FISCAL YEAR ENDED:
12 / 31 / 17

ANNUAL REPORT CHECKLIST

PROVIDER(S): CC-Palo Alto, Inc.

CCRC(S): Vi at Palo Alto

CONTACT PERSON: Stephanie Fields

TELEPHONE NO.: (312) 803-8520 **EMAIL:** sfields@viliving.com

A complete annual report must consist of *3 copies* of all of the following:

☑ Annual Report Checklist.

☑ Annual Provider Fee in the amount of: $ 30,069.47

- ☐ If applicable, late fee in the amount of: $__________

☑ Certification by the provider's ***Chief Executive Officer*** that:

- ☑ The reports are correct to the best of his/her knowledge.
- ☑ Each continuing care contract form in use or offered to new residents has been approved by the Department.
- ☑ The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.

☑ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.

☑ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

☑ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

☑ Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for ***each*** community.

☑ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

FORM 1-1

RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	552
[2]	Number at end of fiscal year	557
[3]	Total Lines 1 and 2	1,109
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x.50
[5]	Mean number of continuing care residents	554.5
	All Residents	
[6]	Number at beginning of fiscal year	584
[7]	Number at end of fiscal year	595
[8]	Total Lines 6 and 7	1,179
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x.50
[10]	Mean number of all residents	589.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places).	.94

FORM 1-2

ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service-interest only) (Total Operating Expense amount excludes the amount deducted on Form 5-4 for extraordinary expenses.)		39,721,540
	[a] Depreciation	7,732,745	
	[b] Debt Service (Interest Only)	0	
[2]	Subtotal (add Line 1 a and 1b)		7,732,745
[3]	Subtract Line 2 from Line 1 and enter result.		31,988,795
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		.94
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		30,069,467
			x.001
[6]	Total Amount Due (multiply Line 5 by.001)		30,069.47

PROVIDER: CC – Palo Alto, Inc.
COMMUNITY: Vi at Palo Alto

Form 1-1 and Form 1-2

California Department of Social Services
Application for Certificate of Authority

CERTIFICATION

The undersigned certifies that the Annual Report for the fiscal year ended 12/31/2017 is correct to the best of his knowledge, that each continuing care contract form in use or offered to new residents has been approved by the Department, and the provider is maintaining the required liquid reserve and refund reserve.

Dated: April 2, 2018

CC-Palo Alto, Inc., a Delaware corporation

By: ______________________
Randal J. Richardson, President

ACORD®

CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY) 03/23/2018

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

PRODUCER	
Willis of Illinois, Inc. c/o 26 Century Blvd P.O. Box 305191 Nashville, TN 372305191 USA	CONTACT NAME: PHONE (A/C, No, Ext): 1-877-945-7378 FAX (A/C, No): 1-888-467-2378 E-MAIL ADDRESS: certificates@willis.com PRODUCER CUSTOMER ID:

INSURED	INSURER(S) AFFORDING COVERAGE	NAIC #
CC-Palo Alto, Inc. 620 Sand Hill Road Palo Alto, CA 94304	INSURER A : Federal Insurance Company	20281
	INSURER B :	
	INSURER C :	
	INSURER D :	
	INSURER E :	
	INSURER F :	

COVERAGES CERTIFICATE NUMBER: W5566370 REVISION NUMBER:

LOCATION OF PREMISES / DESCRIPTION OF PROPERTY (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
Vi at Palo Alto; 620 Sand Hill Road; Palo Alto, CA 94304

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
	PROPERTY				BUILDING	$
	CAUSES OF LOSS / DEDUCTIBLES				PERSONAL PROPERTY	$
	BASIC / BUILDING				BUSINESS INCOME	$
	BROAD / CONTENTS				EXTRA EXPENSE	$
	SPECIAL				RENTAL VALUE	$
	EARTHQUAKE				BLANKET BUILDING	$
	WIND				BLANKET PERS PROP	$
	FLOOD				BLANKET BLDG & PP	$
						$
						$
	INLAND MARINE	TYPE OF POLICY				$
	CAUSES OF LOSS					$
	NAMED PERILS	POLICY NUMBER				$
						$
	X CRIME				X Employee Theft	$ 10,000,000
A	TYPE OF POLICY Crime	8197-6307	02/01/2018	02/01/2019	X Forgery	$ 7,000,000
					X Retention	$ 50,000
	BOILER & MACHINERY / EQUIPMENT BREAKDOWN					$
						$
						$
						$

SPECIAL CONDITIONS / OTHER COVERAGES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

CERTIFICATE HOLDER	CANCELLATION
California Department of Social Services Attn. Ms. Linda Smith 744 P. Street Sacramento, CA 95814	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE Andrea Paris

SR ID: 15851738 BATCH: 645084

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CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 12/26/2017

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER	
Willis of Illinois, Inc. c/o 26 Century Blvd P.O. Box 305191 Nashville, TN 372305191 USA	CONTACT NAME: PHONE (A/C, No, Ext): 1-877-945-7378 FAX (A/C, No): 1-888-467-2378 E-MAIL ADDRESS: certificates@willis.com

INSURED	INSURER(S) AFFORDING COVERAGE	NAIC #
CC-Palo Alto, Inc. 620 Sand Hill Road Palo Alto, CA 94304 USA	INSURER A : Lloyd's	B7874
	INSURER B : XL Insurance (Bermuda) Ltd	B0328
	INSURER C :	
	INSURER D :	
	INSURER E :	
	INSURER F :	

COVERAGES **CERTIFICATE NUMBER:** W4822701 **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	[X] COMMERCIAL GENERAL LIABILITY [X] CLAIMS-MADE [ ] OCCUR [X] Deductible: $50,000 per claim GEN'L AGGREGATE LIMIT APPLIES PER: [ ] POLICY [ ] PRO-JECT [X] LOC OTHER:			SB-LTCA-01647-17	12/31/2017	12/31/2018	EACH OCCURRENCE	$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 100,000
							MED EXP (Any one person)	$ 10,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 3,000,000
							PRODUCTS - COMP/OP AGG	$ 1,000,000
							Policy Limit	$ 10,000,000
	AUTOMOBILE LIABILITY [ ] ANY AUTO [ ] OWNED AUTOS ONLY [ ] SCHEDULED AUTOS [ ] HIRED AUTOS ONLY [ ] NON-OWNED AUTOS ONLY						COMBINED SINGLE LIMIT (Ea accident)	$
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
A	[ ] UMBRELLA LIAB [ ] OCCUR [X] EXCESS LIAB [X] CLAIMS-MADE DED RETENTION $			SB-LTCAX-01468-17	12/31/2017	12/31/2018	EACH OCCURRENCE	$ 24,000,000
							AGGREGATE	$ 24,000,000
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANYPROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? [ ] (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					PER STATUTE / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
A	Professional Liability Deductible: $50,000 per claim			SB-LTCA-01647-17	12/31/2017	12/31/2018	Each Claim:	$1,000,000
							Each Loc. Aggregate:	$3,000,000
							Policy Limit:	$10,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

SEE ATTACHED

CERTIFICATE HOLDER	CANCELLATION
California Department of Social Services Attn.: Ms. Linda Smith 744 P. Street Sacramento, CA 95814	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE Andrea Paris

SR ID: 15451568 BATCH: 550832

AGENCY CUSTOMER ID: ____________

LOC #: ____________

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ADDITIONAL REMARKS SCHEDULE

AGENCY Willis of Illinois, Inc.	NAMED INSURED CC-Palo Alto, Inc. 620 Sand Hill Road Palo Alto, CA 94304 USA
POLICY NUMBER See Page 1	
CARRIER See Page 1 / NAIC CODE See Page 1	EFFECTIVE DATE: See Page 1

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,

FORM NUMBER: 25 FORM TITLE: Certificate of Liability Insurance

Re: Vi at Palo Alto; 620 Sand Hill Rd.; Palo Alto, CA 94304

INSURER AFFORDING COVERAGE: XL Insurance (Bermuda) Ltd NAIC#: B0328

POLICY NUMBER: BM00031696LI17A EFF DATE: 12/31/2017 EXP DATE: 12/31/2018

TYPE OF INSURANCE:	LIMIT DESCRIPTION:	LIMIT AMOUNT:
Excess Liability	Each Occurrence:	$25,000,000
	Aggregate:	$25,000,000

SR ID: 15451568 BATCH: 550832 CERT: W4822701

ACORD®

CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY): 12/29/2017

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

PRODUCER
Willis of Illinois, Inc.
c/o 26 Century Blvd
P.O. Box 305191
Nashville, TN 372305191 USA

CONTACT NAME:
PHONE (A/C, No, Ext): 1-877-945-7378 | FAX (A/C, No): 1-888-467-2378
E-MAIL ADDRESS: certificates@willis.com
PRODUCER CUSTOMER ID:

INSURED
CC-Palo Alto, Inc.
620 Sand Hill Road
Palo Alto, CA 94304

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Starr Surplus Lines Insurance Company	13604
INSURER B :	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

COVERAGES CERTIFICATE NUMBER: W4980578 REVISION NUMBER:

LOCATION OF PREMISES / DESCRIPTION OF PROPERTY (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
Vi at Palo Alto, 620 Sand Hill Road, Palo Alto, CA 94304

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INSR LTR	TYPE OF INSURANCE		POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
A	X PROPERTY		SLSTPTY11018717	12/31/2017	12/31/2018	X BUILDING	$ See Below
	CAUSES OF LOSS	DEDUCTIBLES				X PERSONAL PROPERTY	$ See Below
	BASIC	BUILDING 50,000				X BUSINESS INCOME	$ See Below
	BROAD	CONTENTS 50,000				X EXTRA EXPENSE	$ See Below
	X SPECIAL					X RENTAL VALUE	$ See Below
	X EARTHQUAKE	See Attached				BLANKET BUILDING	$
	X WIND	See Attached				BLANKET PERS PROP	$
	X FLOOD	See Attached				BLANKET BLDG & PP	$
						X Loss Limit (Blnkt)	$ 350,000,000
							$
	INLAND MARINE		TYPE OF POLICY				$
	CAUSES OF LOSS						$
	NAMED PERILS		POLICY NUMBER				$
							$
	CRIME						$
	TYPE OF POLICY						$
							$
	BOILER & MACHINERY / EQUIPMENT BREAKDOWN						$
							$
							$
							$

SPECIAL CONDITIONS / OTHER COVERAGES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)
Replacement Cost Valuation; Agreed Amount; No Coinsurance.

CERTIFICATE HOLDER

California Department of Social Services
Attn.: Ms. Linda Smith
744 P. Street
Sacramento, CA 95814

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE
Andrea Paris

SR ID: 15472129 BATCH: 554237

Supplement to Acord 24 – Certificate of Property Insurance
Supplement to Acord 28 – Evidence of Commercial Property Insurance

Insured: CC-Development Group, Inc.

Policy Period: 12/31/17 – 12/31/18

Issuing Companies

Layer	Insurer	Policy Number	Limit
Primary ($25,000,000)	Allied World Assurance Company, Ltd.	P006392-011	3,750,000
	Axis Surplus Insurance Company	ECF764473-17	2,250,000
	Argo Re Bda Limited	P131412	4,000,000
	Interstate Fire & Casualty Company	VRX-CN-0000681-01	937,500
	Ironshore Specialty Insurance Company	001227006	1,562,500
	Landmark American Insurance Company	LHD902765	1,250,000
	Lexington Insurance Company	012944691	14,000,000
	Lloyd's of London Syndicate #2357	VLL-CN-0000681-01	937,500
	Lloyd's Syndicates 2003, 3000, 0318, 2987, 5000, G360, Endurance Worldwide Insurance Ltd.	B080112090U17	6,250,000
	Starr Surplus Lines Insurance Company	SLSTPTY11018717	2,437,500
1st Excess Layer (55mm xs 25mm)	Aspen Bermuda Limited	BPA981E17	4,125,000
	Evanston Insurance Company	MKLV12XP002355	7,750,000
	Ironshore Specialty Insurance Company	002590102	8,250,000
	Lloyd's London Syndicate 2987	PD-10584-03	5,000,000
	Lloyd's Syndicates 2015, 1955, 3902, G360,	B080115732U17	6,500,000
2nd Excess Layer (170mm xs 80mm)	Axis Surplus Insurance Company	ECF771021-17	22,500,000
	Evanston Insurance Company	MKLV12XP002355	15,500,000
	Homeland Insurance Company of New York	795007087	34,120,000
	Landmark American Insurance Company	LHD398713	38,500,000
	Lloyd's London Syndicate 2987	PD-10584-03	17,900,000
	Lloyd's Syndicates 2003, G360, Endurance Worldwide Insurance Ltd	B080112090U17	7,480,000
	Westport Insurance Corporation	NAP045257604	45,000,000
3rd Excess Layer (100mm xs 250mm)	Mitsui Sumitomo Insurance Company of America	EXP7000111	100,000,000
Excess California EQ (20mm xs 80mm)	QBE Specialty Insurance Company	ESE15992-00	15,000,000
	General Security Indemnity Company of Arizona	TR0001486-04366-17	5,000,000

Key Sublimits/Modifications (per occurrence, unless otherwise indicated)

Flood – FEMA 100 Year Flood Zones (occurrence / aggregate)........ $50,000,000
Flood – All Other Locations (occurrence / aggregate)........ $200,000,000
Earth Movement – Alaska, California, Hawaii, Puerto Rico (occurrence / aggregate) $80,000,000
Earth Movement – Critical New Madrid Areas (occurrence / aggregate) $50,000,000
Earth Movement – Critical Pacific Northwest Areas (occurrence / aggregate)........ $50,000,000
Earth Movement – All Other Locations (occurrence / aggregate) $200,000,000
Named Storm – FL, HI, PR, US VI and First Tier Areas in all other states $80,000,000
Debris Removal $25,000,000
Extended Period of Indemnity........365 days
Extra Expense........ $50,000,000

Special Deductibles

- Earth Movement – AK, CA, HI, PR -- 5% of the reported "unit of insurance" subject to a minimum of $250,000 and a maximum of $5,000,000 per occurrence
- Earth Movement – Critical New Madrid Areas and Critical Pacific Northwest areas – 2% of the reported "unit of insurance" subject to a minimum of $100,000 per occurrence
- Earth Movement – All Other Locations - $100,000 per occurrence
- Flood – FEMA 100 Year Flood Zones – $1,000,000 per occurrence
- Flood – All Other Locations– $100,000 per occurrence
- Named Windstorm – South Carolina - 3% of the reported "unit of insurance" subject to a minimum of $250,000 per occurrence
- Named Windstorm – FL, HI, PR, US VI and First Tier Areas in all other states (except SC) 5% of the reported "unit of insurance" subject to a minimum of $250,000 per occurrence

December 27, 2017

KPMG

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

CC-PALO ALTO, INC. AND SUBSIDIARY

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KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
CC-Palo Alto, Inc. and Subsidiary:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CC-Palo Alto, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CC-Palo Alto, Inc. and subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Form 5-1 through Form 5-5 is presented for purposes of additional analysis and for compliance with the requirements of the California Health and Safety Code Section 1792 and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
April 26, 2018

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	$ 48,609,941	32,241,892
Current portion of assets limited as to use	1,511,836	1,734,167
Resident accounts receivable	724,793	1,117,279
Due from affiliate	268,963	—
Prepaids and other	342,315	302,717
Total current assets	51,457,848	35,396,055
Assets limited as to use, net of amounts required for current liabilities	27,101,052	27,171,459
Property and equipment:		
Land improvements	15,547,667	15,537,482
Building and improvements	204,831,125	203,271,536
Furniture, fixtures, and equipment	35,094,971	30,584,928
Construction in progress	519,947	1,043,089
	255,993,710	250,437,035
Less accumulated depreciation	108,186,438	101,374,497
Property and equipment, net	147,807,272	149,062,538
Costs of acquiring initial continuing care contracts	—	920,429
Deferred tax asset, net	11,322,106	19,267,329
Deposits	1,228,769	1,219,075
Total assets	$ 238,917,047	233,036,885
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 1,199,663	1,427,982
Accrued expenses	12,076,077	24,070,551
Due to affiliate	—	787,057
Prepaid resident service revenue	1,523,552	1,699,737
Resident deposits	488,380	564,230
Current portion of repayable entrance fees	8,359,850	5,509,476
Total current liabilities	23,647,522	34,059,033
Repayable entrance fees	456,600,178	453,061,043
Deferred revenue from nonrepayable entrance fees	75,687,206	63,042,353
Other liabilities	227,601	187,807
Total liabilities	556,162,507	550,350,236
Stockholders' deficit:		
Common stock, no par value, no assigned value. Authorized, issued, and outstanding, 100 shares	—	—
Distributions in excess of paid-in capital	(185,648,736)	(185,648,736)
Accumulated deficit	(131,596,724)	(131,664,615)
Total stockholders' deficit	(317,245,460)	(317,313,351)
Total liabilities and stockholders' deficit	$ 238,917,047	233,036,885

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2017 and 2016

		2017	2016
Revenue:			
Net resident service revenue	$	43,175,468	42,148,330
Amortization of entrance fees		9,683,663	9,766,781
Investment return		211,748	279,051
Other income		190,655	179,673
Total revenue		53,261,534	52,373,835
Expenses:			
Food and beverage		3,899,844	3,902,040
Dining room		2,099,721	2,117,796
Laundry		304,137	297,605
Housekeeping		1,906,535	1,912,331
Resident services		3,588,896	3,606,198
Resident care		7,249,108	7,005,430
Repairs and maintenance		1,871,995	1,906,854
Utilities		2,106,338	1,959,901
Sales and marketing		859,366	735,050
Total operating expenses		23,885,940	23,443,205
Management fees		3,483,689	3,410,541
Property taxes, net		(8,501,196)	6,635,742
Ground lease base rent		1,717,350	1,717,350
Ground lease participating rent		7,004,176	6,516,928
Depreciation and amortization		7,732,745	8,554,946
Administration		7,347,185	7,155,825
Insurance		1,370,968	1,304,351
Total expenses		44,040,857	58,738,888
Income (loss) before income tax (expense) benefit		9,220,677	(6,365,053)
Income tax (expense) benefit		(8,941,468)	2,577,257
Net income (loss)	$	279,209	(3,787,796)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Deficit

Years ended December 31, 2017 and 2016

	Common stock			Distributions in excess of paid-in capital	Accumulated deficit	Total
	Shares		Amount			
Balance at December 31, 2015	100	$	—	(184,367,381)	(127,665,501)	(312,032,882)
Distributions to Parent	—		—	(1,281,355)	—	(1,281,355)
Tax adjustment	—		—	—	(211,318)	(211,318)
Net loss	—		—	—	(3,787,796)	(3,787,796)
Balance at December 31, 2016	100		—	(185,648,736)	(131,664,615)	(317,313,351)
Tax adjustment	—		—	—	(211,318)	(211,318)
Net income	—		—	—	279,209	279,209
Balance at December 31, 2017	100	$	—	(185,648,736)	(131,596,724)	(317,245,460)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from residents	$ 43,518,691	41,988,599
Proceeds received from nonrepayable entrance fees	22,924,430	22,748,010
Interest received	218,974	58,984
Cash paid to suppliers and employees	(34,507,653)	(34,800,782)
Cash paid for management fees	(3,483,689)	(3,410,541)
Cash paid for real estate taxes	(4,600,905)	(6,448,193)
Cash paid for participating rent	(7,004,176)	(6,516,928)
Cash paid for income taxes	(1,207,563)	(718,644)
Net cash provided by operating activities	15,858,109	12,900,505
Cash flows from investing activities:		
Additions to property and equipment	(5,557,050)	(1,790,855)
Net change in resident deposits	(75,850)	9,520
Net change in assets limited as to use	285,512	(2,609,716)
Net cash used in investing activities	(5,347,388)	(4,391,051)
Cash flows from financing activities:		
Distributions to Parent	—	(1,281,355)
Proceeds from repayable entrance fees	43,248,170	33,877,690
Entrance fee repayments	(37,390,842)	(34,037,761)
Net cash provided by (used in) financing activities	5,857,328	(1,441,426)
Net increase in cash and cash equivalents	16,368,049	7,068,028
Cash and cash equivalents at beginning of year	32,241,892	25,173,864
Cash and cash equivalents at end of year	$ 48,609,941	32,241,892
Reconciliation of net loss to net cash provided by operating activities:		
Net income (loss)	$ 279,209	(3,787,796)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Proceeds from nonrepayable entrance fees	22,924,430	22,748,010
Depreciation and amortization	7,732,745	8,554,946
Amortization of entrance fees	(9,683,663)	(9,766,781)
Net realized and unrealized losses on assets limited as to use	7,226	(220,067)
Utilization of repayable entrance fees in lieu of monthly fees	(63,733)	(56,112)
Income tax adjustment	(211,318)	(211,318)
Changes in assets and liabilities:		
Accounts receivable	392,486	(213,841)
Prepaids and other	(39,598)	(17,311)
Deposits	(9,694)	(3,186)
Accounts payable	(228,319)	185,619
Accrued expenses	(11,994,474)	(1,248,258)
Due to affiliate	(1,056,020)	62,926
Prepaid resident service revenue	(176,185)	(69,451)
Deferred tax asset	7,945,223	(3,084,583)
Other liabilities	39,794	27,708
Net cash provided by operating activities	$ 15,858,109	12,900,505

See accompanying notes to consolidated financial statements.

(1) Purpose and Organization

The accompanying consolidated financial statements include the accounts of CC-Palo Alto, Inc. (the Company) and its consolidated affiliate, Palo Alto Care Center, Inc. The Company and Palo Alto Care Center, Inc. are both subsidiaries of CC-Development Group, Inc. (Parent).

The Company, a Delaware corporation, was incorporated on June 23, 1999 for the purpose of developing, owning, and operating a 494-unit senior living community (the Community) in Palo Alto, California. The Community comprises 388 units of independent living and a 106-unit care center that includes units of assisted living, memory support, and skilled nursing. The independent living component of the community opened in 2005, followed by the assisted living, memory support, and skilled nursing units of the care center in 2006.

Palo Alto Care Center, Inc. was incorporated for the purpose of owning the care center and leasing it back to the Company. The Company applies Accounting Standards Codification (ASC) Subtopic 810-10, *Consolidation – Overall*, to its variable interest in Palo Alto Care Center, Inc., whereby the entity is consolidated with the Company due to the Company's controlling financial interest in Palo Alto Care Center, Inc.

All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Principles

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding amounts limited as to use.

(c) Fair Value Measurements

The Company applies the provisions of Accounting Standards Update (ASU) 2010-06, *Improving Disclosure about Fair Value Measurements*. ASU 2010-06 amends ASC Subtopic 820-10, *Fair Value Measurements – Overall*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify other existing disclosure requirements.

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In estimating the fair value of its financial instruments, the Company determined the carrying amounts reported in the consolidated balance sheets for cash and cash equivalents and assets limited as to use approximate fair value because of the short maturities of these instruments and are considered Level 1 investments within the fair value hierarchy.

(d) Assets Limited as to Use

Assets limited as to use include restricted resident deposits, assets held for entrance fee repayments, assets held by the Company under Ground Lease Agreement (note 5), and assets set aside by the Company for the Community's operations and capital improvements, in accordance with the Company's policies. Restricted resident deposits represent good faith deposits received by the Company upon the commitment of prospective residents to enter into a residency agreement. Assets held for entrance fee repayments represent funds designated to establish certain entrance fee repayments reserves. Assets held for entrance fee repayments are comprised entirely of cash and cash equivalents. Assets held by the Company under Ground Lease Agreement represent funds designated to secure payments under the ground lease (note 5). Assets held for operations are for funding operating reserves over which the Company retains control and may use in accordance with the Company's policies. Assets limited as to use for capital improvements represent funds designated by the Company for acquisition of property and equipment, in accordance with the Company's policies.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets ranging from 4 to 40 years. Construction in progress at December 31, 2017 relates to costs associated with renovations that will be placed in service during 2018. No significant contractual commitments exist related to these renovations as of December 31, 2017.

(Continued)

(f) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the Company intended to dispose of its assets, they would be reported at the lower of the carrying amount or fair value less estimable costs to sell, and would no longer be depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its long-lived assets as of December 31, 2017 or 2016.

(g) Costs of Acquiring Initial Continuing Care Contracts

Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts. In accordance with ASC Subtopic 720-35, *Advertising Costs*, the Company capitalizes costs incurred in connection with direct response advertising whose primary purpose is to secure deposits from residents who are shown to have responded specifically to the advertising. Such advertising costs include newspaper, magazine, television, radio, brochures, and other costs. The Costs are amortized using the straight-line method over the expected stay at the community of the first resident group, beginning in the first period in which revenues associated with the costs are earned. Upon occupancy of the first resident group, additional costs are expensed as incurred. The Costs are shown net of accumulated amortization of $24,295,532 and $23,375,103 at December 31, 2017 and 2016, respectively.

(h) Obligation to Provide Future Services

The Company annually calculates the present value of the estimated net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of unearned revenue from entrance fees. If the present value of the net costs of future services and the use of facilities exceeds the unearned revenue from entrance fees, a liability is recorded (obligation to provide future services) with the corresponding charge to income. The obligation is discounted at 5.5%, based on the expected long-term rate of return. The present value of the net cost of future services and the use of facilities was less than the deferred revenue from entrance fees at December 31, 2017 and 2016, and accordingly, no obligation to provide future services has been recognized in the accompanying consolidated balance sheets.

(i) Repayable Entrance Fees

Residents enter into a residency agreement with the Company that requires the payment of a one time entrance fee. Upon termination of the residency agreement, residents are entitled to a repayment of the portion of the entrance fee that has not been earned by the Company. For contracts entered into through December 31, 2016, this repayment becomes payable upon the sooner of reoccupancy of the unit or 10 years after the unit is made available. Subsequent to January 1, 2017, the repayment is payable upon reoccupancy. The Company earns an administrative fee upon admission and 2% of the entrance fee per month up to a maximum of 100%, 30%, 25%, 20%, or 10% dependent on the contract provisions of the residency agreement. The Company amortizes the nonrepayable portion of the entrance fee over the estimated life of the residents. The Company has recorded the repayable portion of the entrance fees separately from the nonrepayable portion within the accompanying consolidated balance sheets. If all contracts terminated on December 31, 2017, the repayable portion of the entrance fees due to all residents would be approximately $474,450,000.

(j) Net Resident Service Revenue

Resident revenue related to independent living units, assisted living units, memory support units, and non-Medicare skilled care units is recognized on a fee-for-service basis in the month in which occupancy and services are provided. Net resident service revenue related to Medicare skilled care units is reported at the estimated net realizable amounts from residents and third-party payors. During 2017 and 2016, the Company determined that it would return a portion of its excess cash flows generated from operations back to its residents as a reduction of the subsequent year's monthly fees in the amounts of $1,023,456 and $1,169,937, respectively. As of December 31, 2017 and 2016, $1,023,456 and $1,169,937, respectively, is reflected as prepaid resident service revenue in the accompanying consolidated balance sheets.

(k) Ground Lease Participating Rent

Pursuant to its Ground Lease Agreement with The Board of Trustees of the Leland Stanford Junior University (note 5), beginning with initial occupancy of the Community, the Company pays a percentage of all gross receipts to Stanford University, as defined in the Ground Lease Agreement. Gross receipts include net resident service revenue, other income, and proceeds from entrance fees net of certain repayments. The payments are recognized as expense in their entirety in the period in which the related net resident service revenue and other income are recognized, and in the period in which the proceeds from entrance fees are received.

(l) Income Taxes

The Company is included in the consolidated income tax return of its Parent. The Company uses the separate return method of determining its provision for income taxes. The consolidated financial statements reflect the provision for income taxes as if the Company were a separate taxpayer and a stand-alone enterprise. Accordingly, the consolidated financial statements may reflect tax attributes that may not exist in the Parent's consolidated income tax return. A valuation allowance on deferred tax assets is assessed using the sources of future taxable income available only to the Company.

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for tax provisions in accordance with ASC Topic 740, *Income Taxes*. ASC Topic 740 clarifies the accounting for uncertainty in tax positions and also provides guidance on when the tax positions are recognized in an entity's financial statements and how the values of these positions are determined. The Company has recognized no liabilities as of December 31, 2017 and 2016 related to uncertain tax positions.

The Tax Cuts and Jobs Act (the "Act) was signed into law on December 22, 2017 and is generally effective for tax years beginning January 1, 2018. The Act makes significant changes to the U.S.

federal income tax rules for taxation of corporations. Various changes may affect the computation of the taxable income of the Company. The most significant impact of the Act to the Company is a decrease in the federal corporate income tax rate from 35% to 21%. For the year ended December 31, 2017, the Company incurred income tax expense of $8,941,468, which included $5,664,371 of expense related to the re-measurement of deferred income tax asset and liabilities due to the decrease in the federal corporate income tax rate

(m) New Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Topic 606 requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for the Company for the year ending December 31, 2019. The Company is evaluating the impact of this standard on the accompanying consolidated statements of operations.

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for non-public business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for the Company for the year ending December 31, 2019. The Company is evaluating the impact of this standard on the accompanying balance sheet and statement of operations.

(n) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated events and transactions through April 26, 2018, the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

(3) Concentration of Credit Risk

The Company grants credit to its self-pay residents as well as those that are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2017 and 2016 is as follows:

	2017	2016
Medicare	75 %	57 %
Self-pay and commercial insurance	25	43
	100 %	100 %

(4) Assets Limited as to Use

The Company reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices or observable market inputs. Money markets, certificates of deposit, and U.S. Treasury securities are considered cash equivalents and are considered Level 1 investments within the fair value hierarchy. Investment income or loss (including realized gains and losses on investments, changes in unrealized gains and losses on trading securities, interest, and dividends) is reported as investment return in the accompanying consolidated statements of operations. All assets limited as to use are considered by management to be trading securities.

A summary of the composition of the Company's investment portfolio at December 31, 2017 and 2016 is as follows:

	2017	2016
Cash	$ 7,544,476	7,758,467
Money markets and certificates of deposit	7,750,779	7,739,893
U.S. Treasury securities	13,317,633	13,407,266
	$ 28,612,888	28,905,626

Investments are reported in the accompanying consolidated balance sheets as follows:

	2017	2016
Assets limited as to use – resident deposits	$ 488,380	564,230
Assets limited as to use – by Company for operations	1,023,456	1,169,937
Total current portion of assets limited as to use	1,511,836	1,734,167
Assets limited as to use – by Company for capital improvements	13,304,390	13,392,539
Assets limited as to use – by Company for operations	1,816,897	1,765,673
Assets limited as to use – by Company for entrance fee repayments	5,979,765	6,013,247
Assets limited as to use – by Company for ground lease	6,000,000	6,000,000
Assets limited as to use, net of amounts required for current liabilities	27,101,052	27,171,459
Total assets limited as to use	$ 28,612,888	28,905,626

The composition of investment return on the Company's investment portfolio for the years ended December 31, 2017 and 2016 is as follows:

		2017	2016
Interest and dividend income	$	218,974	58,984
Net realized and change in unrealized gains and losses during the holding period		(7,226)	220,067
	$	211,748	279,051

(5) Ground Lease

On August 1, 2000, the Company entered into a 75-year Ground Lease Agreement with The Board of Trustees of the Leland Stanford Junior University (Lessor). During the construction period, the lease called for monthly payments of $125,000 plus annual Consumer Price Index (CPI) increases. The lease payments began with the commencement of the construction of the Community in July 2003. After initial occupancy, the monthly payments reset to $125,000 and are adjusted every five years to reflect increases in CPI; the maximum CPI increase is 7% for a five-year period. The monthly payments for the years ended December 31, 2017 and 2016 totaled $1,717,350. The ground lease also requires participating rent of approximately 6% of all gross receipts, payable monthly beginning with the initial occupancy, as defined.

In February 2002, the Company paid a $1,000,000 deposit as required by the Ground Lease Agreement. The Ground Lease Agreement also requires that the Company maintain a letter of credit in the amount of $6,000,000 as security for the Company's performance of its obligations under the lease.

(6) Income Taxes

The operating results of the Company are included in the Parent's consolidated federal income tax return. The Company is party to a tax sharing agreement that provides that, among other things, the Company shall not be entitled to any reimbursement for utilization of its tax attributes in the consolidated federal income tax return of the Parent. The tax sharing agreement also provides that the Company shall not be entitled to any reimbursement for utilization of its tax attributes in the various combined state income tax returns of the Parent and its subsidiaries. The Company is required to pay the Parent for any tax liability that may arise from its operations, computed on a separate return basis. For the years ended December 31, 2017 and 2016, Palo Alto Care Center, Inc. sustained losses for federal and state income tax purposes. Accordingly, the current tax benefit attributable to Palo Alto Care Center, Inc. in the Parent's income tax return, as required pursuant to the provision of ASC Topic 740, has been eliminated through an adjustment to stockholders' deficit.

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The income tax expense (benefit) for the years ended December 31, 2017 and 2016 comprises the following:

		2017	2016
Current:			
U.S. federal	$	765,607	382,762
State		230,638	124,564
Total current		996,245	507,326
Deferred:			
U.S. federal		8,053,695	(2,649,596)
State		(108,472)	(434,987)
Total deferred		7,945,223	(3,084,583)
Income tax expense (benefit)	$	8,941,468	(2,577,257)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 and 2016 are presented below:

		2017	2016
Deferred tax assets:			
Deferred revenue from nonrefundable entrance fees	$	16,185,181	18,964,595
Property tax liabilities		2,394,969	8,825,817
Other		874,167	1,305,351
Gross deferred tax assets		19,454,317	29,095,763
Less valuation allowance		—	—
Net deferred tax assets		19,454,317	29,095,763
Deferred tax liabilities:			
Depreciation		(8,132,211)	(9,453,396)
Costs of acquiring initial continuing care contracts		—	(375,038)
Gross deferred tax liabilities		(8,132,211)	(9,828,434)
Total deferred tax asset, net	$	11,322,106	19,267,329

As of December 31, 2017 and 2016, no valuation allowance was considered necessary as management believed that it was more likely than not that the results of future operations would generate sufficient taxable income to realize the deferred tax assets.

(Continued)

Income tax expense (benefit) was $8,941,468 and $(2,577,257) for the years ended December 31, 2017 and 2016, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income from continuing operations as a result of the following:

		2017	2016
Computed "expected" tax expense (benefit)	$	3,227,237	(2,227,769)
Change in income tax expense (benefit) resulting from:			
Impact of change in federal tax rate on deferred tax assets		5,664,371	—
State and local income taxes, net of federal income tax expense		41,443	(354,020)
Other, net		8,417	4,532
	$	8,941,468	(2,577,257)

(7) Transactions with Related Parties

The Company entered into a management agreement dated August 1, 2000 between the Company and Classic Residence Management Limited Partnership (Classic), an affiliate of the Company, whereby Classic manages the operations of the Company. The agreement is for a term of 55 years and requires the Company to pay an annual management fee equal to 8% of annual resident service revenue, excluding certain items as defined in the management agreement. The Company incurred management fee expense of $3,483,689 and $3,410,541 for the years ended December 31, 2017 and 2016, respectively.

Classic also contracts with third parties on behalf of the Company to provide property, health, and liability insurance, and various marketing and other services. Classic advances the funds to the third parties on behalf of the Company. Such advances amounted to $6,311,716 and $5,789,051 for the years ended December 31, 2017 and 2016, respectively. There is no interest associated with these advances as they are reimbursed on a current basis. Amounts due from (to) Classic of $268,963 and $(787,057) at December 31, 2017 and 2016, respectively, are reflected as due from (to) affiliates in the accompanying consolidated balance sheets.

(8) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar up to 4% of a participant's salary, the Company matches each participant's contribution in an amount equal to 100% of the participant's deferral. For every dollar in excess of 4% of a participant's salary and limited to 6% of a participant's salary, the Company matches each participant's contribution in an amount equal to 50% of the participant's deferral. For the years ended December 31, 2017 and 2016, the Company recorded matching contribution expense of $436,255 and $423,748, respectively. Contributions are funded on a current basis.

(9) Commitments and Contingencies

(a) State Regulatory Requirements

The Company is subject to regulatory requirements as set forth by the Department of Social Services in the State of California. Such requirements set forth the establishment of a restricted cash escrow account for resident deposits until execution of the residency agreement (note 2) and the submission of schedules detailing the availability of debt service and operating expense reserves.

(b) Federal Regulatory Compliance

The laws and regulations governing the Medicare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for long-term care organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. The Company maintains a compliance program designed to educate employees and to detect and correct possible violations.

(c) Real Estate Tax Assessment

The Company is contesting the real estate taxes on the Community's building improvements and the underlying leased land for each year from November 2005 and forward.

On October 12, 2007, the Santa Clara County Assessor (the Assessor) made its initial conclusion that the assessed value of the Community's real estate needed to be increased to $323,147,000 ($247,000,000 for the building improvements and $76,147,000 for the leased land) to account for increases to the November 2005 base year as a result of completion of the Community's new building improvements.

On April 1, 2011, the Assessor issued a notice of intent to seek a further increase in the November 2005 base year value of the building improvements. On April 18–20, 2011, a hearing was held by the Santa Clara County Assessment Appeals Board (the Board) to address the November 2005 base year value of the new building improvements and the Assessor's claims for further increases. On March 6, 2012, the Board rendered its decision, increasing the November 2005 base year value of the building improvements from $247,000,000 to $402,000,000, which increased the total assessed value as of November 2005 to $478,147,000 ($402,000,000 for the building improvements and $76,147,000 for the leased land). The Board's new determination of assessed value, like the Assessor's initial $323,147,000 determination, was a Proposition 13 base year value, with future assessed values limited to annual valuation increases of 2% or less.

Shortly after receiving the March 6, 2012 decision, the Company was billed in arrears on an installment plan based on the Board's decision increasing the assessed value of the land and building improvements as of November 2005 from $323,147,000 to $478,147,000. The incremental real estate taxes due from November 2005 through June 30, 2012 were $11,817,335. Through July 13, 2015, the Company had paid $13,590,100 of incremental real estate taxes, consisting of $7,499,316 related to the tax periods through June 30, 2012 and an additional $6,090,784 relating to increased assessed values for the tax periods from July 1, 2012 through June 30, 2015.

On September 5, 2012, the Company filed an action in Santa Clara County Superior Court (the Superior Court) challenging the Board's March 6, 2012 decision. On March 27, 2015, the Superior Court issued a Peremptory Writ of Mandate ordering the Board to vacate its March 6, 2012 decision and to provide the Company a new hearing to determine the November 3, 2005 base year value of the building improvements. The Superior Court ruled that the Board needed to provide the Company a new hearing as the Board's recording of the original hearing was missing certain testimony and that this incomplete hearing record prevented adequate judicial review of the Board's March 6, 2012 decision.

On July 13-17, 2015, the Assessor acted to reduce the November 2005 base year value of the building improvements back to its initial enrolled value of $247,000,000, reducing the total assessed value back to the $323,147,000 assessed value in place before the Board's March 2012 decision. As a result of the Assessor's action (consistent with the Superior Court's order), the Company was refunded $14,215,875, of which $13,590,100 related to the return of property taxes attributable to the increased assessed value in the Board's March 2012 decision and the remaining $625,775 related to interest on such amounts.

The Board commenced a new hearing addressing the November 2005 base year value on October 19, 2015. The hearing was completed on November 3, 2016 and the post-hearing briefing was completed on May 27, 2017. On September 7, 2017, the Board issued its new determination, setting the November 2005 base year value of the Company's real property at $380,147,000 ($304,000,000 for the building improvements and $76,147,000 for the leased land). This Board determination is (like the Board's March 6, 2012 determination) a Proposition 13 base year value, with future assessed values limited to annual increases of no more than 2%.

The Board has not yet issued the required written findings of fact and conclusions of law (the "Written Findings"), which are needed to trigger the issuance of the expected assessment increases and resultant property tax bills. Once the Board issues its Written Findings, the Company expects to receive supplemental and escape assessments for the 2005-06 through 2017-18 tax years reflecting the Board's newly determined $380,147,000 November 2005 base year value (reflecting a $57,000,000 increase from the Assessor's originally enrolled $323,147,000 November 2005 base year value). The increases to the 2005-06 to 2017-18 assessed values from these supplemental and escape assessment increases (and the resultant annual Proposition 13 assessment increases of 2% or less) are expected to produce incremental property tax billings for all periods under review through December 31, 2017 of approximately $8,558,000.

Both the Assessor and the Company have the right to appeal the Board's newly determined $380,147,000 November 2005 base year value. A Company appeal seeking a reduced base year value would be brought by bringing a refund suit in Superior Court. During the pendency of any such appeal, the Company would be required to continue to pay all outstanding property tax billings based on the new November 2005 base year value set by the Board's September 7, 2017 decision.

Given that the Board has not yet issued its written findings in support of its September 7, 2017 decision, it is difficult for the Company to presently evaluate the viability of a Superior Court appeal challenging the Board's decision. The Company has included $8,558,000 in accrued expenses in the accompanying 2017 consolidated balance sheet. The Company included $21,660,000 in accrued expenses as of December 31, 2016 as it did not believe that the criteria had been met to reflect a gain through a reduction in property tax expense at that time. As a result of the September 7, 2017 decision, the Company has reduced property tax expense in the accompanying 2017 consolidated statement of operations by $13,102,000.

The Company believes that the Board erred in its determination that the November 2005 base year value was $380,147,000 and that the Board should have instead adopted the pre-existing $323,147,000 November 2005 base year value originally enrolled by the Assessor ($247,000,000 for building improvements and $76,147,000 for land). However, the Company does not believe that it is presently at the point where the criteria have been met to reflect additional reductions in accrued expense beyond the reductions made during 2017 as a result of the September 7, 2017 decision.

(d) Contingency

On February 19, 2014, a class action complaint was filed against the Company, Classic, and the Parent. The Complaint was dismissed on November 25, 2014. On December 10, 2014, the First Amended Complaint (FAC) was filed. In addition to the Corporate defendants, the FAC added former and current members of the Board of Directors of CC-Palo Alto, Inc. as individual defendants. The FAC was dismissed on March 31, 2016. On April 15, 2016, the Second Amended Complaint (SAC) was filed. On September 25, 2017, the court struck the first ten causes of action in the SAC, including all class action claims. The remaining causes of action in the SAC allege (1) creditor derivative claims against the director defendants for breach of fiduciary duties, payment of unlawful dividends, and corporate waste; (2) a creditor derivative claim against the Parent for aiding and abetting the director defendants' breaches of fiduciary duties; and (3) a direct claim against the Parent for improper transfer of assets. No estimate of potential loss can be made, and no amounts have been recognized in the accompanying 2017 consolidated financial statements related to a loss contingency. The Company will seek summary judgment and believes that the matter will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

CC-PALO ALTO, INC. AND SUBSIDIARY

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		$ —	—	—	—
2		—	—	—	—
3		—	—	—	—
4		—	—	—	—
5		—	—	—	—
6		—	—	—	—
7		—	—	—	—
8		—	—	—	—
			$ —	—	—
					(Transfer this amount to Form 5-3, line 1)

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

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors' report on supplementary information.

CC-PALO ALTO, INC. AND SUBSIDIARY

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)*(d))
1		$ —	—	—	—
2		—	—	—	—
3		—	—	—	—
4		—	—	—	—
5		—	—	—	—
6		—	—	—	—
7		—	—	—	—
8		—	—	—	—
			$ —	—	—
					(Transfer this amount to Form 5-3, line 2)

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

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors' report on supplementary information.

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-3

Calculation of Long-Term Debt Reserve Amount

Line					Total
1	Total from Form 5-1 bottom of Column (e)			$	—
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)				4,319,317
4	Total amount required for long-term debt reserve (A)			$	4,319,317
(A)	Amount is comprised of the following (see note 4 in the notes to the consolidated financial statements):				
	Ground lease Base Rent		$ 1,717,350		
	Resident service and other revenue	$ 43,366,123			
	Participating Rent percentage	6.0 %			
	2017 Participating Rent on resident service and other revenue (B)		2,601,967		
	Total		$ 4,319,317		

(B) As described in note 5 to the consolidated financial statements, pursuant to its Ground Lease Agreement, the Provider pays the lessor approximately 6.0% of resident service revenue and approximately 6.7% of gross entrance fee proceeds collected. Based on discussions with the State of California Department of Social Services (DSS), and consistent with prior years, facility leasehold or rental payments reportable on Form 5-3 should only include base rent and participating rent attributable to resident service and other revenue.

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors' report on supplementary information.

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-4

Calculation of Net Operating Expenses

Line		Amounts	Total
1	Total operating expenses from financial statements		$ 44,040,857
2	Deductions:		
	(a) Interest paid on long-term debt (see instructions)	$ —	
	(b) Credit enhancement premiums paid for long-term debt (see instructions)	—	
	(c) Depreciation	6,811,941	
	(d) Amortization	920,804	
	(e) Revenues received during fiscal year for services to residents who did not have a continuing care contract	9,194,166	
	(f) Extraordinary expenses approved by the Department (A)	4,319,317	
3	Total deductions		21,246,228
4	Net operating expenses		22,794,629
5	Divide Line 4 by 365 and enter the result		62,451
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount		$ 4,683,825
(A)	Extraordinary expenses approved by the department consist of amounts classified as debt service as follows:		
	Ground Lease Base Rent (see Form 5-3)	1,717,350	
	Participating Rent on Resident Service and other Revenue (see Form 5-3)	2,601,967	
		$ 4,319,317	

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors' report on supplementary information.

Form 5-4 line 2e reconciliation	
Cash received per audited financials	$ 43,518,691
Cash received from residents with CCRC contracts	34,324,525
Cash per Form 5-4 line 2e	$ 9,194,166

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-5

Annual Reserve Certification

Provider Name: CC-Palo Alto, Inc.

Fiscal year ended December 31, 2017

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

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

		Amount
(1)	Debt service reserve amount	$ 4,319,317
(2)	Operating expense reserve amount	4,683,825
(3)	Total liquid reserve amount	$ 9,003,142

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

	Qualifying asset description		Amount (market value at end of quarter) Debt service reserve		Operating reserve
(4)	Cash and cash equivalents		$ —		48,609,941
(5)	Investment securities		4,319,317		10,801,970
(6)	Equity securities		—		—
(7)	Unused available lines of credit		—		—
(8)	Unused available letters of credit		—		—
(9)	Debt service reserve		—		—
(10)	Other (describe quality asset)		—		—
	Total amount of qualifying assets listed for liquid reserve	(11)	4,319,317	(12)	59,411,911
	Total amount required	(13)	4,319,317	(14)	4,683,825
	Surplus (deficiency)	(15)	$ —	(16)	54,728,086

Signature [signature]

Date 4/26/18

(Authorized representative) VP

(Title)

See accompanying independent auditors' report on supplementary information.

CC – Palo Alto, Inc.

Form 5-5 Description of Reserves

Debt Service Reserve Amount $4,319,317

Amount is comprised of the following:

Ground Lease Base Rent		$1,717,350
Resident Service and other revenue	$43,366,123	
(a) Participating Rent percentage	6%	
2016 Participating Rent on Resident Service and other revenue		$2,601,967
Total Projected Stabilized Ground Lease Payments		**$4,319,317**

Operating Reserve Amount $4,683,825

Please see Form 5-4 of Annual Audit for calculation of operating reserve amount

CC-Palo Alto, Inc. and Subsidiary

Detail of Cash and Investments by Bank Account:

Cash and Cash Equivalents		Investment Securities		Total
$500	Petty Cash held at property			$500
$10,953	Bank of America checking			$10,953
$44,781,992	BOA checking & overnight investment			$44,781,992
$3,807,828	BOA checking & overnight investment			$3,807,828
($1,444)	Bank of America checking			($1,444)
$48,599,830				$48,599,830
		$1,816,897	UBS CD's	$1,816,897
		$13,304,390	UBS Treasuries & TIPS	$13,304,390
		$10,111	Bank of America CD	$10,111
		$0	Bank of America	$0
		$15,131,398		$15,131,398
				$63,731,228

Amounts listed on form 5-5:

Qualifying assets for debt service reserve	$4,319,317
Qualifying assets for operating reserve	59,411,911
	$63,731,228

Amounts listed in audited financial statements:

Cash and cash equivalents (page 3) (invested as discussed on page 7)	$ 48,609,941
Assets limited as to use - by Company for Capital improvements (page 12) *	$ 13,304,390
Assets limited as to use - by Company for operations (page 12) **	$ 1,816,897
	$ 63,731,228

* Amounts are earmarked internally for future capital projects which have not been determined at this time.

** Amounts are held for purposes of satisfying the reserve obligation

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 4/26/18

FACILITY NAME: Vi at Palo Alto

ADDRESS: 620 Sandhill Road, Palo Alto, CA ZIP CODE: 94304 PHONE: (650) 853-5000

PROVIDER NAME: CC-Palo Alto, Inc. FACILITY OPERATOR: Classic Residence Management Limited Partnership

RELATED FACILITIES: Yes - see page 2 RELIGIOUS AFFILIATION: None

YEAR OPENED: 2005 # OF ACRES: 22 ☑ SINGLE STORY ☑ MULTI-STORY ☐ OTHER: ____ MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 1

* *

NUMBER OF UNITS:

RESIDENTIAL LIVING		HEALTH CARE	
APARTMENTS – STUDIO:	0	ASSISTED LIVING:	38
APARTMENTS – 1 BDRM:	152	SKILLED NURSING:	44
APARTMENTS – 2 BDRM:	229 + 7 (3 bdrm)	SPECIAL CARE:	24
COTTAGES/HOUSES:	0	DESCRIPTION: >	Dementia Care
RLU OCCUPANCY (%) AT YEAR END:	98.7%	>	Apartments - 3 BDRM - 7

* *

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☑ FOR- PROFIT ACCREDITED?: ☐ YES ☐ NO BY: ____

FORM OF CONTRACT: *(Check all that apply)* ☐ CONTINUING CARE ☐ LIFE CARE ☑ ENTRANCE FEE ☐ FEE FOR SERVICE ☐ ASSIGNMENT OF ASSETS ☐ EQUITY ☐ MEMBERSHIP ☐ RENTAL

REFUND PROVISIONS: *(Check all that apply)* ☐90% ☐75% ☐50% ☐FULLY AMORTIZED ☑OTHER: 0% & 70% (80% for the 3 bdrm apts)

RANGE OF ENTRANCE FEES: $722,200 - $6,401,300 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ YES ■ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Type I: Assisted Living and Skilled Nursing Care

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: None Required OTHER: Application Process

RESIDENT REPRESENTATIVE(S) TO, AND RESIDENT MEMBER(S) ON, THE BOARD (briefly describe provider's compliance and residents' role): > Attend periodic meetings with members of governing body.

\>

* *

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	☑	☑	HOUSEKEEPING (4 TIMES/MONTH)	☑	☐
BILLIARD ROOM	☑	☐	MEALS (1 /DAY)	☑	☐
BOWLING GREEN	☐	☐	SPECIAL DIETS AVAILABLE	☐	☑
CARD ROOMS	☑	☐			
CHAPEL	☐	☐	24-HOUR EMERGENCY RESPONSE	☑	☐
COFFEE SHOP	☑	☑	ACTIVITIES PROGRAM	☑	☐
CRAFT ROOMS	☑	☐	ALL UTILITIES EXCEPT PHONE	☑	☐
EXERCISE ROOM	☑	☐	APARTMENT MAINTENANCE	☑	☐
GOLF COURSE ACCESS	☐	☐	CABLE TV	☑	☐
LIBRARY	☑	☐	LINENS FURNISHED	☐	☐
PUTTING GREEN	☑	☐	LINENS LAUNDERED	☑	☐
SHUFFLEBOARD	☐	☐	MEDICATION MANAGEMENT	☐	☑
SPA	☑	☐	NURSING/WELLNESS CLINIC	☑	☑
SWIMMING POOL-INDOOR	☑	☐	PERSONAL HOME CARE	☐	☐
SWIMMING POOL-OUTDOOR	☐	☐	TRANSPORTATION-PERSONAL	☑	☑
TENNIS COURT	☐	☐	TRANSPORTATION-PREARRANGED	☑	☑
WORKSHOP	☐	☐	OTHER ____	☐	☐
OTHER Computer Room	☑	☐			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: CC-Palo Alto, Inc.

OTHER CCRCs	LOCATION (City, State)	PHONE (with area code)
Vi at La Jolla Village	San Diego, CA	(858) 646-7712
Vi at Bentley Village	Naples, FL	(941) 598-3153
Vi at Lakeside Village	Lantana, FL	(561) 966-4600
TidePointe, a Vi Community (fee for service)	Hilton Head Island, SC	(843) 341-7200
Vi at Grayhawk, a Vi and Plaza Companies Comm.	Scottsdale, AZ	(480) 659-5100
Vi at Aventura	Aventura, FL	(305) 692-4700
Vi at the Glen	Glenview, IL	(847) 904-4600
Vi at Highlands Ranch	Highlands Ranch, CO	(720) 747-1234
Vi at Silverstone	Scottsdale, AZ	(480) 476-6100

MULTI-LEVEL RETIREMENT COMMUNITIES	LOCATION (City, State)	PHONE (with area code)
None		

FREE-STANDING SKILLED NURSING	LOCATION (City, State)	PHONE (with area code)
None		

SUBSIDIZED SENIOR HOUSING	LOCATION (City, State)	PHONE (with area code)
None		

No listed facility is life care as defined in California.

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: CC-Palo Alto, Inc.

	2014	2015	2016	2017
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	$38,109,309	$41,047,937	$42,607,054	$43,577,871
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	$41,056,578	$44,316,377	$43,667,014	$29,303,937
NET INCOME FROM OPERATIONS	($2,947,269)	($3,268,440)	($1,059,960)	$14,273,934
LESS INTEREST EXPENSE	$0	$0	$0	$0
PLUS CONTRIBUTIONS	$3,050,000	$8,591,705	$0	$0
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	($4,486,761)	($5,413,375)	($6,516,928)	($7,004,176)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	($4,384,030)	($90,110)	($7,576,888)	$7,269,758
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$6,758,753	$14,507,685	$22,590,438	$28,781,758

* *

DESCRIPTION OF SECURED DEBT *(as of most recent fiscal year end)*

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD

* *

FINANCIAL RATIOS (see next page for ratio formulas)

	2015 CCAC Medians 50th Percentile *(optional)*	2015	2016	2017
DEBT TO ASSET RATIO		0	0	0
OPERATING RATIO		1.08	1.02	.67
DEBT SERVICE COVERAGE RATIO		0	0	0
DAYS CASH ON HAND RATIO		332.42	405.98	806.56

* *

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2014	%	2015	%	2016	%	2017
STUDIO	n/a		n/a		n/a		n/a
ONE BEDROOM	$4,689	2.5%	$4,793	3.0%	$4,948	3.0%	$5,093
TWO BEDROOM	$6,532	2.5%	$6,690	3.0%	$6,881	3.0%	$7,106
COTTAGE/HOUSE	n/a		n/a		n/a		n/a
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

* *

COMMENTS FROM PROVIDER: > Note: If you sign a continuing care residency contract, your monthly fee for assisted living, memory care, or skilled nursing
> will be based on your monthly fee for your residential living apartment. The dollar amounts shown are the average monthly fees paid by existing residents as of December
> 1st of each year. The % column reflects the percentage increase over the prior year's monthly fee that was applied to the monthly fees of existing residents.

PROVIDER NAME: CC-Palo Alto, Inc.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} \quad \text{Amortization of-Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments} + \text{Unrestricted Non-Current Cash \& Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$4,338 - $9,837	$4,770 - $13,188	$4,770 - $16,616
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3%	3%	3%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

131 Indicate the date the fee increase was implemented: January 1, 2017
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

15] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: CC-Palo Alto, Inc.
COMMUNITY: Vi at Palo Alto

CC – Palo Alto, Inc.

Form 7-1 Explanation for Increase in Monthly Service Fees

Each monthly service fee increase is based on projected expenses, prior year expenses and economic indicators. As with most businesses, we are faced with rising costs for utilities, insurance and personnel. To maintain the high level of quality and services expected of our brand, the following increases were implemented:

IL 3%

AL 3%

SNF 3%

PART 9
CALCULATION OF REFUND RESERVE AMOUNT

Per the Instruction of Bob Thompson, the entrance fee refund reserve report will be prepared and submitted at a later date when the updated forms and instructions are available.