FISCAL YEAR ENDED:
12 / 31 / 18

ANNUAL REPORT CHECKLIST

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

CCRC(S): Vi at Palo Alto

CONTACT PERSON: Tara Cope

TELEPHONE NO.: (312) 803-8555 **EMAIL:** tcope@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: $ 39,863.08

- ☐ 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	557
[2]	Number at end of fiscal year	563
[3]	Total Lines 1 and 2	1,120
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x.50
[5]	Mean number of continuing care residents	560
	All Residents	
[6]	Number at beginning of fiscal year	595
[7]	Number at end of fiscal year	595
[8]	Total Lines 6 and 7	1,190
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x.50
[10]	Mean number of all residents	595
[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.)		49,568,406
	[a] Depreciation	7,160,873	
	[b] Debt Service (Interest Only)	0	
[2]	Subtotal (add Line 1 a and 1b)		7,160,873
[3]	Subtract Line 2 from Line 1 and enter result.		42,407,533
[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)		39,863,081
			x.001
[6]	Total Amount Due (multiply Line 5 by.001)		39,863.08

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 12/31/2018 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, 2019

CC-Palo Alto, Inc., a Delaware corporation

By: ______________________________

Randal J. Richardson, President

ACORD®

CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY) 12/31/2018

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 CC-Palo Alto, Inc. 620 Sand Hill Road Palo Alto, CA 94304 USA	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: W9787970 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
A	X PROPERTY		SLSTPTY11124918	12/31/2018	12/31/2019	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	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: 17323528 BATCH: 1005286

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

Insured: CC-Development Group, Inc.

Policy Period: 12/31/18 – 12/31/19

Issuing Companies *(Quota Share Participation by Layer)*

Layer	Insurer	Policy Number	Limit
Primary ($25,000,000)	Allied World Assurance Company, Ltd.	P006392-012	$3,750,000
	Ariel Re Bda Limited	P134704	$1,875,000
	Certain Underwriters at Lloyd's	JEM-CI-1002	$750,000
	Ironshore Specialty Insurance Company	001227007	$1,562,500
	Landmark American Insurance Company	LHD906397	$1,250,000
	Lexington Insurance Company	012944691	$3,125,000
	Lloyd's of London Syndicate #2357	2017-9000681-02	$3,750,000
	Lloyd's Syndicates 2003, 3000, 0318, 2987, 5000, G360, Endurance Worldwide Insurance Ltd.	B080112090U18	$7,437,500
	Starr Surplus Lines Insurance Company	SLSTPTY11124918	$1,500,000
1st Excess Layer (55mm xs 25mm)	Argo Re Bda Limited	P134704	$4,125,000
	Evanston Insurance Company	MKLV12XP002771	$5,000,000
	Ironshore Specialty Insurance Company	002590103	$8,250,000
	Lexington Insurance Company	012944691	$6,875,000
	Lloyd's London Syndicate 2987	PD-10584-04	$2,000,000
	Lloyd's Syndicates 2015, 1955, 3902, G360	B080115732U18	$8,701,000
	Maxum Indemnity Company	MSP-6033929-01	$5,000,000
	Oil Casualty Insurance, LTD.	P-102279-1218	$4,049,000
	Westport Insurance Corporation	NAP-0452576-05	$11,000,000
2nd Excess Layer (170mm xs 80mm)	Axis Surplus Insurance Company	ECF771021-18	$25,000,000
	Evanston Insurance Company	MKLV12XP002771	$15,000,000
	Homeland Insurance Company of New York	795008993	$35,416,667
	Landmark American Insurance Company	LHD906396	$38,500,000
	Lloyd's Syndicates 2003, G360	B080112090U18	$7,480,000
	Maxum Indemnity Company	MSP-6033929-01	$14,603,333
	Westport Insurance Corporation	NAP-0452576-05	$34,000,000
3rd Excess Layer (100mm xs 250mm)	Mitsui Sumitomo Insurance Company of America	EXP7000111	$100,000,000

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.. $100,000,000

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 28, 2018

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 12/31/2018

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.

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

INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A:	National Fire & Marine Insurance Company	20079
INSURER B:	Underwriters at Lloyd's London	15792
INSURER C:	XL Insurance (Bermuda) Ltd	B0328
INSURER D:		
INSURER E:		
INSURER F:		

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

COVERAGES CERTIFICATE NUMBER: W9787971 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:			42-PSC-306898-01	12/31/2018	12/31/2019	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)	$
								$
B	UMBRELLA LIAB; OCCUR; X EXCESS LIAB; X CLAIMS-MADE; DED; RETENTION $			SB-LTCAX-01535-18	12/31/2018	12/31/2019	EACH OCCURRENCE	$ 9,000,000
							AGGREGATE	$ 9,000,000
								$
	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			42-PSC-306898-01	12/31/2018	12/31/2019	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

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

AGENCY CUSTOMER ID: ______

LOC #: ______

ACORD 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: BM00033081LI18A EFF DATE: 12/31/2018 EXP DATE: 12/31/2019

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

SR ID: 17323528 BATCH: 1005286 CERT: W9787971

KPMG

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

CC-PALO ALTO, INC. AND SUBSIDIARY

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Stockholders' Deficit	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplemental Schedules	
Long-Term Debt Incurred in a Prior Fiscal Year – Form 5-1	18
Long-Term Debt Incurred during Fiscal Year – Form 5-2	19
Calculation of Long-Term Debt Reserve Amount – Form 5-3	20
Calculation of Net Operating Expenses – Form 5-4	21
Annual Reserve Certification – Form 5-5	22

KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

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

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, 2018 and 2017, 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, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 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 18, 2019

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	$ 6,234,052	48,609,941
Short-term investments	21,905,582	—
Current portion of assets limited as to use	1,010,270	1,511,836
Resident accounts receivable	692,380	724,793
Due from affiliate	—	268,963
Prepaids and other	1,429,892	342,315
Total current assets	31,272,176	51,457,848
Long-term investments	34,884,070	—
Assets limited as to use, net of amounts required for current liabilities	26,200,752	27,101,052
Property and equipment:		
Land improvements	15,547,667	15,547,667
Building and improvements	205,947,412	204,831,125
Furniture, fixtures, and equipment	38,033,126	35,094,971
Construction in progress	2,882,673	519,947
	262,410,878	255,993,710
Less accumulated depreciation	115,347,311	108,186,438
Property and equipment, net	147,063,567	147,807,272
Deferred tax asset, net	11,234,747	11,322,106
Deposits	1,250,513	1,228,769
Total assets	$ 251,905,825	238,917,047
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 1,801,152	1,199,663
Accrued expenses	6,947,705	12,076,077
Due to affiliates	2,060,908	—
Prepaid resident service revenue	517,809	1,523,552
Resident deposits	1,010,270	488,380
Current portion of repayable entrance fees	8,067,876	8,359,850
Total current liabilities	20,405,720	23,647,522
Repayable entrance fees	464,462,625	456,600,178
Deferred revenue from nonrepayable entrance fees	82,762,932	75,687,206
Other liabilities	213,955	227,601
Total liabilities	567,845,232	556,162,507
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	(130,290,671)	(131,596,724)
Total stockholders' deficit	(315,939,407)	(317,245,460)
Total liabilities and stockholders' deficit	$ 251,905,825	238,917,047

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2018 and 2017

		2018	2017
Revenue:			
Net resident service revenue	$	46,082,248	43,175,468
Amortization of entrance fees		8,995,507	9,683,663
Investment return		805,782	211,748
Other income		189,852	190,655
Total revenue		56,073,389	53,261,534
Expenses:			
Food and beverage		3,819,754	3,899,844
Dining room		2,268,638	2,099,721
Laundry		357,755	304,137
Housekeeping		2,078,028	1,906,535
Resident services		3,682,499	3,588,896
Resident care		8,380,433	7,249,108
Repairs and maintenance		2,055,247	1,871,995
Utilities		1,991,087	2,106,338
Sales and marketing		813,449	859,366
Total departmental expenses		25,446,890	23,885,940
Management fees		3,714,295	3,483,689
Property taxes, net		(854,158)	(8,501,196)
Ground lease base rent		1,717,350	1,717,350
Ground lease participating rent		6,070,564	7,004,176
Depreciation and amortization		7,160,873	7,732,745
Administration		9,492,099	7,347,185
Insurance		1,314,169	1,370,968
Total expenses		54,062,082	44,040,857
Income before income tax expense		2,011,307	9,220,677
Income tax expense		(560,590)	(8,941,468)
Net income	$	1,450,717	279,209

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Deficit

Years ended December 31, 2018 and 2017

	Common stock		Distributions in excess of paid-in capital	Accumulated deficit	Total
	Shares	Amount			
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)
Tax adjustment	—	—	—	(144,664)	(144,664)
Net income	—	—	—	1,450,717	1,450,717
Balance at December 31, 2018	100	$ —	(185,648,736)	(130,290,671)	(315,939,407)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from residents	$ 45,222,435	43,518,691
Proceeds received from nonrepayable entrance fees	16,227,960	22,924,430
Interest received	1,045,154	218,974
Cash paid to suppliers and employees	(35,861,325)	(34,507,653)
Cash paid for management fees	(3,714,295)	(3,483,689)
Cash paid for real estate taxes	(4,575,004)	(4,600,905)
Cash paid for participating rent	(6,070,564)	(7,004,176)
Cash paid for income taxes	(617,895)	(1,207,563)
Net cash provided by operating activities	11,656,466	15,858,109
Cash flows from investing activities:		
Additions to property and equipment	(6,417,168)	(5,557,050)
Purchase of investments, net	(56,789,652)	—
Net change in resident deposits	521,890	(75,850)
Net change in assets limited as to use	1,162,494	285,512
Net cash used in investing activities	(61,522,436)	(5,347,388)
Cash flows from financing activities:		
Proceeds from repayable entrance fees	31,582,050	43,248,170
Entrance fee repayments	(24,091,969)	(37,390,842)
Net cash provided by financing activities	7,490,081	5,857,328
Net change in cash and cash equivalents	(42,375,889)	16,368,049
Cash and cash equivalents at beginning of year	48,609,941	32,241,892
Cash and cash equivalents at end of year	$ 6,234,052	48,609,941
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 1,450,717	279,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Proceeds from nonrepayable entrance fees	16,227,960	22,924,430
Depreciation and amortization	7,160,873	7,732,745
Amortization of entrance fees	(8,995,507)	(9,683,663)
Net realized and unrealized losses on assets limited as to use	239,372	7,226
Utilization of repayable entrance fees in lieu of monthly fees	(76,335)	(63,733)
Income tax adjustment	(144,664)	(211,318)
Changes in assets and liabilities:		
Accounts receivable	32,413	392,486
Prepaids and other	(1,087,577)	(39,598)
Deposits	(21,744)	(9,694)
Accounts payable	601,489	(228,319)
Accrued expenses	(5,128,372)	(11,994,474)
Due to/from affiliate, net	2,329,871	(1,056,020)
Prepaid resident service revenue	(1,005,743)	(176,185)
Deferred tax asset	87,359	7,945,223
Other liabilities	(13,646)	39,794
Net cash provided by operating activities	$ 11,656,466	15,858,109

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 and short-term and long-term investments.

(c) Fair Value Measurements

The Company applies the provisions of Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurement – 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.

(d) Investments

Short-term investments include investments in highly liquid instruments with original maturities greater than 3 months and less than 12 months, excluding assets limited as to use. Long-term investments include corporate bonds and notes with original maturities greater than 12 months.

(e) 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.

(Continued)

(f) 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, 2018 relates to costs associated with renovations that will be placed in service during 2019. No significant contractual commitments exist related to these renovations as of December 31, 2018.

(g) 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, 2018 or 2017.

(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 an actuarially determined rate of 5.5%. 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, 2018 and 2017, 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, 2018, the repayable portion of the entrance fees due to all residents would be approximately $478,412,000.

(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, 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 amount of $1,023,456. As of December 31, 2017, $1,023,456 is reflected as prepaid resident service revenue and included in current portion of assets limited as to use in the accompanying 2017 consolidated balance sheet.

(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, 2018 and 2017 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 made significant changes to the U.S. federal income tax rules for taxation of corporations. 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, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 still evaluating the impact of this standard on the accompanying consolidated statements of operations. As currently determined, the impact to the consolidated financial statements upon adoption will not be material.

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. The requirements of this statement are effective for the Company for the year ending December 31, 2020. The Company is evaluating the impact of this standard on the accompanying consolidated 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 18, 2019, the date the consolidated financial statements were available to be 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, 2018 and 2017 is as follows:

	2018	2017
Medicare	65 %	75 %
Self-pay and commercial insurance	35	25
	100 %	100 %

(4) Investments

The Company reports its investments and assets limited as to use as trading securities. Money market funds with readily determinable fair values and all other investments are reported at fair value. Fair value is determined primarily on the basis of quoted market prices or observable market inputs. Cash and cash equivalents, money market funds with readily determinable fair values, certificates of deposit, and U.S. Treasury securities are considered Level 1 investments within the fair value hierarchy. Corporate bonds and notes are considered Level 2 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.

A summary of the composition of the Company's investment portfolio at December 31, 2018 and 2017 is as follows:

		2018	2017
Cash	$	1,330,858	7,544,476
Money markets and certificates of deposit		19,673,121	7,750,779
U.S. Treasury securities		10,130,670	13,317,633
Corporate bonds and notes		52,866,025	—
	$	84,000,674	28,612,888

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

		2018	2017
Short-term investments	$	21,905,582	—
Assets limited as to use – resident deposits		1,010,270	488,380
Assets limited as to use – by Company for operations		—	1,023,456
Total current portion of assets limited as to use		1,010,270	1,511,836
Assets limited as to use – by Company for capital improvements		11,599,867	13,304,390
Assets limited as to use – by Company for operations		2,597,811	1,816,897
Assets limited as to use – by Company for entrance fee repayments		6,003,074	5,979,765
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		26,200,752	27,101,052
Long-term investments		34,884,070	—
	$	84,000,674	28,612,888

The composition of investment return on the Company's investment portfolio for the years ended December 31, 2018 and 2017 is as follows:

		2018	2017
Interest and dividend income	$	1,045,154	218,974
Net realized and change in unrealized gains and losses during the holding period		(239,372)	(7,226)
	$	805,782	211,748

(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, 2018 and 2017 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, 2018 and 2017, 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.

The income tax expense for the years ended December 31, 2018 and 2017 comprises the following:

		2018	2017
Current:			
U.S. federal	$	308,978	765,607
State		164,253	230,638
Total current		473,231	996,245
Deferred:			
U.S. federal		65,558	8,053,695
State		21,801	(108,472)
Total deferred		87,359	7,945,223
Income tax expense	$	560,590	8,941,468

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017 are presented below:

		2018	2017
Deferred tax assets:			
Deferred revenue from nonrepayable entrance fees	$	19,256,656	16,185,181
Property tax liabilities		875,694	2,394,969
Other		723,772	884,957
Gross deferred tax assets		20,856,122	19,465,107
Less valuation allowance		—	—
Net deferred tax assets		20,856,122	19,465,107
Deferred tax liabilities:			
Depreciation		(9,617,242)	(8,132,211)
Other		(4,133)	(10,790)
Gross deferred tax liabilities		(9,621,375)	(8,143,001)
Total deferred tax asset, net	$	11,234,747	11,322,106

As of December 31, 2018 and 2017, 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 was $560,590 and $8,941,468 for the years ended December 31, 2018 and 2017, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 21% in 2018 and 35% in 2017 to pretax income from continuing operations as a result of the following:

		2018	2017
Computed "expected" tax expense	$	422,374	3,227,237
Change in income tax expense 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		151,561	41,443
Other, net		(13,345)	8,417
	$	560,590	8,941,468

(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 $3,714,295 and $3,483,689 for the years ended December 31, 2018 and 2017, 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 $5,652,781 and $6,311,716 for the years ended December 31, 2018 and 2017, respectively. There is no interest associated with these advances as they are reimbursed on a current basis. Amounts due (to) from Classic of $(2,060,908) and $268,963 at December 31, 2018 and 2017, 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, 2018 and 2017, the Company recorded matching contribution expense of $443,900 and $436,255, 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 has been contesting the real estate taxes on the Community's building improvements and the underlying leased land for each year from November 2005 and forward. The principal issue in dispute has been the proper assessed value of the building improvements which were completed in November 2005. Hearings before the Santa Clara County Assessment Appeals Board (the "Board") were completed in 2016 and briefing completed in 2017. The Board issued its decision on June 20, 2018 setting $266,000,000 as the assessed value of the building improvements as of the November 2005 completion date. The Board's $266,000,000 building improvement value, along with its valuation of the underlying land at $74,653,800, set a total $340,653,800 base year value for the real property as of November 2005. Absent new construction or a change in ownership of the real property, Proposition 13 limits future increases in assessed value to 2% or less per year.

The Board's newly determined $266,000,000 November 2005 base year value for the improvements reflects an increase of roughly $19,000,000 over the Santa Clara County Assessor's (the "Assessor") initial November 2005 base year value of $247,000,000 for the improvements. The Assessor challenged his own determination of the assessed value during both Board hearings (the first in 2011 and the second in 2015-2016). The first hearing resulted in a 2012 Board decision that increased the Assessor's initial assessed value by $155,000,000. After the Company appealed that decision, the Santa Clara County Superior Court vacated it and directed the Board to hold a new hearing. The result of that court-ordered second hearing was the Board's June 20, 2018 issuance of its newly determined $340,653,800 November 2005 base year value. The Board's written findings in support of the June 20, 2018 decision were issued on January 17, 2019.

(Continued)

The Company has received supplemental and escape assessments for the 2005-2006 through 2018-2019 tax years reflecting the Board's newly determined $340,653,800 November 2005 base year value. The increases to the 2005-2006 to 2018-2019 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 through December 31, 2018 of approximately $3,129,000, which the Company has reflected within accrued expenses in the accompanying 2018 consolidated balance sheet. The Company included $8,558,000 in accrued expenses in the 2017 consolidated balance sheet, which was based on a tentative decision by the Board that was revised in the final 2018 decision. The Company included $21,660,000 in accrued expenses as of December 31, 2016 based on its assessment that the criteria had not been met to recognize any gain through a reduction in property tax expense through that date. As a result of the 2017 tentative decision and the June 20, 2018 decision, the Company has reduced property tax expense by $5,429,000 and $13,102,000 in the accompanying 2018 and 2017 consolidated statements of operations, respectively.

(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. On February 14, 2018, the court granted Defendants Motion for Summary Judgement and entered judgement in favor of Defendants on the remaining causes of action in the SAC alleging (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. Plantiffs have indicated that they will file a Notice of Appeal. The Company will defend the appeal, if filed, 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)			4,493,676
4	Total amount required for long-term debt reserve (A)			$ 4,493,676
(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	$ 46,272,100		
	Participating Rent percentage	6.0 %		
	2018 Participating Rent on resident service and other revenue (B)		2,776,326	
	Total		$ 4,493,676	

(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		$ 54,062,082
2	Deductions:		
	(a) Interest paid on long-term debt (see instructions)	$ —	
	(b) Credit enhancement premiums paid for long-term debt (see instructions)	—	
	(c) Depreciation	7,160,873	
	(d) Amortization	—	
	(e) Revenues received during fiscal year for services to residents who did not have a continuing care contract	9,376,952	
	(f) Extraordinary expenses approved by the Department (A)	4,493,676	
3	Total deductions		21,031,501
4	Net operating expenses		33,030,581
5	Divide Line 4 by 365 and enter the result		90,495
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount		$ 6,787,125
(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)	2,776,326	
		$ 4,493,676	

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	$ 45,222,435
Cash received from residents with CCRC contracts	35,845,483
Cash per Form 5-4 line 2e	$ 9,376,952

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-5

Annual Reserve Certification

Provider Name: CC-Palo Alto, Inc.

Fiscal year ended December 31, 2018

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2018 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	$	4,493,676
(2)	Operating expense reserve amount		6,787,125
(3)	Total liquid reserve amount	$	11,280,801

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

				Amount (market value at end of quarter)		
	Qualifying asset description			Debt service reserve		Operating reserve
(4)	Cash and cash equivalents		$	—		6,234,052
(5)	Investment securities			4,493,676		66,493,654
(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)		4,493,676	(12)	72,727,706
	Total amount required	(13)		4,493,676	(14)	6,787,125
	Surplus (deficiency)	(15)	$	—	(16)	65,940,581

Signature ______________________ Date 4/29/19

(Authorized representative)

(Title) VP & Treasurer

See accompanying independent auditors' report on supplementary information.

CC – Palo Alto, Inc.

Form 5-5 Description of Reserves

Debt Service Reserve Amount $4,493,676

Amount is comprised of the following:

Ground Lease Base Rent		$1,717,350
Resident Service and other revenue	$46,272,100	
(a) Participating Rent percentage	6%	
2018 Participating Rent on Resident Service and other revenue		$2,776,326
Total Projected Stabilized Ground Lease Payments		**$4,493,676**

Operating Reserve Amount $6,787,125

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

CC-Palo Alto, Inc.
Form 5-5 Supplemental Details on All Reserves

Reserves Classified as Cash and Cash Equivalents on Form 5-5:

Financial Institution	Account Type	Account Details		Amount	
None	Cash	Petty Cash maintained on site	$	500	
Bank of America, N.A.	Business Checking Account	Petty Cash Checking Account	$	11,653	
Bank of America, N.A.	Business Checking Account	Operating Account	$	3,875,174	
Bank of America, N.A.	Business Checking Account	Ownership Account (operating portion)	$	(4,289,919)	
UBS	Self Directed Investment Account	Ownership Account - Money Market	$	6,628,123	
Bank of America, N.A.	Business Checking Account	Payroll Account	$	(1,646)	
Bank of America, N.A.	Business Checking Account	Real Estate Tax Account	$	10,167	
Total Cash and Cash Equivalents			$	**6,234,052**	**A**

Reserves Classified as Investment Securities on Form 5-5:

Financial Institution	Account Type	Account Details		Amount	
UBS	Self Directed Investment Account	Operating Reserve - Certificates of Deposit	$	2,597,811	
UBS	Self Directed Investment Account	Capital Reserve - US Treasuries, US TIPS Bonds	$	11,599,867	
UBS	Self Directed Investment Account	Ownership Account - Corporate Bonds and Notes	$	56,789,652	
Total Investment Securities			$	**70,987,330**	**B**

Reserves Not Considered as Qualifying Assets and Not Listed on Form 5-5:

Financial Institution	Account Type	Account Details		Amount	
Bank of America, N.A.	Business Checking Account	Ownership Account (resident deposit portion)	$	1,010,270	
Bank of America, N.A.	Business Checking Account	Ownership Account (Entrance fee reserve portion)	$	6,003,074	
Bank of America, N.A.	Certificate of Deposit	Ground Lease Letter of Credit Collateral	$	6,000,000	
Total Reserves Not Listed on Form 5-5			$	**13,013,344**	**C**
Total Cash and Cash Equivalents and Investment Securities		**(A+B+C)**	$	**90,234,726**	

Cash and Assets Limited as to Use in Audited Financial Statements:

Cash and cash equivalents (page 3) (policy disclosed on page 7)	$	6,234,052
Short-term investments (page 3) (policy disclosed on page 8)	$	21,905,582
Current portion of assets limited as to use (page 3) (policy disclosed on page 8&12)	$	1,010,270
Long-term investments (page 3) (policy disclosed on page 12)	$	34,884,070
Assets limited as to use, net of amounts required for current liabilities (page 3) (policy disclosed on page 8&12)	$	26,200,752
Total cash and cash equivalents and assets limited as to use	$	**90,234,726**

Reconciliation of Details Above to Form 5-5:

Total Qualifying Assets listed for liquid reserve	**(A+B)**	$	**77,221,382**
Qualifying Assets - Cash and Cash Equivalents - Operating Expense Reserve		$	6,234,052
Qualifying Assets - Investment Securities - Operating Expense Reserve		$	66,493,654
Qualifying Assets - Investment Securities - Debt Service Reserve		$	4,493,676
Total Qualifying Assets listed for liquid reserve		$	**77,221,382**

Per Capita Cost Detail:

Form 1-2 line 5 - Total Operating Expense for Continuing Care Residents	$	30,935,023
Form 1-1 line 5 - Mean # of Continuing Care Residents		554.5
Per Capita Costs	$	**55,789**

Continuing Care Retirement Community Disclosure Statement

Date Prepared: 4/15/19

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:	96.4	OVERALL CCRC OCCUPANCY (%) AT YEAR END:	94.3

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)* ☐ Refundable ☒ Repayable ☐ 90% ☐ 75% ☐ 50% ■ OTHER: 0%,60% (70% 3 bdrm apts)

RANGE OF ENTRANCE FEES: $769,500 - $6,513,600 **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' roles) > 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.

	2015	2016	2017	2018
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	$41,047,937	$42,607,054	$43,577,871	$47,077,882
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	$44,316,377	$43,667,014	$29,303,937	$40,830,645
NET INCOME FROM OPERATIONS	($3,268,440)	($1,059,960)	$14,273,934	$6,247,237
LESS INTEREST EXPENSE	$0	$0	$0	$0
PLUS CONTRIBUTIONS	$8,591,705	$0	$0	$0
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	($5,413,375)	($6,516,928)	($7,004,176)	($6,070,564)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	($90,110)	($7,576,888)	$7,269,758	$176,673
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$14,507,685	$22,590,438	$28,781,758	$23,718,041

* *

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)

	2017 CCAC Medians 50th Percentile *(optional)*	2016	2017	2018
DEBT TO ASSET RATIO		0	0	0
OPERATING RATIO		1.02	.67	.87
DEBT SERVICE COVERAGE RATIO		0	0	0
DAYS CASH ON HAND RATIO		405.98	806.56	690.31

* *

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2015	%	2016	%	2017	%	2018
STUDIO	N/A		N/A		N/A		N/A
ONE BEDROOM	$4,793	3.0	$4,948	3.0	$5,093	2.7	$5,218
TWO BEDROOM	$6,690	3.0	$6,881	3.0	$7,106	2.7	$7,301
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

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

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)	$4,470 - $10,140	$4,913 - $17,307	$5,046 - $17,112
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	2.7%	2.7%	2.7%

☐ 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, 2018
(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 in several areas. One significant area is rising salaries and benefits costs. Pressure in the labor markets and rising health care costs (coupled with the impact of federal regulation) continue to lead to rising salaries and benefits costs which outpace normal inflation. Additionally, property, workers compensation, and professional liability insurance costs continue to rise. Food cost, utilities expense, and property taxes are other significant considerations within the overall expense base that drive monthly service fee increases. Each of these factors is evaluated in detail and we utilize the best information we have available at the time the increases are finalized. The data used to calculate the increase consists primarily of compensation analyses on the local market, health insurance consultant reports, forward looking data on commodities pricing, discussions with utility companies, and discussion with non-health insurance consultants. We also analyze repair and maintenance needs annually based on the life cycle of our systems and specific needs. To maintain the high level of quality and services expected of our brand, the following increases were implemented:

IL 2.7%

AL 2.7%

SNF 2.7%