	Physical Therapy - Private (Contract)	667
	Occupations Therapy - Private (Contract)	413
	Chargeable Supplies - Private (Contract)	7
	Monthly Fees - Private (Contract)	6,423,519
	Total Health Center Fees	\$ 7,718,187
	Memory Support Fees Reconciliation	
	Monthly Fees – Private (Non-Contract)	\$ 273,648
	Chargeable Supplies - Private (Contract)	13
	Chargeable Drugs - Private (Contract)	207
	Monthly Fees - Private (Contract)	1,551,962
	Total Memory Support Fees	\$ 1,825,830
	Other Resident Svc. Reconciliation	
	Contract	\$ 51,635
	Total Other Resident Svc. Fees	\$ 51,635

The Terraces at San Joaquin Gardens
Attachment III To Form 5-4
Operating Expenses from Financial Statements
State of California – Department of Social Services
For the Year Ended December 31, 2017

Line	Description		
1	Total operating expenses from financial statements		
	Total operating expenses from financial statements as reported		\$ 20,353,000
	Add:		
	Depreciation	4,741,526	
	Amortization	899,474	5,641,000
	Mortgage interest		4,153,000
	Total for Line 1		\$ 30,147,000

The Terraces at San Joaquin Gardens
Attachment IV to Form 5-5 (Quarterly Reserve Certification)
Schedule of Qualifying Assets – Debt Service Reserve
State of California – Department of Social Services
For the Year Ended December 31, 2017

DEBT SERVICE RESERVE

US Bank #200523009	Cash and cash equivalents	\$ 190,358	
	Domestic corporate debt	1,288,323	
	Foreign corporate debt	231,227	
	U.S. government securities	<u>1,807,185</u>	\$ 3,517,093
US Bank #200523002	Cash & cash equivalents	<u>849,414</u>	<u>849,414</u>

TOTAL AMOUNT OF QUALIFYING ASSETS FOR DEBT SERVICE RESERVE

\$ 4,366,507

RESTRICTED INVESTMENTS RECONCILIATION:

14012-00-001	DSR funds 2012 A series - USB # 200523009	\$ 3,517,093	
14012-00-003	Project funds - 2012 Bonds USB #200523016	24,355	
14012-00-004	2012 -A SERIES - #200523002	849,414	
14012-00-006 to 14012-00-010	Other 2012 SERIES Fund Accounts	<u>44</u>	\$ 4,390,906

TOTAL RESTRICTED INVESTMENTS FROM FINANCIAL STATEMENTS AS REPORTED

\$ 4,390,906

The Terraces at San Joaquin Gardens
Supplemental Schedule – Description of Reserves Under SB 1212
For the Year Ended December 31, 2017

Total Qualifying Assets as Filed:

Comments in Consistency with Tax Exempt Status Under AB 1169

Cash and Cash Equivalents	\$ 5,447,000
Unrestricted Investment Securities	<u>11,832,000</u>
Total Qualifying Assets as Filed:	<u>17,279,000</u>

Reservations and Designations:

Total Reservations and Designations	<u>17,279,000</u>	All liquid investments are designated for working capital in support of the operations of the Terraces at San Joaquin Gardens.
Remaining Liquid Reserves	<u><u>\$ -</u></u>	

The Terraces at San Joaquin Gardens
Supplemental Schedule – Per Capita Cost of Operations
For the Year Ended December 31, 2017

Per Capita Cost of Operations

Operating Expenses \$ 30,147,000
(Form 5-4 line 1)

Mean Number of CCRC Residents 347
(Form 1-1 line 10)

Per Capita Cost of Operations \$ 86,879

The Terraces at San Joaquin Gardens
Note to Continuing Care Liquid Reserve Schedule
For the Year Ended December 31, 2017

NOTE 1 – BASIS OF ACCOUNTING

The accompanying continuing care liquid reserve schedules have been prepared in accordance with the provisions of Health and Safety Code Section 1792 administered by the State of California Department of Social Services and are not intended to be a complete presentation of The Terraces at San Joaquin Gardens assets, liabilities, revenues, and expenses.

