

**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: \$ 43,630.57
  - 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**

| <u>Line</u>   | <u>Continuing Care Residents</u>   | <u>TOTAL</u> |
|---------------|--|--------------|
| [1]           | Number at beginning of fiscal year   | 553          |
| [2]           | Number at end of fiscal year   | 552          |
| [3]           | Total Lines 1 and 2  | 1,105        |
| [4]           | Multiply Line 3 by ".50" and enter result on Line 5.   | x.50         |
| [5]           | Mean number of continuing care residents   | 552.5        |
| All Residents |  |              |
| [6]           | Number at beginning of fiscal year   | 580          |
| [7]           | Number at end of fiscal year   | 584          |
| [8]           | Total Lines 6 and 7  | 1,164        |
| [9]           | Multiply Line 8 by ".50" and enter result on Line 10.  | x.50         |
| [10]          | Mean number of all residents   | 582          |
| [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). | .95          |

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

| <u>Line</u> |   | <u>TOTAL</u> |
|-------------|---|--------------|
| [1]         | Total Operating Expenses (including depreciation and debt service-interest only)<br>(Total Operating Expense amount excludes the amount deducted on Form 5-4 for extraordinary expenses.) | 54,481,858   |
| [a]         | Depreciation  | 8,554,946    |
| [b]         | Debt Service (Interest Only)  | 0            |
| [2]         | Subtotal (add Line 1 a and 1b)  | 8,554,946    |
| [3]         | Subtract Line 2 from Line 1 and enter result.   | 45,926,912   |
| [4]         | Percentage allocated to continuing care residents (Form 1-1, Line 11)   | .95          |
| [5]         | Total Operating Expense for Continuing Care Residents<br>(multiply Line 3 by Line 4)  | 43,630,566   |
|             |   | x.001        |
| [6]         | Total Amount Due (multiply Line 5 by .001)  | 43,630.57    |

**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**

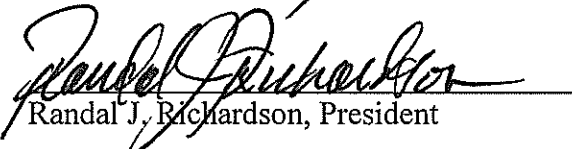
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The undersigned certifies that the Annual Report for the fiscal year ended 12/31/2016 is correct to the best of his knowledge, that each continuing care contract form in use or offered to new residents has been approved by the Department, and the provider is maintaining the required liquid reserve and refund reserve.

Dated: April 26, 2017

CC-Palo Alto, Inc., a Delaware corporation

By:

  
Randal J. Richardson, President



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
12/29/2016

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.<br>c/o 26 Century Blvd<br>P.O. Box 305191<br>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           |                               |
|  | INSURER A: Lloyd's                      | NAIC # B7874                  |
|  | INSURER B: XL Insurance (Bermuda) Ltd   | B0328                         |
|  | INSURER C:                              |                               |
|  | INSURER D:                              |                               |
|  | INSURER E:                              |                               |
|  | INSURER F:                              |                               |


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

COVERAGES CERTIFICATE NUMBER: W1871666 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        | <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY<br><input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR<br>Ded: \$50,000 Per Claim<br><br>GEN'L AGGREGATE LIMIT APPLIES PER:<br><input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC<br>OTHER: |           |          | SB-LTCA-01527-16  | 12/31/2016              | 12/31/2017              | EACH OCCURRENCE \$ 1,000,000<br>DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000<br>MED EXP (Any one person) \$ 10,000<br>PERSONAL & ADV INJURY \$ 1,000,000<br>GENERAL AGGREGATE \$ 3,000,000<br>PRODUCTS - COMP/OP AGG \$ 1,000,000<br>Policy Limit \$ 10,000,000 |
|          | AUTOMOBILE LIABILITY<br><br><input type="checkbox"/> ANY AUTO<br><input type="checkbox"/> OWNED AUTOS ONLY<br><input type="checkbox"/> HIRED AUTOS ONLY<br><input type="checkbox"/> SCHEDULED AUTOS<br><input type="checkbox"/> NON-OWNED AUTOS ONLY   |           |          |                   |                         |                         | COMBINED SINGLE LIMIT (Ea accident) \$<br>BODILY INJURY (Per person) \$<br>BODILY INJURY (Per accident) \$<br>PROPERTY DAMAGE (Per accident) \$<br>\$   |
| A        | <input type="checkbox"/> UMBRELLA LIAB<br><input checked="" type="checkbox"/> EXCESS LIAB<br>DED RETENTION \$  |           |          | SB-LTCAX-01401-16 | 12/31/2016              | 12/31/2017              | <input type="checkbox"/> OCCUR<br><input checked="" type="checkbox"/> CLAIMS-MADE<br>EACH OCCURRENCE \$ 24,000,000<br>AGGREGATE \$ 24,000,000<br>\$   |
|          | WORKERS COMPENSATION AND EMPLOYERS' LIABILITY<br>ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)<br>If yes, describe under DESCRIPTION OF OPERATIONS below   | Y/N       | N/A      |                   |                         |                         | <input type="checkbox"/> PER STATUTE <input type="checkbox"/> OTHER<br>E.L. EACH ACCIDENT \$<br>E.L. DISEASE - EA EMPLOYEE \$<br>E.L. DISEASE - POLICY LIMIT \$   |
| A        | Professional Liability<br>Deductible: \$50,000 per claim   |           |          | SB-LTCA-01527-16  | 12/31/2016              | 12/31/2017              | Each Claim 1,000,000<br>Each Loc. Aggregate 3,000,000<br>Policy Limit 10,000,000  |

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)  
 This Voids and Replaces Previously Issued Certificate Dated 12/24/2015 WITH ID: W1235207.  
  
 This Certificate voids and replaces previously issued any and all Certificates.  
  
 Re: Vi at Palo Alto; 620 Sand Hill Rd.; Palo Alto, CA 94304  
 SEE ATTACHED

|  |   |
|--|---|
| <b>CERTIFICATE HOLDER</b><br><br>California Department of Social Services<br>Attn.: Ms. Linda Smith<br>744 P. Street<br>Sacramento, CA 95814 | <b>CANCELLATION</b><br><br>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<br><br>   |

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**ADDITIONAL REMARKS SCHEDULE**

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

**ADDITIONAL REMARKS**

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,  
 FORM NUMBER: 25 FORM TITLE: Certificate of Liability Insurance

INSURER AFFORDING COVERAGE: XL Insurance (Bermuda) Ltd NAIC#: B0328  
 POLICY NUMBER: BM00030536LI16A      EFF DATE: 12/31/2016      EXP DATE: 12/31/2017

| TYPE OF INSURANCE: | LIMIT DESCRIPTION: | LIMIT AMOUNT: |
|--------------------|--------------------|---------------|
| Excess Umbrella    | Each Occurrence    | \$25,000,000  |
|                    | Aggregate          | \$25,000,000  |



# CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)  
12/20/2016

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<br>Willis of Illinois, Inc.<br>c/o 26 Century Blvd<br>P.O. Box 305191<br>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<br>CC-Palo Alto, Inc.<br>620 Sand Hill Road<br>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: W1809111 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   | <input checked="" type="checkbox"/> PROPERTY   | SLSTPTY10904416   | 12/31/2016                         | 12/31/2017  | <input checked="" type="checkbox"/> BUILDING | \$ See Below  |              |
|   | CAUSES OF LOSS                                 |                   |                                    |   | DEDUCTIBLES                                  | <input checked="" type="checkbox"/> PERSONAL PROPERTY | \$ See Below |
|   | BASIC  |                   |                                    |   | BUILDING                                     | <input checked="" type="checkbox"/> BUSINESS INCOME   | \$ See Below |
|   | BROAD  |                   |                                    |   | 50,000                                       | <input checked="" type="checkbox"/> EXTRA EXPENSE     | \$ See Below |
|   | <input checked="" type="checkbox"/> SPECIAL    |                   |                                    |   | CONTENTS                                     | <input checked="" type="checkbox"/> RENTAL VALUE      | \$ See Below |
|   | <input checked="" type="checkbox"/> EARTHQUAKE |                   |                                    |   | See Attached                                 | BLANKET BUILDING                                      | \$           |
|   | <input checked="" type="checkbox"/> WIND       |                   |                                    |   | See Attached                                 | BLANKET PERS PROP                                     | \$           |
| <input checked="" type="checkbox"/> FLOOD | See Attached                                   | BLANKET BLDG & PP | \$                                 |   |  |   |              |
|   |  |                   |                                    | <input checked="" type="checkbox"/> Loss Limit (Blnk) | \$ 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.

|  |   |
|--|---|
| <b>CERTIFICATE HOLDER</b><br><br>California Department of Social Services<br>Attn.: Ms. Linda Smith<br>744 P. Street<br>Sacramento, CA 95814 | <b>CANCELLATION</b><br><br>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<br><br>   |

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

Insured: CC-Development Group, Inc.

Policy Period: 12/31/16 – 12/31/17

**Issuing Companies**

| <b>Layer</b>                                     | <b>Insurer</b>  | <b>Policy Number</b> | <b>Limit</b> |
|--|---|----------------------|--------------|
| Primary (\$25,000,000)                           | Allied World Assurance Company, Ltd.                              | P006392/010          | 4,500,000    |
|  | Axis Surplus Insurance Company                                    | ECF764473-16         | 2,250,000    |
|  | Chubb Custom Insurance Company                                    | 44681329-05          | 1,223,457    |
|  | Endurance Worldwide Insurance Ltd.                                | B080112090U16        | 1,181,000    |
|  | General Security Indemnity Co. of Arizona                         | T0234451603203       | 1,223,457    |
|  | Ironshore Specialty Insurance Company                             | 001227005            | 1,562,500    |
|  | Landmark American Insurance Company                               | LHD398714            | 1,250,000    |
|  | Lexington Insurance Company                                       | 012944691            | 2,500,000    |
|  | Lloyd's Syndicates 2003, 3000, 1414, 0318, 2987, 5000, 1955, 1200 | B080112090U16        | 6,836,125    |
|  | National Fire & Marine Insurance Company                          | 42-PRP-000099-04     | 1,250,000    |
|  | Starr Surplus Lines Insurance Company                             | SLSTPTY10904416      | 1,223,461    |
| 1 <sup>st</sup> Excess Layer<br>(55mm xs 25mm)   | Evanston Insurance Company  | MKLV12P001886        | 7,750,000    |
|  | Chubb Custom Insurance Company                                    | 44681329-05          | 2,934,997    |
|  | General Security Indemnity Co. of Arizona                         | T0234451603203       | 2,934,997    |
|  | Ironshore Specialty Insurance Company                             | 002590101            | 8,250,000    |
|  | Lexington Insurance Company                                       | 012944691            | 5,500,000    |
|  | Lloyd's London Syndicate 2987                                     | PD-10584-02          | 5,000,000    |
|  | Lloyd's Syndicates 2015, 1955, 3902, 1955, 1200, 4444, 1686,      | B080115732U16        | 5,945,000    |
|  | National Fire & Marine Insurance Company                          | 42-PRP-000099-04     | 2,750,000    |
| Starr Surplus Lines Insurance Company            | SLSTPTY10904416   | 2,935,006            |              |
| Westport Insurance Corporation                   | NAP045257603  | 11,000,000           |              |
| 2 <sup>nd</sup> Excess Layer<br>(170m xs 80mm)   | Axis Surplus Insurance Company                                    | ECF771021-16         | 22,500,000   |
|  | Endurance Worldwide Insurance Ltd.                                | B080112090U16        | 7,256,790    |
|  | Homeland Insurance Company of New York                            | 795005381            | 26,500,000   |
|  | Landmark American Insurance Company                               | LHD398713            | 38,500,000   |
|  | Lloyd's London Syndicate 2987                                     | PD-10584-02          | 17,900,000   |
|  | Lloyd's Syndicates 2003, 1955, 1200, 1861, 5820, 4444, 1686       | B080112090U16        | 14,843,210   |
|  | National Fire & Marine Insurance Company                          | 42-PRP-000099-04     | 8,500,000    |
|  | Westport Insurance Corporation                                    | NAP045257603         | 34,000,000   |
| 3 <sup>rd</sup> Excess Layer<br>(100mm xs 250mm) | Mitsui Sumitomo Insurance Company of America                      | EXP7000111           | 100,000,000  |
| Excess California EQ<br>(20mm xs 80mm)           | QBE Specialty Insurance Company                                   | ESE14998-00          | 15,000,000   |
|  | General Security Indemnity Company of Arizona                     | TR0001486-02671-16   | 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 – California (occurrence / aggregate)                       | \$100,000,000 |
| Earth Movement – Alaska, 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  |
| Mold - ensuing loss only (occurrence/aggregate)                            | \$5,000,000   |

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

Insured: CC-Development Group, Inc.

Policy Period: 12/31/16 – 12/31/17

**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 and a maximum of \$3,500,000 per occurrence
- Named Windstorm – FL, HI, PR, US VI and First Tier Areas in all other states (except SC) 3% of the reported "unit of insurance" subject to a minimum of \$250,000 and a maximum of \$3,500,000 per occurrence







**CC-PALO ALTO, INC. AND SUBSIDIARY**

Consolidated Financial Statements and Supplemental Schedules

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

## CC-PALO ALTO, INC. AND SUBSIDIARY

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*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, 2017

**CC-PALO ALTO, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2016 and 2015

| <b>Assets</b>   | <u><b>2016</b></u>           | <u><b>2015</b></u>           |
|---|------------------------------|------------------------------|
| Current assets:   |                              |                              |
| Cash and cash equivalents   | \$ 32,241,892                | 25,173,864                   |
| Current portion of assets limited as to use   | 1,734,167                    | 1,754,756                    |
| Resident accounts receivable  | 1,117,279                    | 903,438                      |
| Prepays and other   | <u>302,717</u>               | <u>285,406</u>               |
| Total current assets  | <u>35,396,055</u>            | <u>28,117,464</u>            |
| Assets limited as to use, net of amounts required for current liabilities                         | 27,171,459                   | 24,321,087                   |
| Property and equipment:   |                              |                              |
| Land improvements   | 15,537,482                   | 15,507,721                   |
| Building and improvements   | 203,271,536                  | 203,232,180                  |
| Furniture, fixtures, and equipment  | 30,584,928                   | 29,312,673                   |
| Construction in progress  | <u>1,043,089</u>             | <u>593,606</u>               |
|   | 250,437,035                  | 248,646,180                  |
| Less accumulated depreciation   | <u>101,374,497</u>           | <u>94,844,210</u>            |
| Property and equipment, net   | 149,062,538                  | 153,801,970                  |
| Costs of acquiring initial continuing care contracts  | 920,429                      | 2,945,088                    |
| Deferred tax asset, net   | 19,267,329                   | 16,182,746                   |
| Deposits  | <u>1,219,075</u>             | <u>1,215,889</u>             |
| Total assets  | \$ <u><u>233,036,885</u></u> | \$ <u><u>226,584,244</u></u> |
| <b>Liabilities and Stockholders' Deficit</b>  |                              |                              |
| Current liabilities:  |                              |                              |
| Accounts payable  | \$ 1,427,982                 | 1,242,363                    |
| Accrued expenses  | 24,070,551                   | 25,318,809                   |
| Due to affiliate  | 787,057                      | 724,131                      |
| Prepaid resident service revenue  | 1,699,737                    | 1,769,188                    |
| Resident deposits   | 564,230                      | 554,710                      |
| Current portion of repayable entrance fees  | <u>5,509,476</u>             | <u>9,434,807</u>             |
| Total current liabilities   | 34,059,033                   | 39,044,008                   |
| Repayable entrance fees   | 453,061,043                  | 449,227,944                  |
| Deferred revenue from nonrepayable entrance fees  | 63,042,353                   | 50,185,075                   |
| Other liabilities   | <u>187,807</u>               | <u>160,099</u>               |
| Total liabilities   | <u>550,350,236</u>           | <u>538,617,126</u>           |
| Stockholders' deficit:  |                              |                              |
| Common stock, no par value, no assigned value. Authorized,<br>issued, and outstanding, 100 shares | —                            | —                            |
| Distributions in excess of paid-in capital  | (185,648,736)                | (184,367,381)                |
| Accumulated deficit   | <u>(131,664,615)</u>         | <u>(127,665,501)</u>         |
| Total stockholders' deficit   | <u>(317,313,351)</u>         | <u>(312,032,882)</u>         |
| Total liabilities and stockholders' deficit   | \$ <u><u>233,036,885</u></u> | \$ <u><u>226,584,244</u></u> |

See accompanying notes to consolidated financial statements.

**CC-PALO ALTO, INC. AND SUBSIDIARY**

Consolidated Statements of Operations

Years ended December 31, 2016 and 2015

|                                 | <u>2016</u>                  | <u>2015</u>               |
|---------------------------------|------------------------------|---------------------------|
| Revenue:                        |                              |                           |
| Net resident service revenue    | \$ 42,148,330                | 40,839,695                |
| Amortization of entrance fees   | 9,766,781                    | 9,242,777                 |
| Investment return               | 279,051                      | 42,887                    |
| Other income                    | 179,673                      | 165,355                   |
| Total revenue                   | <u>52,373,835</u>            | <u>50,290,714</u>         |
| Expenses:                       |                              |                           |
| Food and beverage               | 3,902,040                    | 3,862,000                 |
| Dining room                     | 2,117,796                    | 2,112,657                 |
| Laundry                         | 297,605                      | 279,695                   |
| Housekeeping                    | 1,912,331                    | 1,766,364                 |
| Resident services               | 3,606,198                    | 3,459,521                 |
| Resident care                   | 7,005,430                    | 6,840,249                 |
| Repairs and maintenance         | 1,906,854                    | 1,909,722                 |
| Utilities                       | 1,959,901                    | 1,833,351                 |
| Sales and marketing             | 735,050                      | 669,436                   |
| Total operating expenses        | <u>23,443,205</u>            | <u>22,732,995</u>         |
| Management fees                 | 3,410,541                    | 3,287,966                 |
| Property taxes                  | 6,635,742                    | 6,545,206                 |
| Ground lease base rent          | 1,717,350                    | 1,670,538                 |
| Ground lease participating rent | 6,516,928                    | 5,413,375                 |
| Depreciation and amortization   | 8,554,946                    | 9,077,727                 |
| Administration                  | 7,155,825                    | 8,775,935                 |
| Insurance                       | 1,304,351                    | 1,303,737                 |
| Total expenses                  | <u>58,738,888</u>            | <u>58,807,479</u>         |
| Loss before income tax benefit  | (6,365,053)                  | (8,516,765)               |
| Income tax benefit              | <u>2,577,257</u>             | <u>3,330,669</u>          |
| Net loss                        | \$ <u><u>(3,787,796)</u></u> | <u><u>(5,186,096)</u></u> |

See accompanying notes to consolidated financial statements.

**CC-PALO ALTO, INC. AND SUBSIDIARY**  
Consolidated Statements of Changes in Stockholders' Deficit  
Years ended December 31, 2016 and 2015

|                              | Common stock |        | Distributions<br>in excess of<br>paid-in capital | Accumulated<br>deficit | Total         |
|------------------------------|--------------|--------|--|------------------------|---------------|
|                              | Shares       | Amount |  |                        |               |
| Balance at December 31, 2014 | 100          | \$ —   | (192,959,087)                                    | (122,383,019)          | (315,342,106) |
| Contributions from Parent    | —            | —      | 8,591,706  | —                      | 8,591,706     |
| Tax adjustment               | —            | —      | —  | (96,386)               | (96,386)      |
| Net loss                     | —            | —      | —  | (5,186,096)            | (5,186,096)   |
| 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) |

See accompanying notes to consolidated financial statements.



**CC-PALO ALTO, INC. AND SUBSIDIARY**

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

|   | 2016           | 2015         |
|---|----------------|--------------|
| Cash flows from operating activities:   |                |              |
| Cash received from residents  | \$ 41,988,599  | 41,230,108   |
| Proceeds received from nonrepayable entrance fees                               | 22,748,010     | 14,909,030   |
| Interest received   | 58,984         | 92,289       |
| Cash paid to suppliers and employees  | (34,800,782)   | (32,675,209) |
| Cash paid for management fees   | (3,410,541)    | (3,287,966)  |
| Cash received from (paid for) real estate taxes                                 | (6,448,193)    | 8,464,463    |
| Cash paid for participating rent  | (6,516,928)    | (5,413,375)  |
| Cash paid for income taxes  | (718,644)      | (5,191,706)  |
| Net cash provided by operating activities                                       | 12,900,505     | 18,127,634   |
| Cash flows from investing activities:   |                |              |
| Additions to property and equipment   | (1,790,855)    | (1,713,444)  |
| Net change in resident deposits   | 9,520          | (75,350)     |
| Net change in assets limited as to use  | (2,609,716)    | (2,043,575)  |
| Net cash used in investing activities   | (4,391,051)    | (3,832,369)  |
| Cash flows from financing activities:   |                |              |
| Contributions from (distributions to) Parent                                    | (1,281,355)    | 8,591,706    |
| Proceeds from repayable entrance fees   | 33,877,690     | 28,296,870   |
| Entrance fee repayments   | (34,037,761)   | (28,698,215) |
| Net cash provided by (used in) financing activities                             | (1,441,426)    | 8,190,361    |
| Net increase in cash and cash equivalents                                       | 7,068,028      | 22,485,626   |
| Cash and cash equivalents at beginning of year                                  | 25,173,864     | 2,688,238    |
| Cash and cash equivalents at end of year  | \$ 32,241,892  | 25,173,864   |
| Reconciliation of net loss to net cash provided by operating activities:        |                |              |
| Net loss  | \$ (3,787,796) | (5,186,096)  |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                |              |
| Proceeds from nonrepayable entrance fees  | 22,748,010     | 14,909,030   |
| Depreciation and amortization   | 8,554,946      | 9,077,727    |
| Amortization of entrance fees   | (9,766,781)    | (9,242,777)  |
| Net realized and unrealized losses on assets limited as to use                  | (220,067)      | 49,402       |
| Utilization of repayable entrance fees in lieu of monthly fees                  | (56,112)       | (22,962)     |
| Income tax adjustment   | (211,318)      | (96,386)     |
| Changes in assets and liabilities:  |                |              |
| Accounts receivable   | (213,841)      | (42,614)     |
| Prepays and other   | (17,311)       | 79,729       |
| Deposits  | (3,186)        | (1,731)      |
| Accounts payable  | 185,619        | 406,560      |
| Accrued expenses  | (1,248,258)    | 16,172,051   |
| Due to affiliates   | 62,926         | 196,784      |
| Prepaid resident service revenue  | (69,451)       | 290,634      |
| Deferred tax asset  | (3,084,583)    | (8,425,989)  |
| Other liabilities   | 27,708         | (35,728)     |
| Net cash provided by operating activities                                       | \$ 12,900,505  | 18,127,634   |

See accompanying notes to consolidated financial statements.

## CC-PALO ALTO, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

#### (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.

## CC-PALO ALTO, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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 in escrow under state statutes, 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 in escrow under state statutes represent funds designated to establish certain entrance fee repayments, debt service, and operating reserves as required by the State of California. The amounts held in escrow under this requirement 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, 2016 relates to costs associated with renovations that will be placed in service during 2017. No significant contractual commitments exist related to these renovations as of December 31, 2016.

**CC-PALO ALTO, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**(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, 2016 or 2015.

**(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 \$23,375,103 and \$21,350,444 at December 31, 2016 and 2015, 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, 2016 and 2015, 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, payable upon the sooner of reoccupancy of the unit or 10 years after the unit is made available. The Company earns 2% of the 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

## CC-PALO ALTO, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

all contracts terminated on December 31, 2016, the repayable portion of the entrance fees due to all residents would be approximately \$469,560,000.

#### **(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 2016 and 2015, 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 \$1,169,937 and \$1,200,046, respectively. As of December 31, 2016 and 2015, \$1,169,937 and \$1,200,046, respectively, are 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, 2016 and 2015 related to uncertain tax positions.

**CC-PALO ALTO, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

**(m) 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, 2017, 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, 2016 and 2015 is as follows:

|                                   | 2016 | 2015 |
|-----------------------------------|------|------|
| Medicare                          | 67%  | 57%  |
| Self-pay and commercial insurance | 33   | 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, 2016 and 2015 is as follows:

|   | 2016          | 2015       |
|---|---------------|------------|
| Cash                                      | \$ 7,758,467  | 5,944,125  |
| Money markets and certificates of deposit | 7,739,893     | 7,888,875  |
| U.S. Treasury securities                  | 13,407,266    | 12,242,843 |
|   | \$ 28,905,626 | 26,075,843 |

**CC-PALO ALTO, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

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

|  | <u>2016</u>          | <u>2015</u>       |
|--|----------------------|-------------------|
| Assets limited as to use – resident deposits                                 | \$ 564,230           | 554,710           |
| Assets limited as to use – by Company for operations                         | <u>1,169,937</u>     | <u>1,200,046</u>  |
| Total current portion of assets limited as to use                            | <u>1,734,167</u>     | <u>1,754,756</u>  |
| Assets limited as to use – by Company for capital improvements               | 13,392,539           | 12,240,090        |
| Assets limited as to use – by Company for operations                         | 1,765,673            | 1,747,108         |
| Assets limited as to use – by State for entrance fee repayments              | 6,013,247            | 4,333,889         |
| Assets limited as to use – by Company for ground lease                       | <u>6,000,000</u>     | <u>6,000,000</u>  |
| Assets limited as to use, net of amounts required<br>for current liabilities | <u>27,171,459</u>    | <u>24,321,087</u> |
| Total assets limited as to use   | <u>\$ 28,905,626</u> | <u>26,075,843</u> |

The composition of investment return on the Company's investment portfolio for the years ended December 31, 2016 and 2015 is as follows:

|   | <u>2016</u>       | <u>2015</u>     |
|---|-------------------|-----------------|
| Interest and dividend income  | \$ 58,984         | 92,289          |
| Net realized and change in unrealized gains and losses during<br>the holding period | <u>220,067</u>    | <u>(49,402)</u> |
|   | <u>\$ 279,051</u> | <u>42,887</u>   |

**(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, 2016 and 2015 totaled \$1,717,350 and \$1,670,538, respectively. 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.

**CC-PALO ALTO, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**(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, 2016 and 2015, the Palo Alto Care Center, Inc. sustained losses for federal and state income tax purposes. Accordingly, the current tax benefit attributable to the 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 benefit for the years ended December 31, 2016 and 2015 comprises the following:

|                    | <u>2016</u>           | <u>2015</u>        |
|--------------------|-----------------------|--------------------|
| Current:           |                       |                    |
| U.S. federal       | \$ 382,762            | 3,982,868          |
| State              | 124,564               | 1,112,452          |
| Total current      | <u>507,326</u>        | <u>5,095,320</u>   |
| Deferred:          |                       |                    |
| U.S. federal       | (2,649,596)           | (7,237,756)        |
| State              | (434,987)             | (1,188,233)        |
| Total deferred     | <u>(3,084,583)</u>    | <u>(8,425,989)</u> |
| Income tax benefit | <u>\$ (2,577,257)</u> | <u>(3,330,669)</u> |



**CC-PALO ALTO, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 are presented below:

|  | <u>2016</u>          | <u>2015</u>        |
|--|----------------------|--------------------|
| Deferred tax assets:                                 |                      |                    |
| Deferred revenue from nonrefundable entrance fees    | \$ 18,964,595        | 15,817,968         |
| Property tax liabilities                             | 8,825,817            | 7,551,820          |
| Other  | <u>1,305,351</u>     | <u>1,866,394</u>   |
| Gross deferred tax assets                            | 29,095,763           | 25,236,182         |
| Less valuation allowance                             | <u>—</u>             | <u>—</u>           |
| Net deferred tax assets                              | <u>29,095,763</u>    | <u>25,236,182</u>  |
| Deferred tax liabilities:                            |                      |                    |
| Depreciation   | (9,453,396)          | (7,853,431)        |
| Costs of acquiring initial continuing care contracts | <u>(375,038)</u>     | <u>(1,200,005)</u> |
| Gross deferred tax liabilities                       | <u>(9,828,434)</u>   | <u>(9,053,436)</u> |
| Total deferred tax asset, net                        | <u>\$ 19,267,329</u> | <u>16,182,746</u>  |

As of December 31, 2016 and 2015, 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.

Income tax benefit was \$2,577,257 and \$3,330,669 for the years ended December 31, 2016 and 2015, 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:

|   | <u>2016</u>           | <u>2015</u>        |
|---|-----------------------|--------------------|
| Computed "expected" tax benefit                                 | \$ (2,227,769)        | (2,980,868)        |
| Change in income tax benefit resulting from:                    |                       |                    |
| State and local income taxes, net of federal income tax expense | (354,020)             | (465,139)          |
| Other, net  | <u>4,532</u>          | <u>115,338</u>     |
|   | <u>\$ (2,577,257)</u> | <u>(3,330,669)</u> |

**(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

## CC-PALO ALTO, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

certain items as defined in the management agreement. The Company incurred management fee expense of \$3,410,541 and \$3,287,966 for the years ended December 31, 2016 and 2015, 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 \$5,789,051 and \$5,172,457 for the years ended December 31, 2016 and 2015, respectively. There is no interest associated with these advances as they are reimbursed on a current basis. Amounts due to Classic of \$787,057 and \$724,131 at December 31, 2016 and 2015, respectively, are reflected as due to affiliate 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, 2016 and 2015, the Company recorded matching contribution expense of \$423,748 and \$371,993, 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) Internal Revenue Service Audit**

The Company is currently undergoing audits by Internal Revenue Service for its tax years ended December 31, 2011, 2010, and 2009. Management anticipates the audits will be resolved without material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

**CC-PALO ALTO, INC. AND SUBSIDIARY**  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**(d) Class Action Complaint**

On August 20, 2014, a plaintiff filed a putative wage and hour class action complaint in the Superior Court of the State of California for the County of San Diego against Classic. The plaintiff amended the complaint on August 28, 2014, asserting that she fairly and adequately represented a putative class comprised of all nonexempt Classic employees who have been or were then currently employed by Classic in the state of California since August 2010. The plaintiff's claims included but were not limited to Violation of Labor Code, Failure to Pay Meal and Rest Break Penalties at the Proper Regular Rate, Inaccurate Wage Statements, Failure to Provide Meal Periods, and Failure to Pay Wages. Classic denies the allegations and maintains that all employees have been accurately paid for time worked, however, in an effort to mitigate potential costs and disruption associated with litigation, Classic negotiated a settlement with the class. On February 19, 2016, the Superior Court of the State of California granted a motion for conditional certification and preliminary approval of a class action settlement between Classic (on behalf of the Company and one of its affiliates) and the Settlement Class, as defined in the agreement. Included in accrued expenses in the accompanying 2015 balance sheet and administrative expense in the accompanying 2015 statement of operations is \$1,427,187 related to the disposition of funds pursuant to the terms of the settlement, which was subsequently paid in 2016.

**(e) 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) concluded 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. 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 Company has been billed in arrears based on the increased assessed value during the period under question. The incremental real estate taxes due through June 30, 2012 as a result of the decision by the Board were \$11,817,335 and were billed to the Company on an installment plan. Through July 13, 2015, the Company paid \$7,499,316 of the \$11,817,335 of incremental real estate taxes due for the tax period through June 30, 2012. Through July 13, 2015, the Company also paid an additional \$6,090,784 as a result of the increased assessed value relating to tax periods from July 1, 2012 through June 30, 2015.

## CC-PALO ALTO, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2016 and 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 decision. On July 13-17, 2015, the Assessor acted to reduce the November 2005 base year value of the building improvements back to \$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 Superior Court vacating the decision, 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 \$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. This new hearing covered eight days and was completed on November 3, 2016. Post-hearing briefing is expected to be completed by the end of May 2017. Based on the incomplete status of this new hearing, the Company does not believe that it is presently at the point where the criteria have been met to reflect the amounts received as a gain through the reduction of property tax expense in the accompanying consolidated statements of operations. The Company has continued to recognize property tax expense based on the \$478,147,000 set as the November 2005 base year assessed value in the Board's March 2012 decision (\$402,000,000 for the building improvements and \$76,147,000 for the leased land). Included with accrued expenses in the accompanying December 31, 2016 and 2015 consolidated balance sheets are \$21,660,574 and \$19,567,726, respectively, related to unpaid amounts based on the \$478,147,000 base year assessed value (with annual Proposition 13 indexing of 2% or less for subsequent years). The Company intends to vigorously pursue reductions should the Board issue a decision increasing the November 2005 assessed values above the Assessor's initially determined measure of \$323,147,000 (\$247,000,000 for building improvements and \$76,147,000 for leased land).

**(f) 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. The SAC alleges concealment, negligent misrepresentation, breach of fiduciary duty and constructive trust, financial abuse of elders, violation of California Civil Code §§ 1750, et seq., violation of California Business and Professions Code §§ 17200, et seq., and breach of contract. No class has yet been certified. No estimate of potential loss can be made, and no amounts have been recognized in the accompanying consolidated financial statements related to a loss contingency. The Company is seeking a dismissal of the complaint 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)<br>Date incurred | (b)<br>Principal paid during fiscal year | (c)<br>Interest paid during fiscal year | (d)<br>Credit enhancement premiums paid in fiscal year | (e)<br>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 5-3

Calculation of Long-Term Debt Reserve Amount

| <u>Line</u>   | <u>Total</u>        |
|---|---------------------|
| 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<br>(including related payments such as lease insurance)  | <u>4,257,030</u>    |
| 4 Total amount required for long-term debt reserve (A)  | <u>\$ 4,257,030</u> |
| (A) Amount is comprised of the following (see note 4 in the<br>notes to the consolidated financial statements):   |                     |
| Ground lease Base Rent  | \$ 1,717,350        |
| Resident service and other revenue  | \$ 42,328,003       |
| Participating Rent percentage   | <u>6.0 %</u>        |
| 2016 Participating Rent on resident service and other revenue (B)   | <u>2,539,680</u>    |
| Total   | <u>\$ 4,257,030</u> |
| (B) As described in note 5 to the consolidated financial statements, pursuant to its Ground Lease Agreement, the Provider pays the<br>lessor approximately 6.0% of resident service revenue and approximately 6.6% of gross entrance fee proceeds collected. Based on<br>discussions with the State of California Department of Social Services (DSS), and consistent with prior years, facility leasehold<br>or rental payments reportable on Form 5-3 should only include base rent and participating rent attributable to resident service and<br>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

| <u>Line</u> | <u>Amounts</u>  | <u>Total</u>                                  |
|-------------|---|---|
| 1           | Total operating expenses from financial statements  | \$ 58,738,888                                 |
| 2           | Deductions:   |   |
|             | (a) Interest paid on long-term debt (see instructions)  | —   |
|             | (b) Credit enhancement premiums paid for long-term debt (see instructions)  | —   |
|             | (c) Depreciation  | 6,530,287                                     |
|             | (d) Amortization  | 2,024,659                                     |
|             | (e) Revenues received during fiscal year for services to residents who did not have a continuing care contract  | 8,810,003                                     |
|             | (f) Extraordinary expenses approved by the Department (A)   | 4,257,030                                     |
| 3           | Total deductions  | <u>21,621,979</u>                             |
| 4           | Net operating expenses  | <u>37,116,909</u>                             |
| 5           | Divide Line 4 by 365 and enter the result   | 101,690                                       |
| 6           | <b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount  | <u>\$ 7,626,750</u>                           |
| (A)         | Extraordinary expenses approved by the department consist of amounts classified as debt service as follows:<br>Ground Lease Base Rent (see Form 5-3)<br>Participating Rent on Resident Service and other Revenue (see Form 5-3) | 1,717,350<br>2,539,680<br><u>\$ 4,257,030</u> |

**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             | \$ 41,988,599       |
| Cash received from residents with CCRC contracts | 33,178,596          |
| Cash per Form 5-4 line 2e                        | <u>\$ 8,810,003</u> |



CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-5

Annual Reserve Certification

Provider Name: CC-Palo Alto, Inc.

Fiscal year ended December 31, 2016

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2016 and are in compliance with those requirements.

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

|                                      | <u>Amount</u>        |
|--------------------------------------|----------------------|
| (1) Debt service reserve amount      | \$ 4,257,030         |
| (2) Operating expense reserve amount | <u>7,626,750</u>     |
| (3) Total liquid reserve amount      | <u>\$ 11,883,780</u> |

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

| <u>Qualifying asset description</u>                         | <u>Amount</u><br><u>(market value at end of quarter)</u> |                              |
|---|--|------------------------------|
|   | <u>Debt<br/>service<br/>reserve</u>                      | <u>Operating<br/>reserve</u> |
| (4) Cash and cash equivalents                               | \$ —   | 32,241,892                   |
| (5) Investment securities                                   | 4,257,030  | 10,901,182                   |
| (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) 4,257,030   | (12) 43,143,074              |
| Total amount required                                       | (13) <u>4,257,030</u>                                    | (14) <u>7,626,750</u>        |
| Surplus (deficiency)  | (15) \$ <u>—</u>   | (16) <u>35,516,324</u>       |

Signature



Date

4/27/17

(Authorized representative)

VP + Treasurer

(Title)

See accompanying independent auditors' report on supplementary information.

**CC – Palo Alto, Inc.**

**Form 5-5 Description of Reserves**

Debt Service Reserve Amount        \$4,257,030

Amount is comprised of the following:

|  |              |                           |
|--|--------------|---------------------------|
| Ground Lease Base Rent   |              | \$1,717,350               |
| Resident Service and other revenue                               | \$42,328,003 |                           |
| (a) Participating Rent percentage                                | <u>6%</u>    |                           |
| 2016 Participating Rent on<br>Resident Service and other revenue |              | \$2,539,680               |
| Total Projected Stabilized Ground Lease Payments                 |              | <b><u>\$4,257,030</u></b> |

Operating Reserve Amount        \$7,626,750

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



**Continuing Care Retirement Community  
Disclosure Statement  
General Information**

Date Prepared: 4/21/2017

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 2005 # OF 22  SINGLE  MULTI-  
 OPENED: 2005 ACRES: 22 STORY STORY  OTHER: \_\_\_\_\_ MILES TO SHOPPING CTR: 1  
 MILES TO HOSPITAL: 1

**NUMBER OF UNITS:**

|  |                                     |
|--|-------------------------------------|
| <b>RESIDENTIAL LIVING</b>                    | <b>HEALTH CARE</b>                  |
| APARTMENTS — STUDIO: <u>0</u>                | ASSISTED LIVING: <u>38</u>          |
| APARTMENTS — 1 BDRM: <u>152</u>              | SKILLED NURSING: <u>44</u>          |
| APARTMENTS — 2 BDRM: <u>229 + 7 (3 bdrm)</u> | SPECIAL CARE: <u>24</u>             |
| COTTAGES/HOUSES: <u>0</u>                    | DESCRIPTION: > <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: <u>97.42%</u> | > <u>Apartments - 3 BDRM - 7</u>    |

TYPE OF OWNERSHIP:  NOT-FOR-PROFIT  FOR-PROFIT ACCREDITED?:  YES  NO BY: \_\_\_\_\_

FORM OF CONTRACT:  CONTINUING CARE  LIFE CARE  ENTRANCE FEE  FEE FOR SERVICE  
 (Check all that apply)  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: \$ 621,300 - \$ 5,916,300 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              | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING ( <u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| BILLIARD ROOM                   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | MEALS ( <u>1</u> /DAY)               | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| BOWLING GREEN                   | <input type="checkbox"/>            | <input type="checkbox"/>            | SPECIAL DIETS AVAILABLE              | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| CARD ROOMS                      | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 24-HOUR EMERGENCY RESPONSE           | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| CHAPEL                          | <input type="checkbox"/>            | <input type="checkbox"/>            | ACTIVITIES PROGRAM                   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| COFFEE SHOP                     | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ALL UTILITIES EXCEPT PHONE           | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| CRAFT ROOMS                     | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | APARTMENT MAINTENANCE                | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| EXERCISE ROOM                   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | CABLE TV                             | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| GOLF COURSE ACCESS              | <input type="checkbox"/>            | <input type="checkbox"/>            | LINENS FURNISHED                     | <input type="checkbox"/>            | <input type="checkbox"/>            |
| LIBRARY                         | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | LINENS LAUNDERED                     | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| PUTTING GREEN                   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | MEDICATION MANAGEMENT                | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| SHUFFLEBOARD                    | <input type="checkbox"/>            | <input type="checkbox"/>            | NURSING/WELLNESS CLINIC              | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA                             | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | PERSONAL HOME CARE                   | <input type="checkbox"/>            | <input type="checkbox"/>            |
| SWIMMING POOL-INDOOR            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | TRANSPORTATION-PERSONAL              | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR           | <input type="checkbox"/>            | <input type="checkbox"/>            | TRANSPORTATION-PREARRANGED           | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT                    | <input type="checkbox"/>            | <input type="checkbox"/>            | OTHER _____                          | <input type="checkbox"/>            | <input type="checkbox"/>            |
| WORKSHOP                        | <input type="checkbox"/>            | <input type="checkbox"/>            |                                      |                                     |                                     |
| OTHER <u>Computer Room</u>      | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |                                      |                                     |                                     |

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.

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| <u>OTHER CCRCs</u>                             | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|--|-------------------------------|-------------------------------|
| 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                |

| <u>MULTI-LEVEL RETIREMENT COMMUNITIES</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---|-------------------------------|-------------------------------|
| None                                      |                               |                               |
|   |                               |                               |
|   |                               |                               |
|   |                               |                               |

| <u>FREE-STANDING SKILLED NURSING</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|--------------------------------------|-------------------------------|-------------------------------|
| None                                 |                               |                               |
|                                      |                               |                               |
|                                      |                               |                               |
|                                      |                               |                               |

| <u>SUBSIDIZED SENIOR HOUSING</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|----------------------------------|-------------------------------|-------------------------------|
| 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.

|  | <u>2013</u>   | <u>2014</u>   | <u>2015</u>   | <u>2016</u>   |
|--|---------------|---------------|---------------|---------------|
| <b>INCOME FROM ONGOING OPERATIONS</b>  |               |               |               |               |
| <b>OPERATING INCOME</b>  |               |               |               |               |
| (Excluding amortization of entrance fee income)                              | \$40,099,350  | \$38,109,309  | \$41,047,937  | \$42,607,054  |
| <b>LESS OPERATING EXPENSES</b>   |               |               |               |               |
| (Excluding depreciation, amortization, and interest)                         | \$39,118,145  | \$41,056,578  | \$44,316,377  | \$43,667,014  |
| <b>NET INCOME FROM OPERATIONS</b>  | \$981,205     | (\$2,947,269) | (\$3,268,440) | (\$1,059,960) |
| <b>LESS INTEREST EXPENSE</b>   | \$0           | \$0           | \$0           | \$0           |
| <b>PLUS CONTRIBUTIONS</b>  | \$0           | \$3,050,000   | \$8,591,705   | \$0           |
| <b>PLUS NON-OPERATING INCOME (EXPENSES)</b>                                  |               |               |               |               |
| (excluding extraordinary items)  | (\$4,616,223) | (\$4,486,761) | (\$5,413,375) | (\$6,516,928) |
| <b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b> | (\$3,635,018) | (\$4,384,030) | (\$90,110)    | (\$7,576,888) |
| <b>NET CASH FLOW FROM ENTRANCE FEES</b>                                      |               |               |               |               |
| (Total Deposits Less Refunds)  | \$17,945,155  | \$6,758,753   | \$14,507,685  | \$22,590,438  |

\*\*\*\*\*

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

| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|----------------------------|----------------------|----------------------------|-------------------------|----------------------------|
|               |                            |                      |                            |                         |                            |
|               |                            |                      |                            |                         |                            |
|               |                            |                      |                            |                         |                            |

\*\*\*\*\*

**FINANCIAL RATIOS** (see next page for ratio formulas)

|                                    | <b>2015 CCAC Medians 50<sup>th</sup> Percentile</b> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|------------------------------------|---|-------------|-------------|-------------|
| <b>DEBT TO ASSET RATIO</b>         | <i>(optional)</i>                                   | 0           | 0           | 0           |
| <b>OPERATING RATIO</b>             |   | 1.08        | 1.08        | 1.02        |
| <b>DEBT SERVICE COVERAGE RATIO</b> |   | 0           | 0           | 0           |
| <b>DAYS CASH ON HAND RATIO</b>     |   | 150.92      | 332.42      | 405.98      |

\*\*\*\*\*

**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

|                 | <u>2013</u> | <u>%</u> | <u>2014</u> | <u>%</u> | <u>2015</u> | <u>%</u> | <u>2016</u> |
|-----------------|-------------|----------|-------------|----------|-------------|----------|-------------|
| STUDIO          | n/a         |          | n/a         |          |             |          |             |
| ONE BEDROOM     | \$4,474     | 3.0%     | \$4,689     | 2.5%     | \$4,793     | 3.0%     | \$4,952     |
| TWO BEDROOM     | \$6,528     | 3.0%     | \$6,532     | 2.5%     | \$6,690     | 3.0%     | \$6,889     |
| 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.

**FINANCIAL RATIO FORMULAS**

**LONG-TERM DEBT TO TOTAL ASSETS RATIO**

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

**OPERATING RATIO**

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

**DEBT SERVICE COVERAGE RATIO**

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

**DAYS CASH ON HAND RATIO**

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

**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**

|   | <b>RESIDENTIAL<br/>LIVING</b> | <b>ASSISTED<br/>LIVING</b> | <b>SKILLED<br/>NURSING</b> |
|---|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period:<br>(indicate range, if applicable)                   | <u>\$4,338 - \$9,837</u>      | <u>\$4,338 - \$9,837</u>   | <u>\$4,338 - \$9,837</u>   |
| [2] Indicate percentage of increase in fees imposed during reporting period:<br>(indicate range, if applicable) | <u>3%</u>                     | <u>3%</u>                  | <u>3%</u>                  |

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, 2016  
(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.