FISCAL YEAR ENDED:
12 / 31 / 20

ANNUAL REPORT CHECKLIST

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

CCRC(S): Vi at Palo Alto

CONTACT PERSON: Tara Cope

TELEPHONE NO.: (312) 803-8555 **EMAIL:** tcope@viliving.com

● ●

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

- ☑ Annual Report Checklist.
- ☑ Annual Provider Fee in the amount of: $51,914.42
  - ☐ If applicable, late fee in the amount of: $____________
- ☑ Certification by the provider's ***Chief Executive Officer*** that:
  - ☑ The reports are correct to the best of his/her knowledge.
  - ☑ Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - ☑ The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.
- ☑ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- ☑ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ☑ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ☑ Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for ***each*** community.
- ☑ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

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

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	578
[2]	Number at end of fiscal year	567
[3]	Total Lines 1 and 2	1,145
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	572.5
	All Residents	
[6]	Number at beginning of fiscal year	612
[7]	Number at end of fiscal year	589
[8]	Total Lines 6 and 7	1,201
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	600.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	95.34

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service – interest only)		62,216,690
[a]	Depreciation	7,764,814	
[b]	Debt Service (Interest Only)		
[2]	Subtotal (add Line 1a and 1b)		7,764,814
[3]	Subtract Line 2 from Line 1 and enter result.		54,451,876
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		95.34
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		51,914,419
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		51,914.42

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

California Department of Social Services

Application for Certificate of Authority

CERTIFICATION

The undersigned certifies that the Annual Report for the fiscal year ended 12/31/2020 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 05, 2021

CC-Palo Alto, Inc., a Delaware corporation

By: Randal J. Richardson

Randal J. Richardson, President

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 01/05/2021

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 Towers Watson Midwest, Inc.
c/o 26 Century Blvd
P.O. Box 305191
Nashville, TN 372305191 USA

CONTACT NAME: Willis Towers Watson Certificate Center
PHONE (A/C, No, Ext): 1-877-945-7378 **FAX (A/C, No):** 1-888-467-2378
E-MAIL ADDRESS: certificates@willis.com

INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A :	National Fire & Marine Insurance Company	20079
INSURER B :	Allied World Assurance Company Ltd	C0892
INSURER C :		
INSURER D :		
INSURER E :		
INSURER F :		

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

COVERAGES **CERTIFICATE NUMBER:** W19760651 **REVISION NUMBER:**

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

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	X COMMERCIAL GENERAL LIABILITY X CLAIMS-MADE ☐ OCCUR X $100,000 Deductible per occ GEN'L AGGREGATE LIMIT APPLIES PER: ☐ POLICY ☐ PRO-JECT X LOC OTHER:			42-PSC-306898-03	12/31/2020	12/31/2021	EACH OCCURRENCE	$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 100,000
							MED EXP (Any one person)	$ 10,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 3,000,000
							PRODUCTS - COMP/OP AGG	$ 3,000,000
							Policy Limit	$ 10,000,000
	AUTOMOBILE LIABILITY ☐ ANY AUTO ☐ OWNED AUTOS ONLY ☐ SCHEDULED AUTOS ☐ HIRED AUTOS ONLY ☐ NON-OWNED AUTOS ONLY						COMBINED SINGLE LIMIT (Ea accident)	$
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
B	☐ UMBRELLA LIAB ☐ OCCUR X EXCESS LIAB X CLAIMS-MADE DED RETENTION $			C058848/002	12/31/2020	12/31/2021	EACH OCCURRENCE	$ 9,000,000
							AGGREGATE	$ 9,000,000
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANYPROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBEREXCLUDED? ☐ (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N / A					PER STATUTE / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
A	Professional Liability Claims Made $100,000 Deductible per claim			42-PSC-306898-03	12/31/2020	12/31/2021	Each Claim	$1,000,000
							Each Loc. Aggregate	$3,000,000
							Policy Limit	$10,000,000

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

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

CERTIFICATE HOLDER

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

CANCELLATION

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

AUTHORIZED REPRESENTATIVE

Andrea Paris

ACORD®

CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY): 01/05/2021

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PRODUCER
Willis Towers Watson Midwest, Inc.
c/o 26 Century Blvd
P.O. Box 305191
Nashville, TN 372305191 USA

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

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

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Lexington Insurance Company	19437
INSURER B :	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

COVERAGES **CERTIFICATE NUMBER:** W19760648 **REVISION NUMBER:**

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

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INSR LTR	TYPE OF INSURANCE		POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
	X PROPERTY					X BUILDING	$ See Below
	CAUSES OF LOSS	DEDUCTIBLES				X PERSONAL PROPERTY	$ See Below
	BASIC	BUILDING 50,000				X BUSINESS INCOME	$ See Below
	BROAD					X EXTRA EXPENSE	$ See Below
	X SPECIAL	CONTENTS 50,000				X RENTAL VALUE	$ See Below
A	X EARTHQUAKE	See Attached	034250013	12/31/2020	12/31/2021	BLANKET BUILDING	$
	X WIND	See Attached				BLANKET PERS PROP	$
	X FLOOD	See Attached				BLANKET BLDG & PP	$
						X Loss Limit (Bla	$ 350,000,000
							$
	INLAND MARINE		TYPE OF POLICY				$
	CAUSES OF LOSS						$
	NAMED PERILS		POLICY NUMBER				$
							$
	CRIME						$
	TYPE OF POLICY						$
							$
	BOILER & MACHINERY / EQUIPMENT BREAKDOWN						$
							$
							$
							$

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

CERTIFICATE HOLDER

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

CANCELLATION

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

AUTHORIZED REPRESENTATIVE

Andrea Paris

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

Insured: CC-Development Group, Inc.

Policy Period: 12/31/20 – 12/31/21

Issuing Companies *(Quota Share Participation by Layer)*

Layer	Insurer	Policy Number	Limit
Primary Layer ($25,000,000)	Allied World Assurance Company, Ltd.	P006392-014	$3,750,000
	Argo Re Ltd.	P145758	$1,250,000
	Columbia Casualty Company	6073385560	$1,250,000
	Lloyd's Syndicates 1458, 4444, 1856; General Security Indemnity Company of Arizona; HDI Global Specialty SE; Western World Insurance Company; Evanston Insurance Company; Navigators Specialty Insurance Company; United Specialty Insurance Company	JEM-20-CI-1008	$750,000
	Ironshore Specialty Insurance Company	1000370378-02	$1,250,000
	Landmark American Insurance Company	LHD916098	$1,250,000
	Lexington Insurance Company	034250013	$2,500,000
	Lloyd's Syndicate 2001	B080120001U20	$420,000
	Lloyd's Syndicates 0033, 0318, 2003, 2987, 2988; Convex Insurance UK Limited; Palomar Excess and Surplus Insurance Company	B080112090U20	$6,530,000
	Fidelis Underwriting Limited	B080121168U20	$1,050,000
	Starr Surplus Lines Insurance Company	SLSTPTY11395720	$1,250,000
	Lloyd's Consortium 9226; Independent Specialty Insurance Company; Interstate Fire & Casualty Company	2017-9000681-04	$3,750,000
1st Excess Layer (55M xs 25M)	Argo Re Ltd.	P145758	$2,750,000
	Evanston Insurance Company	MKLV3XPR000042	$5,000,000
	Everest Indemnity Insurance Company	CA3X001538-201	$5,500,000
	Crum & Forster Specialty Insurance Company; Palomar Excess and Surplus Insurance Company; Starstone Specialty Insurance Company; Western World Insurance Company	S-2010-614113-01	$8,250,000
	Ironshore Specialty Insurance Company	1000370405-02	$6,875,000
	Lexington Insurance Company	034250013	$5,500,000
	Lloyd's Syndicates 2015; Houston Casualty Company (UK Branch)	B080115732U20	$4,400,000
	Oil Casualty Insurance, Ltd.	P-102279-1220	$4,125,000
	Hamilton Re, Ltd.	PX20-4695-01	$4,125,000
	Westport Insurance Corporation	NAP-0452576-07	$8,475,000
2nd Excess Layer (170M xs 80M)	Axis Surplus Insurance Company	ECF771021-20	$25,000,000
	Evanston Insurance Company	MKLV3XPR000042	$15,000,000
	Homeland Insurance Company of New York	795014181	$31,304,545
	Landmark American Insurance Company	LHD916099	$38,500,000
	Lloyd's Syndicate 4020; Fidelis Underwriting Limited	B080121168U20	$34,000,000
	Westport Insurance Corporation	NAP-0452576-07	$26,195,455
3rd Excess Layer (100M xs 250M)	Mitsui Sumitomo Insurance Company of America	EXP7000111	$100,000,000

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

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

Special Deductibles

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

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

CC-PALO ALTO, INC. AND SUBSIDIARY

Table of Contents

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of CC-Palo Alto, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CC-Palo Alto, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Form 5-1 through Form 5-5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
April 28, 2021

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	$ 16,519,309	27,810,858
Short-term investments	—	4,144,470
Current portion of assets limited as to use	1,195,350	513,410
Resident accounts receivable	464,410	972,045
Prepaids and other	503,155	814,079
Total current assets	18,682,224	34,254,862
Long-term investments	3,333,781	59,507,732
Assets limited as to use, net of amounts required for current liabilities	21,640,145	21,292,586
Property and equipment:		
Land improvements	15,860,527	15,710,971
Building and improvements	216,641,684	206,468,345
Furniture, fixtures, and equipment	21,600,102	18,235,046
Construction in progress	1,252,001	8,966,535
	255,354,314	249,380,897
Less accumulated depreciation	107,747,833	100,006,903
Property and equipment, net	147,606,481	149,373,994
Deferred tax asset, net	14,526,566	12,932,474
Due from affiliate	82,928,287	—
Deposits	1,283,114	1,277,290
Total assets	$ 290,000,598	278,638,938
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 1,258,785	1,775,112
Accrued expenses	5,906,140	6,870,993
Due to affiliates	1,159,234	3,936,359
Prepaid resident service revenue	379,245	906,980
Resident deposits	1,195,350	513,410
Current portion of repayable entrance fees	7,956,360	4,852,760
Total current liabilities	17,855,114	18,855,614
Repayable entrance fees	470,392,070	476,489,627
Deferred revenue from nonrepayable entrance fees	119,287,784	99,880,209
Other liabilities	189,579	234,788
Total liabilities	607,724,547	595,460,238
Stockholders' deficit:		
Common stock, no par value, no assigned value. Authorized, issued, and outstanding, 100 shares	—	—
Distributions in excess of paid-in capital	(185,648,736)	(185,648,736)
Accumulated deficit	(132,075,213)	(131,172,564)
Total stockholders' deficit	(317,723,949)	(316,821,300)
Total liabilities and stockholders' deficit	$ 290,000,598	278,638,938

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2020 and 2019

		2020	2019
Revenue:			
Net resident service revenue	$	47,556,622	47,453,513
Amortization of entrance fees		11,357,960	9,913,277
Investment return		473,549	2,626,476
Other income		239,661	338,110
Provider relief fund grant revenue		1,548,356	—
Total revenue		61,176,148	60,331,376
Expenses:			
Culinary and dining		6,374,904	7,076,962
Housekeeping and laundry		2,808,054	2,900,047
Resident services		3,552,897	4,058,860
Resident care		8,820,502	9,213,520
Repairs and maintenance		2,463,794	2,582,255
Sales and marketing		962,069	950,781
Administration		5,112,754	4,978,223
Utilities		2,160,515	2,139,060
Insurance		2,555,619	1,737,126
Total departmental expenses		34,811,108	35,636,834
Management fees		3,824,380	3,855,609
Property taxes		5,183,138	5,089,446
Ground lease base rent		1,787,475	1,717,350
Ground lease participating rent		7,369,103	7,573,819
Provision for doubtful accounts		11,553	—
Loss on disposal of property and equipment		6,720	7,322
Other expense		11,070	97,548
Expenses attributable to coronavirus		1,447,329	—
Depreciation and amortization		7,764,814	7,370,545
Total expenses		62,216,690	61,348,473
Loss before income taxes		(1,040,542)	(1,017,097)
Income tax benefit		282,557	279,828
Net loss	$	(757,985)	(737,269)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Deficit

Years ended December 31, 2020 and 2019

	Common stock		Distributions in excess of paid-in capital	Accumulated deficit	Total
	Shares	Amount			
Balance at December 31, 2018	100	$ —	(185,648,736)	(130,290,671)	(315,939,407)
Tax adjustment	—	—	—	(144,624)	(144,624)
Net loss	—	—	—	(737,269)	(737,269)
Balance at December 31, 2019	100	—	(185,648,736)	(131,172,564)	(316,821,300)
Tax adjustment	—	—	—	(144,664)	(144,664)
Net loss	—	—	—	(757,985)	(757,985)
Balance at December 31, 2020	100	$ —	(185,648,736)	(132,075,213)	(317,723,949)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Cash received from residents with continuing care contracts	$	40,601,592	37,907,692
Cash received from residents without continuing care contracts		6,983,368	9,833,703
Cash received from provider relief fund grant		1,548,356	—
Proceeds received from nonrepayable entrance fees		31,300,100	27,284,120
Interest received		641,887	2,054,140
Cash paid to suppliers and employees		(39,218,822)	(35,069,164)
Cash paid for management fees		(3,824,380)	(3,855,609)
Cash paid for real estate taxes		(8,019,712)	(5,089,446)
Cash paid for participating rent		(7,369,103)	(7,573,819)
Cash paid for income taxes		(1,456,199)	(1,562,523)
Net cash provided by operating activities		21,187,087	23,929,094
Cash flows from investing activities:			
Additions to property and equipment		(6,004,021)	(9,688,294)
Sale (purchase) of investments, net		60,136,709	(6,464,690)
Net change in resident deposits		681,940	(496,860)
Net change in assets limited as to use		(1,242,981)	11,405,566
Net cash provided by (used in) investing activities		53,571,647	(5,244,278)
Cash flows from financing activities:			
Proceeds from repayable entrance fees		30,986,200	39,358,980
Entrance fee repayments		(34,335,052)	(30,640,926)
Due from affiliate		(82,928,287)	—
Net cash (used in) provided by financing activities		(86,277,139)	8,718,054
Net change in cash, cash equivalents, and restricted cash		(11,518,405)	27,402,870
Cash, cash equivalents, and restricted cash at beginning of year		38,236,415	10,833,545
Cash, cash equivalents, and restricted cash at end of year	$	26,718,010	38,236,415
Reconciliation of net loss to net cash provided by operating activities:			
Net loss	$	(757,985)	(737,269)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Proceeds from nonrepayable entrance fees		31,300,100	27,284,120
Depreciation and amortization		7,764,814	7,370,545
Amortization of entrance fees		(11,357,960)	(9,913,277)
Net realized and change in unrealized (gains) losses		168,338	(572,336)
Utilization of repayable entrance fees in lieu of monthly fees		(179,670)	(159,734)
Provision for doubtful accounts		11,553	—
Loss on disposal of property and equipment		6,720	7,322
Income tax adjustment		(144,664)	(144,624)
Changes in assets and liabilities:			
Accounts receivable		496,082	(279,665)
Prepaids and other		310,924	615,813
Deposits		(5,824)	(26,777)
Accounts payable		(516,327)	(26,040)
Accrued expenses		(964,853)	(76,712)
Due to affiliates		(2,777,125)	1,875,451
Prepaid resident service revenue		(527,735)	389,171
Deferred tax asset		(1,594,092)	(1,697,727)
Other liabilities		(45,209)	20,833
Net cash provided by operating activities	$	21,187,087	23,929,094

See accompanying notes to consolidated financial statements.

(1) Purpose and Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

(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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash include investments in highly liquid instruments with original maturities of three months or less. The following table provides a reconciliation of cash, cash equivalents, and restricted cash as reported in the accompanying consolidated balance sheets to the total amount of cash, cash equivalents, and restricted cash as reported in the accompanying consolidated statements of cash flows:

	2020	2019
Cash and cash equivalents	$ 16,519,309	27,810,858
Assets limited as to use:		
Cash and cash equivalents	7,082,212	4,788,878
Money markets and certificates of deposit	3,116,489	5,636,679
Total cash, cash equivalents, and restricted cash reported in the consolidated statements of cash flows	$ 26,718,010	38,236,415

(c) Fair Value Measurements

The Company applies the provisions of ASC Subtopic 820-10, *Fair Value Measurement – Overall*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify other existing disclosure requirements.

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

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

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

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

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

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

(d) Investments

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

(e) Assets Limited as to Use

Assets limited as to use include restricted resident deposits, assets held for entrance fee repayments, assets held by the Company under Ground Lease Agreement (note 6), and assets set aside by the Company for the Community’s operations and capital improvements, in accordance with the Company’s policies. Restricted resident deposits represent good faith deposits received by the Company upon the commitment of prospective residents to enter into a residency agreement. Assets held for entrance fee repayments represent funds designated to establish certain entrance fee repayments reserves. Assets held for entrance fee repayments are comprised entirely of cash and cash equivalents. Assets held by the Company under Ground Lease Agreement represent funds designated to secure payments under the ground lease (note 6). 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.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets ranging from 4 to 40 years. Construction in progress at December 31, 2020 relates to costs associated with renovations that will be placed in service during 2021. No significant contractual commitments exist as of December 31, 2020.

(g) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the Company intended to dispose of its assets, they would be reported at the lower of the carrying amount or fair value less estimable costs to sell, and would no longer be depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its long-lived assets as of December 31, 2020 or 2019.

(h) Obligation to Provide Future Services

The Company annually calculates the present value of the estimated net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of unearned revenue from entrance fees. If the present value of the net costs of future services and the use of facilities exceeds the unearned revenue from entrance fees, a liability is recorded (obligation to provide future services) with the corresponding charge to income. The obligation is discounted at an actuarially determined rate of 5.5%. The present value of the net cost of future services and the use of facilities was less than the deferred revenue from entrance fees at December 31, 2020 and 2019, and accordingly, no obligation to provide future services has been recognized in the accompanying consolidated balance sheets.

(i) Repayable Entrance Fees

Residents enter into a residency agreement with the Company that requires the payment of a one time entrance fee. Upon termination of the residency agreement, residents are entitled to a repayment of the portion of the entrance fee that has not been earned by the Company. For contracts entered into through December 31, 2016, this repayment becomes payable upon the sooner of reoccupancy of the unit or 10 years after the unit is made available. Subsequent to January 1, 2017, the repayment is payable upon reoccupancy. The Company earns an administrative fee upon admission and 2% of the entrance fee per month up to a maximum of 100%, 40%, 30%, 25%, 20%, or 10% dependent on the contract provisions of the residency agreement. The Company amortizes the nonrepayable portion of the entrance fee over the estimated life of the residents. The Company has recorded the repayable portion of the entrance fees separately from the nonrepayable portion within the accompanying consolidated balance sheets. If all contracts terminated on December 31, 2020, the repayable portion of the entrance fees due to all residents would be approximately $497,061,000.

(j) Ground Lease Participating Rent

Pursuant to its Ground Lease Agreement with The Board of Trustees of the Leland Stanford Junior University (note 6), 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.

(k) 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, 2020 and 2019 related to uncertain tax positions.

(l) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (ASC Topic 842)*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability, resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842),* which deferred the effective date of the adoption of ASU No. 2016-02 to the year ending December 31, 2021. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which permitted the Company to defer the effective date of ASU No. 2016-02 for the year ending December 31, 2022. The Company is evaluating the impact of this standard on the accompanying consolidated balance sheets and statements of operations.

(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 after the balance sheet date of December 31, 2020 through April 28, 2021, the date the consolidated financial statements were available to be issued, noting no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

(3) Net Resident Service Revenue

Net resident service revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive revenue adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. During 2019, 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 2019 monthly fees in the amount of $562,532.

(a) Daily or Monthly Fee Revenue

Under the Company’s residency agreements, which are continuing care contracts, the Company provides senior living services to residents for a stated monthly fee. The Company recognizes revenue for skilled nursing residency, assistance with activities of daily living, memory care services, inpatient therapy, healthcare, and personalized health services in accordance with the provisions of ASC 606. The Company has determined that the services included under the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time.

(b) Healthcare Services Revenue

The Company receives revenue for services under various third-party payor programs, which include Medicare, and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Company estimates the transaction price based on the terms of the contract with the payor, correspondence with the payor, and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

(c) Disaggregation of Revenue

The Company disaggregates its revenue from contracts with customers by revenue type, as the Company believes it best depicts how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors. See details on revenue type below:

		2020	2019
Independent living revenue	$	34,975,908	32,845,421
Care center revenue:			
Revenue under continuing care residency agreements		4,857,831	4,018,185
Revenue from private payors		2,802,769	3,214,953
Revenue under Medicare and third-party arrangements		4,153,650	6,438,957
Other service revenue		766,464	935,997
Net resident service revenue	$	47,556,622	47,453,513
Amortization of entrance fee revenue	$	11,357,960	9,913,277
Other income		239,661	338,110
Provider relief fund grant revenue (note 10)		1,548,356	—

(d) Contract Balances

The payment terms and conditions within the Company's revenue-generating contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance.

Resident fee revenue for standalone or certain healthcare services is generally billed monthly in arrears. Amounts of revenue that are collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied. The Company had total deferred revenue (included within prepaid resident service revenue and deferred revenue from nonrepayable entrance fees within the balance sheets) of $119,667,029 and $100,787,189, including $379,245 and $906,980 of resident monthly fees billed and received in advance, as of December 31, 2020 and 2019, respectively. For the year ended December 31, 2020, the Company recognized $11,526,381 of revenue that was included in the deferred revenue balance as of January 1, 2020. The Company applies the practical expedient in ASC Paragraph 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

(4) 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, 2020 and 2019 is as follows:

	2020	2019
Medicare	79 %	61 %
Self-pay and commercial insurance	21	39
	100 %	100 %

(5) Assets Limited as to Use and Investments

The Company reports its investments and assets limited as to use as trading securities. Money market funds with readily determinable fair values and all other investments are reported at fair value. Fair value is determined primarily on the basis of quoted market prices or observable market inputs.

Investment income or loss (including realized gains and losses on investments, changes in unrealized gains and losses on trading securities, interest, and dividends) is reported as investment return in the accompanying consolidated statements of operations.

A summary of the composition of the Company's investment portfolio at December 31, 2020 and 2019 is as follows:

	2020	2019
Cash and cash equivalents	$ 7,082,212	4,788,878
Money markets and certificates of deposit	10,393,140	14,659,033
U.S. Treasury securities	1,584,208	5,380,439
Corporate bonds and notes	7,109,716	60,629,848
	$ 26,169,276	85,458,198

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

		2020	2019
Short-term investments	$	—	4,144,470
Current portion of assets limited as to use – resident deposits		1,195,350	513,410
Assets limited as to use – by Company for capital improvements		7,134,708	6,861,735
Assets limited as to use – by Company for operations		2,563,506	2,386,530
Assets limited as to use – by Company for entrance fee repayments		5,941,931	6,044,321
Assets limited as to use – by Company for ground lease		6,000,000	6,000,000
Assets limited as to use, net of amounts required for current liabilities		21,640,145	21,292,586
Long-term investments		3,333,781	59,507,732
	$	26,169,276	85,458,198

The following table presents the Company's fair value hierarchy for those investments and assets limited as to use measured at fair value on a recurring basis as of December 31, 2020. None of these assets has any redemption restrictions so the redemption frequency is on a daily basis and would have a one-day notice for redemption.

		Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$	7,082,212	7,082,212	—	—
Money markets and certificates of deposit		10,393,140	10,393,140	—	—
U.S. Treasury securities		1,584,208	1,584,208	—	—
Corporate bonds and notes		7,109,716	—	7,109,716	—
Total	$	26,169,276	19,059,560	7,109,716	—

The following table presents the Company's fair value hierarchy for those investments and assets limited as to use measured at fair value on a recurring basis as of December 31, 2019. None of these assets has any redemption restrictions so the redemption frequency is on a daily basis and would have a one-day notice for redemption.

	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,788,878	4,788,878	—	—
Money markets and certificates of deposit	14,659,033	14,659,033	—	—
U.S. Treasury securities	5,380,439	5,380,439	—	—
Corporate bonds and notes	60,629,848	—	60,629,848	—
Total	$ 85,458,198	24,828,350	60,629,848	—

The composition of investment return on the Company's investment portfolio for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Interest and dividend income	$ 641,887	2,054,140
Net realized and change in unrealized gains and losses during the holding period	(168,338)	572,336
	$ 473,549	2,626,476

(6) 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 payments for the years ended December 31, 2020 and 2019 totaled $1,787,485 and $1,717,350, 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.

(7) Transactions with Related Parties

The Company entered into a management agreement dated August 1, 2000 between the Company and Classic Residence Management Limited Partnership (Classic), an affiliate of the Company, whereby Classic manages the operations of the Company. The agreement is for a term of 55 years and requires the Company to pay an annual management fee equal to 8% of annual resident service revenue, excluding certain items as defined in the management agreement. The Company incurred management fee expense of $3,824,380 and $3,855,609 for the years ended December 31, 2020 and 2019, respectively.

Classic also contracts with third parties on behalf of the Company to provide property, health, liability, and workers' compensation insurance and various marketing and other services. Classic advances the funds to the third parties on behalf of the Company. Such advances amounted to $6,998,968 and $5,505,017 for the years ended December 31, 2020 and 2019, respectively. There is no interest associated with these advances. Amounts to Classic of $1,159,234 and $3,936,959 at December 31, 2020 and 2019, respectively, are reflected as due to affiliates in the accompanying consolidated balance sheets.

During 2020, the Company made non-interest bearing cash advances to the Parent of $82,928,287. These amounts are reflected as due from affiliate in the accompanying 2020 consolidated balance sheet.

(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, 2020 and 2019, the Company recorded matching contribution expense of $497,834 and $460,550, respectively. Contributions are funded on a current basis.

(9) 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, which follows the provisions of ASC Topic 740 and 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, 2020 and 2019, Palo Alto Care Center, Inc. sustained losses for federal and state income tax purposes. Accordingly, the current tax benefit attributable to Palo Alto Care Center, Inc. in the Parent's income tax return has been eliminated through an adjustment to stockholders' deficit.

The income tax expense (benefit) for the years ended December 31, 2020 and 2019 comprises the following:

		2020	2019
Current:			
U.S. federal	$	(889,621)	(962,388)
State		(421,914)	(455,511)
Total current		(1,311,535)	(1,417,899)
Deferred:			
U.S. federal		1,196,269	1,274,042
State		397,823	423,685
Total deferred		1,594,092	1,697,727
Income tax benefit	$	282,557	279,828

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are as follows:

		2020	2019
Deferred tax assets:			
Deferred revenue from nonrepayable entrance fees	$	25,918,029	22,219,534
Property tax liabilities		119,507	913,283
Other		803,415	747,248
Gross deferred tax assets		26,840,951	23,880,065
Deferred tax liabilities:			
Depreciation		(12,287,116)	(10,875,042)
Other		(27,269)	(72,549)
Gross deferred tax liabilities		(12,314,385)	(10,947,591)
Total deferred tax asset, net	$	14,526,566	12,932,474

As of December 31, 2020 and 2019, no valuation allowance was considered necessary as management believed that it was more likely than not that the results of future operations would generate sufficient taxable income to realize the deferred tax assets.

(Continued)

Income tax benefit was $282,557 and $279,828 for the years ended December 31, 2020 and 2019, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 21% in 2020 and 2019 to pretax income from continuing operations as a result of the following:

		2020	2019
Computed "expected" tax benefit	$	218,514	213,590
Change in income tax expense resulting from:			
State and local income taxes, net of federal income tax expense		64,511	63,832
Other, net		(468)	2,406
	$	282,557	279,828

(10) 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) COVID-19 Pandemic and Federal Stimulus Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that have caused many people to remain at home and have imposed limitations on certain services. In response to these policies and seeking to prevent the introduction of COVID-19 into the community, the Company began limiting services and restricting visitors, but has begun to ease those restrictions. Certain restrictions may continue, and the Company may revert to more restrictive measures if the pandemic worsens, as necessary to comply with regulatory requirements, or at the direction of local health authorities.

Included in expenses attributable to coronavirus in the statement of operations are incremental direct costs incurred by the Company to prepare for and respond to the pandemic. These costs included the acquisition of additional personal protective equipment and medical equipment, enhanced cleaning supplies, employee related costs and COVID-19 testing of employees, residents, and associates where not otherwise covered by government payor or third-party insurance sources.

(Continued)

In March 2020, the Coronavirus Aid, Relief and Economic Securities Act (CARES Act) was signed into law, providing temporary and limited relief to companies during the COVID-19 outbreak. During 2020, the Company received $1,548,356 in general and targeted Provider Relief Fund distributions, as provided for under the CARES Act. Of this amount, $1,299,241 was received from the $50 billion general distribution fund and $249,115 was received from the targeted distributions from the CARES Act Provider Relief Fund. Generally, these distributions from the Provider Relief Fund are not subject to repayment, provided the recipient is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for allowable expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through December 31, 2020, the Company recognized the full distribution. The Company will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on its revenues and expenses. If the Company is unable to attest to or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

The CARES Act also provides for a deferral of payments of the employer portion of social security payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. The Company has deferred payroll taxes of $775,771 and recorded the deferral as a component of accrued expenses in the accompanying consolidated balance sheet at December 31, 2020.

The Department of Health and Human Services provided and continues to clarify a Post-Payment Notice of Reporting Requirements for providers that received funding under the CARES Act. The notices provide guidance on expenses attributable to COVID-19 and “lost revenue.” The Company followed this guidance in determining the $1,447,329 of expenses attributable to coronavirus recorded in the accompanying 2020 consolidated statement of operations.

(d) Real Estate Tax Assessment

The Company contested the real estate taxes on the Community’s building improvements and the underlying leased land for each year from November 2005 and forward. The principal issue in dispute was the proper assessed value of the building improvements which were completed in November 2005. The Santa Clara County Assessment Appeals Board (the Board) issued its decision on June 20, 2018 setting $266,000,000 as the assessed value of the building improvements as of the November 2005 completion date. The Board’s $266,000,000 building improvement value, along with its valuation of the underlying land at $74,653,800, set a total $340,653,800 base year value for the real property as of November 2005. Absent new construction or a change in ownership of the real property, Proposition 13 limits future increases in assessed value to 2% or less per year.

The Company has received supplemental and escape assessments for the 2005–2006 through 2018–2019 tax years reflecting the board's newly determined $340,653,800 November 2005 base year value. The increases to the 2005–2006 to 2018–2019 assessed values from these supplemental and escape assessment increases (and the resultant annual Proposition 13 assessment increases of 2% or less) produced incremental property tax billings through June 30, 2019 of approximately $3,264,000. During 2020, approximately $2,837,000 of the supplemental and escape bills were received and paid. The Company has reflected within accrued expenses approximately $427,000 and $3,264,000 at December 31, 2020 and 2019, respectively.

(e) 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. Following motions to dismiss and other motion practice, on February 14, 2018, the court granted Defendants' Motion for Summary Judgment dismissing all then-remaining causes of action. Plaintiffs appealed, and the appellate court reversed the trial court's order on certain claims sending the case back to the trial court. Plaintiffs filed an amended complaint in the trial court, which now includes causes of action for financial abuse of elders, concealment, negligent misrepresentation, breach of fiduciary duty, violation of California Civil Code §1750, violation of California Business and Professions Code §17200, breach of contract, breach of the implied covenant of good faith and fair dealing, and fraudulent transfer of assets. In December 2020, defendants filed a motion for summary judgment, which remains pending. The Company believes that the matter will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

(f) Class Action Complaint

On May 17, 2019, 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 asserted that she fairly and adequately represented a putative class comprised of all non-exempt Classic employees who have been or were then currently employed by Classic in the State of California since November 1, 2015. The Plaintiff's claims alleged wage and hour violations under the California Labor Code and Industrial Welfare Commission Wage Order as well as allegedly engaging in unlawful and unfair business practices. 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 March 17, 2021, 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 2020 consolidated balance sheet is $500,000 related to the expected disposition of funds pursuant to the terms of the settlement.

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-1

Long-Term Debt Incurred in a Prior Fiscal Year
(Including Balloon Debt)

Long-term debt obligation	(a) Date incurred	(b) Principal paid during fiscal year	(c) Interest paid during fiscal year	(d) Credit enhancement premiums paid in fiscal year	(e) Total paid (columns (b)+ (c) + (d))
1		$ —	—	—	—
2		—	—	—	—
3		—	—	—	—
4		—	—	—	—
5		—	—	—	—
6		—	—	—	—
7		—	—	—	—
8		—	—	—	—
			$ —	—	—
					(Transfer this amount to Form 5-3, line 1)

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

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors’ report on supplementary information.

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-2

Long-Term Debt Incurred During Fiscal Year
(Including Balloon Debt)

Long-term debt obligation	(a) Date incurred	(b) Total interest paid during fiscal year	(c) Amount of most recent payment on the debt	(d) Number of payments over next 12 months	(e) Reserve requirement (see instruction 5) (columns (c)*(d))
1		$ —	—	—	—
2		—	—	—	—
3		—	—	—	—
4		—	—	—	—
5		—	—	—	—
6		—	—	—	—
7		—	—	—	—
8		—	—	—	—
			$ —	—	—
					(Transfer this amount to Form 5-3, line 2)

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

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors’ report on supplementary information.

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-3

Calculation of Long-Term Debt Reserve Amount

Line				Total
1	Total from Form 5-1 bottom of Column (e)			$ —
2	Total from Form 5-2 bottom of Column (e)			—
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)			4,655,252
4	Total amount required for long-term debt reserve (A)			$ 4,655,252
(A)	Amount is comprised of the following (see note 5 in the notes to the consolidated financial statements):			
	Ground lease Base Rent		$ 1,787,475	
	Resident service and other revenue	$ 47,796,283		
	Participating Rent percentage	6.0 %		
	2020 Participating Rent on resident service and other revenue (B)		2,867,777	
	Total		$ 4,655,252	

(B) As described in note 5 to the consolidated financial statements, pursuant to its Ground Lease Agreement, the Provider pays the lessor approximately 6.0% of resident service revenue and approximately 7.0% of gross entrance fee proceeds collected. Based on discussions with the State of California Department of Social Services (DSS), and consistent with prior years, facility leasehold or rental payments reportable on Form 5-3 should only include base rent and participating rent attributable to resident service and other revenue.

PROVIDER: CC-Palo Alto, Inc.

COMMUNITY: CC-Palo Alto, Inc.

See accompanying independent auditors’ report on supplementary information.

CC-PALO ALTO, INC. AND SUBSIDIARY

Form 5-4

Calculation of Net Operating Expenses

Line			Amounts	Total
1	Total operating expenses from financial statements			$ 62,216,690
2	Deductions:			
	(a)	Interest paid on long-term debt (see instructions)	$ —	
	(b)	Credit enhancement premiums paid for long-term debt (see instructions)	—	
	(c)	Depreciation	7,764,814	
	(d)	Amortization	—	
	(e)	Revenues received during fiscal year for services to residents who did not have a continuing care contract	6,983,368	
	(f)	Extraordinary expenses approved by the Department (A)	6,102,581	
3		Total deductions		20,850,763
4		Net operating expenses		41,365,927
5	Divide Line 4 by 365 and enter the result			113,331
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount			$ 8,499,825

(A)	Extraordinary expenses approved by the department consist of amounts classified as debt service as follows:	
	Ground Lease Base Rent (see Form 5-3)	1,787,475
	Participating Rent on Resident Service and other Revenue (see Form 5-3)	2,867,777
	Expenses attributable to coronavirus	1,447,329
		$ 6,102,581

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 5-5

Annual Reserve Certification

Provider Name: CC-Palo Alto, Inc.

Fiscal year ended December 31, 2020

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2020 and are in compliance with those requirements.

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

			Amount
(1)	Debt service reserve amount	$	4,655,252
(2)	Operating expense reserve amount		8,499,825
(3)	Total liquid reserve amount	$	13,155,077

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

			Amount (market value at end of quarter)		
	Qualifying asset description		**Debt service reserve**		**Operating reserve**
(4)	Cash and cash equivalents	$	4,655,252		11,864,057
(5)	Investment securities		—		5,897,287
(6)	Equity securities		—		—
(7)	Unused available lines of credit		—		—
(8)	Unused available letters of credit		—		6,000,000
(9)	Debt service reserve		—		—
(10)	Other – security deposit		—		1,283,114
	Total amount of qualifying assets listed for liquid reserve	(11)	4,655,252	(12)	25,044,458
	Total amount required	(13)	4,655,252	(14)	8,499,825
	Surplus (deficiency)	(15) $	—	(16)	16,544,633

Signature

Date 04/29/2021

(Authorized representative) Gary Smith

(Title) CFO of Classic Residence Management Limited Partnership

See accompanying independent auditors' report on supplementary information.

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

Reserves Classified as Cash and Cash Equivalents on Form 5-5:					
Financial Institution	**Account Type**	**Account Details**		**Amount**	
None	Cash	Petty Cash maintained on site	$	500	
Bank of America, N.A.	Business Checking Account	Petty Cash Checking Account	$	10,412	
Bank of America, N.A.	Business Checking Account	Operating Account	$	4,750,127	
Bank of America, N.A.	Business Checking Account	Ownership Account (operating portion)	$	9,796,977	
UBS	Self Directed Investment Account	Ownership Account - Money Market	$	1,957,414	
Bank of America, N.A.	Business Checking Account	Payroll Account	$	(6,288)	
Bank of America, N.A.	Business Checking Account	Real Estate Tax Account	$	10,167	
Total Cash and Cash Equivalents			**$**	**16,519,309**	**A**

Reserves Classified as Investment Securities on Form 5-5:					
Financial Institution	**Account Type**	**Account Details**		**Amount**	
UBS	Self Directed Investment Account	Operating Reserve - CD's, Money Market	$	2,563,506	
UBS	Self Directed Investment Account	Ownership Account - Corporate Bonds and Notes	$	3,333,781	
Total Investment Securities			**$**	**5,897,287**	**B**

Reserves Classified as Unused Available Letters of Credit on Form 5-5:					
Financial Institution	**Account Type**	**Account Details**		**Amount**	
Bank of America, N.A.	Certificate of Deposit	Ground Lease Letter of Credit Collateral	$	6,000,000	
Total Unused Available Letters of Credit			**$**	**6,000,000**	**C**

Reserves Classified as Other - Security Deposit on Form 5-5:					
Financial Institution	**Account Type**	**Account Details**		**Amount**	
Stanford	Security Deposit	Stanford Cash Reserve	$	1,283,114	
Total Other - Security Deposit			**$**	**1,283,114**	**D**

Reserves Not Considered as Qualifying Assets and Not Listed on Form 5-5:					
Financial Institution	**Account Type**	**Account Details**		**Amount**	
Bank of America, N.A.	Business Checking Account	Ownership Account (resident deposit portion)	$	1,195,350	
Bank of America, N.A.	Business Checking Account	Ownership Account (Entrance fee reserve portion)	$	5,941,931	
UBS	Self Directed Investment Account	Capital Reserve - US Treasuries, US TIPS Bonds	$	7,134,708	
Total Reserves Not Listed on Form 5-5			**$**	**14,271,989**	**E**
Total Cash and Cash Equivalents and Investment Securities		**(A+B+C+D+E)**	**$**	**43,971,699**	

Cash, Assets Limited as to Use, and Deposits in Audited Financial Statements:		
Cash and cash equivalents (page 3) (policy disclosed on page 7)	$	16,519,309
Short-term investments (page 3) (policy disclosed on page 8)	$	-
Current portion of assets limited as to use (page 3) (policy disclosed on page 8&12)	$	1,195,350
Long-term investments (page 3) (policy disclosed on page 12)	$	3,333,781
Assets limited as to use, net of amounts required for current liabilities (page 3) (policy disclosed on page 8 &12)	$	21,640,145
Deposits (page 3) (policy disclosed on page 15)	$	1,283,114
Total cash and cash equivalents and assets limited as to use	**$**	**43,971,699**

Reconciliation of Details Above to Form 5-5:			
Total Qualifying Assets listed for liquid reserve	**(A+B+C+D)**	**$**	**29,699,710**
Qualifying Assets - Cash and Cash Equivalents - Operating Expense Reserve		$	11,864,057
Qualifying Assets - Investment Securities - Operating Expense Reserve		$	5,897,287
Qualifying Assets - Cash and Cash Equivalents - Debt Service Reserve		$	4,655,252
Qualifying Assets - Unused Available Letters of Credit - Operating Expense Reserve		$	6,000,000
Qualifying Assets - Other - Security Deposit - Operating Expense Reserve		$	1,283,114
Total Qualifying Assets listed for liquid reserve		**$**	**29,699,710**

Per Capita Cost Detail:		
Form 1-2 line 5 - Total Operating Expense for Continuing Care Residents	$	51,914,419
Form 1-1 line 5 - Mean # of Continuing Care Residents		572.5
Per Capita Costs	**$**	**90,680**

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 3/18/21

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 Limi

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

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

* *

NUMBER OF UNITS:

RESIDENTIAL LIVING		HEALTH CARE	
APARTMENTS — STUDIO:	0	ASSISTED LIVING:	38
APARTMENTS — 1 BDRM:	152	SKILLED NURSING:	44
APARTMENTS — 2 BDRM:	229 +7 (3 bdrm)	SPECIAL CARE:	24
COTTAGES/HOUSES:	0	DESCRIPTION:	> Dementia Care
RLU OCCUPANCY (%) AT YEAR END:	96.4%		>

* *

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

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

REFUND PROVISIONS: *(Check all that apply)* ☐90% ☐75% ☐50% ☐FULLY AMORTIZED ☑OTHER: 0%,60% (70% 3 bdrm)

RANGE OF ENTRANCE FEES: $ 837,100 - $ 7,043,000 **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): > Per 1771.8(s), in lieu of appointing a resident as a voting member of the

> board of directors, members of the bd of directors of provider meet periodically with elected resident reps to ensure that opinions of residents are relayed to the governing body of provider.

* *

FACILITY SERVICES AND AMENITIES

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

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

PROVIDER NAME: CC-Palo Alto, Inc

OTHER CCRCs	LOCATION (City, State)	PHONE (with area code)
Vi at La Jolla Village	San Diego, CA	(858) 646-7712
Vi at Bentley Village	Naples, FL	(941) 598-3153
Vi at Lakeside Village	Lantana, FL	(561) 966-4600
TidePointe, a Vi Community (	Hilton Head Island, S	(843) 341-7200
Vi at Grayhawk, a Vi and Pla:	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, C(	(720) 747-1234
Vi at Silverstone	Scottsdale, AZ	(480) 476-6100

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

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

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

No listed facility is life care as defined in California

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

PROVIDER NAME: CC-Palo Alto, Inc.

	2017	2018	2019	2020
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	$43,577,871	$47,077,882	$50,418,099	$48,269,832
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	$29,303,937	$40,830,645	$46,404,109	$45,635,444
NET INCOME FROM OPERATIONS	$14,273,934	$6,247,237	$4,013,990	$2,634,388
LESS INTEREST EXPENSE	$0	$0	$0	$0
PLUS CONTRIBUTIONS	$0	$0	$0	$0
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	($7,004,176)	($6,070,564)	($7,573,819)	($7,369,103)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$7,269,758	$176,673	($3,559,829)	($4,734,715)
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$28,781,758	$23,718,041	$36,002,174	$27,951,248

* *

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

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

* *

FINANCIAL RATIOS (see next page for ratio formulas)

	2018 CCAC Median 50th Percentile *(optional)*	2018	2019	2020
DEBT TO ASSET RATIO		0	0	0
OPERATING RATIO		.87	.92	.95
DEBT SERVICE COVERAGE RATIO		0	0	0
DAYS CASH ON HAND RATIO		690.31	792.16	236.36

* *

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2017	%	2018	%	2019	%	2020	%
STUDIO	N/A		N/A		N/A		N/A	
ONE BEDROOM	$5,093	3.0	$5,218	2.7	$5,461	4.5	$5,762	5.5
TWO BEDROOM	$7,106	3.0	$7,301	2.7	$7,642	4.5	$8,041	5.5
COTTAGE/HOUSE	N/A		N/A		N/A		N/A	
ASSISTED LIVING								
SKILLED NURSING								
SPECIAL CARE								

* *

COMMENTS FROM PROVIDER: > Note: If you sign a continuing care residency contract, your monthly fee for assisted living, memory care, or skilled nursing

> will be based on your monthly fee for your residential living apartment. The dollar amounts shown are the average monthly fees paid by existing residents as of December

> 1st of each year. The % column reflects the percentage increase over the prior year's monthly fee that was applied to the monthly fees of existing residents

PROVIDER NAME: CC-Palo Alto, Inc

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)	$4,796 - $10,874	$5,273 - $18,450	$5,273 - $18,910
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	5.5%	5.5%	5.5%

☐ Check here if monthly care 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.)

[3] Indicate the date the fee increase was implemented: 1/1/2020
(If more than one (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. **Date of Notice: 12/1/19** **Method of Notice: Letter**

☐ At least 30 days prior to the increase in fees, the designated representative of the provider convened a meeting that all residents were invited to attend. **Date of Meeting: 11/19/19**

☐ 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. **Date of Notice: 11/5/19**

☐ 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. **Date of Posting: 11/5/19** **Location of Posting: Bulletin boards, mailroom, outside of library, front hallway, front desk area, Touchtown resident app**

[5] On an attached page, provide a concise explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code. See **PART 7 REPORT ON CCRC MONTHLY CARE FEE** in the **Annual Report Instruction** booklet for further instructions.

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

FORM 7-1 MONTHLY CARE FEE INCREASE (MCFI)
ANNUAL REPORTING YEAR - FY 2020

Line	Fiscal Years	2018	2019	2020
1	FY 2018 Operating Expenses (Note 1)	(45,647,769)		
2	FY 2019 Operating Expenses (Note 1)		(48,407,495)	
3	FY 2020 Projected Operating Expenses (Note 1)			(50,276,200)
4	FY 2020 Anticipated MCF Revenue Based on Current and Projected Occupancy and Other without a MCFI			47,766,988
5	Projected FY 2020 Net Operating Results without an MCFI (Line 3 plus Line 4)			(2,509,212)
6	Projected FY 2020 MCF Revenue Based on Current and Projected Occupancy and Other with a MCFI of 5.50%			49,807,788
7	Grand Total - Projected FY 2020 Net Operating Activity after 5.50% MCFI (Line 3 plus Line 6)			(468,412)

Monthly Care Fee Increase - 5.50%

Note 1: Certain adjustments must be made to total expenses to arrive at operating expenses which are considered when evaluating monthly fee increases. These adjustments are as follows:

	2018	2019	2020
Total Expenses	54,062,082	61,348,473	64,756,362
Less - depreciation and amortization	(7,160,873)	(7,370,545)	(8,700,052)
Less - expenses specifically excluded from MCFI considerations (Note 2)	(3,724,810)	(8,323,043)	(8,362,791)
Add - funding of capital reserves	2,471,370	2,752,610	2,582,681
Total Operating Expenses above	**45,647,769**	**48,407,495**	**50,276,200**

Note 2: During 2018, certain accounting adjustments were made to property tax accruals related to prior periods. The results of these adjustments reduced property tax expense during those periods. Apart from those adjustments, participating rent payments and certain other administrative costs are not considered in determining the monthly fee increase whereby they are excluded here.

CC – Palo Alto, Inc.

Form 7-1 Explanation for Increase in Monthly Service Fees

Each monthly service fee increase is based on projected expenses, prior year expenses and economic indicators. As with most businesses, we are faced with rising costs in several areas. One significant area is rising salaries and benefits costs. Pressure in the labor markets and rising health care costs (coupled with the impact of federal regulation) continue to lead to rising salaries and benefits costs which outpace normal inflation. Additionally, property, workers compensation, and professional liability insurance costs continue to rise. Food cost, utilities expense, and property taxes are other significant considerations within the overall expense base that drive monthly service fee increases. Each of these factors is evaluated in detail and we utilize the best information we have available at the time the increases are finalized. The data used to calculate the increase consists primarily of compensation analyses on the local market, health insurance consultant reports, forward looking data on commodities pricing, discussions with utility companies, and discussion with non-health insurance consultants. We also analyze repair and maintenance needs annually based on the life cycle of our systems and specific needs. The attached schedule outlines the dollar and percent impacts of the anticipated changes in the aforementioned areas along with all other financial line items. These items are all analyzed collectively along with changes in Third Party revenues when determining the necessary increase in monthly service fees. To address these impacts and maintain the high level of quality and services expected of our brand, the following increases were implemented:

IL 5.5%

AL 5.5%

SNF 5.5%

Form 7-1 Supplement to Narrative Explanations

		2019 Actual	2020 Budget	Dollar Change	Percent Change
Salaries and Wages		18,114,139	18,836,441	(722,302)	-4.0%
Employee Benefits		3,921,207	4,636,552	(715,345)	-18.2%
Food Cost		2,177,996	2,156,535	21,462	1.0%
Resident Care (non-salary)		1,820,108	1,700,839	119,268	6.6%
Maintenance		1,382,778	1,263,413	119,365	8.6%
Other Functional Expenses		2,499,880	2,602,158	(102,278)	-4.1%
Utilities		2,139,060	2,373,148	(234,088)	-10.9%
Sales & Marketing		206,726	233,296	(26,570)	-12.9%
Administration		953,634	1,052,394	(98,760)	-10.4%
Insurance		1,737,126	1,838,070	(100,945)	-5.8%
Property Taxes		5,089,446	5,228,577	(139,131)	-2.7%
Lease Expense		1,717,350	1,787,473	(70,123)	-4.1%
Management Fees		3,895,434	3,984,623	(89,189)	-2.3%
Total Expenses	A	45,654,884	47,693,519	(2,038,635)	-4.5%
Net Operating Income	B	3,039,145	2,114,268	(924,876)	
Funding of Capital Replacement Reserve	C	(2,752,611)	(2,582,681)	169,930	6.2%
Total Cash Flow		286,534	(468,412)	(754,946)	
Total Expenses	A	45,654,884	47,693,519	(2,038,635)	-4.5%
Funding of Capital Replacement Reserve	C	2,752,611	2,582,681	169,930	6.2%
Total Expenses for Monthly Fee Consideration		**48,407,495**	**50,276,199**	**(2,208,565)**	**-4.6%**

PART 9

CC-Palo Alto, Inc. does not offer a refundable contract or assume responsibility for any outstanding refundable contracts. Accordingly, CC-Palo Alto, Inc. is not required to maintain a refund reserve in trust for the residents in the manner required by Health and Safety Code (H&SC) section 1792.6.

KPMG

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Financial Statements

December 31, 2020 and 2019

(With Independent Auditors’ Report Thereon)

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Table of Contents

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

Independent Auditors' Report

The Partners
Classic Residence Management Limited Partnership:

We have audited the accompanying financial statements of Classic Residence Management Limited Partnership, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, partners' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Classic Residence Management Limited Partnership as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
March 29, 2021

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Balance Sheets

December 31, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	5,929,230	7,230,214
Current portion of assets limited as to use		4,943,244	5,066,684
Due from affiliates		9,796,865	7,738,279
Deposits and other		10,800,092	786,342
Total current assets		31,469,431	20,821,519
Assets limited as to use, net of amounts required for current liabilities		1,479,079	1,408,665
Property and equipment:			
Leasehold improvements		5,198,775	6,492,655
Furniture, fixtures, and equipment		11,264,055	11,389,242
Construction in progress		36,297	3,970,236
		16,499,127	21,852,133
Less accumulated depreciation and amortization		9,929,881	16,964,899
Property and equipment, net		6,569,246	4,887,234
Estimated insurance recoveries		1,691,665	1,480,574
Total assets	$	41,209,421	28,597,992
Liabilities and Partners' Equity			
Current liabilities:			
Accounts payable	$	980,206	588,973
Accrued expenses		8,546,057	8,791,321
Benefit claims payable		5,207,280	5,352,020
Total current liabilities		14,733,543	14,732,314
General and professional liability claims payable		1,906,708	1,603,903
Unearned rent abatement		4,691,921	—
Total liabilities		21,332,172	16,336,217
Partners' equity:			
Contributed capital, net		65,724,705	54,724,705
Accumulated deficit		(45,847,456)	(42,462,930)
Total partners' equity		19,877,249	12,261,775
Total liabilities and partners' equity	$	41,209,421	28,597,992

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Operations

Years ended December 31, 2020 and 2019

		2020	2019
Revenue:			
Management fee revenue	$	20,118,366	20,096,737
Commission revenue		792,971	1,213,097
Marketing fee revenue		—	1,902,806
Interest income		212,165	118,300
Total revenue		21,123,502	23,330,940
Expense:			
Salaries and benefits		19,755,759	18,815,740
Rent		1,171,909	1,426,689
Professional services		977,857	1,337,000
Administration		1,184,990	1,880,131
Property taxes		398,257	396,699
Depreciation and amortization		939,603	702,172
Insurance		79,653	79,877
Total expense		24,508,028	24,638,308
Net loss	$	(3,384,526)	(1,307,368)

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Partners' Equity

Years ended December 31, 2020 and 2019

		Contributed capital, net	Accumulated deficit	Total partners' equity
Balance at December 31, 2018	$	51,724,705	(41,155,562)	10,569,143
Contributions		3,000,000	—	3,000,000
Net loss		—	(1,307,368)	(1,307,368)
Balance at December 31, 2019		54,724,705	(42,462,930)	12,261,775
Contributions		11,000,000	—	11,000,000
Net loss		—	(3,384,526)	(3,384,526)
Balance at December 31, 2020	$	65,724,705	(45,847,456)	19,877,249

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Net loss	$	(3,384,526)	(1,307,368)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		939,603	702,172
Gain on disposal of property and equipment		(44,205)	—
Rent abatements received		4,975,175	—
Rent abatements recognized		(283,254)	—
Changes in assets and liabilities:			
Due from affiliates		(2,058,586)	(1,351,909)
Deposits and other		(10,013,750)	286,975
Accounts payable		391,233	74,018
Accrued expenses		(245,264)	1,465,169
Net cash used in operating activities		(9,723,574)	(130,943)
Cash flows from investing activities:			
Purchase of property and equipment, net		(2,946,085)	(4,073,784)
Proceeds from sale of property and equipment		368,675	—
Change in estimated benefit and general and professional liability claims payable		(53,026)	(285,339)
Net cash used in investing activities		(2,630,436)	(4,359,123)
Cash flows from financing activity:			
Capital contributions		11,000,000	3,000,000
Net cash provided by financing activities		11,000,000	3,000,000
Net change in cash, cash equivalents, and restricted cash		(1,354,010)	(1,490,066)
Cash, cash equivalents, and restricted cash at beginning of year		13,705,563	15,195,629
Cash, cash equivalents, and restricted cash at end of year	$	12,351,553	13,705,563

See accompanying notes to financial statements.

(1) Purpose and Organization

Classic Residence Management Limited Partnership (the Company) was organized as a limited partnership under the laws of the State of Illinois on December 28, 1987. The Company was formed for the purpose of developing and managing senior living communities. The Company currently manages 10 operating communities (the Communities) that maintain operations in Arizona, California, Colorado, Florida, Illinois, and South Carolina.

The Company comprises two partners: CC-Development Group, Inc. (the Limited Partner) and CRMI, L.L.C. (the General Partner). The Limited Partner has a 99% ownership percentage in the partnership while the General Partner has a 1% ownership percentage. During 2020 and 2019, the Limited Partner contributed $11,000,000 and $3,000,000 of capital to the Company, respectively.

Pursuant to the Partnership Agreement, the General Partner has full exclusive responsibility, control, and authority to do any and all things necessary or incidental in connection with the management and administration of the Company’s business and affairs, financing, and disposition of assets. No partnership interest may be transferred or sold, and no partner may be admitted without the consent of all partners.

The Partnership Agreement provides for distributions of available cash and allocations of net profits and losses to the partners in accordance with their respective ownership percentages.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash include investments in highly liquid instruments with original maturities of three months or less. The following table provides a reconciliation of cash, cash equivalents, and restricted cash as reported in the accompanying balance sheets to the total amount of cash, cash equivalents, and restricted cash as reported in the accompanying statements of cash flows:

		2020	2019
Cash and cash equivalents	$	5,929,230	7,230,214
Assets limited as to use:			
Cash		—	31,889
Certificates of deposit		6,422,323	6,443,460
Total cash, cash equivalents, and restricted cash reported in the statements of cash flows	$	12,351,553	13,705,563

(c) Fair Value Measurements

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

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

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

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

Level 2 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 amount reported in the balance sheet 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) Property and Equipment

Property and equipment are stated at cost. Depreciation is being provided by the straight-line method over the estimated useful lives of the assets, which range from 4 to 15 years. Amortization of leasehold improvements is provided over the shorter of the lease term or useful lives of the leasehold improvements. No significant contractual commitments exist as of December 31, 2020.

(e) 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

(Continued)

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, 2020 and 2019.

(f) Assets Limited as to Use

Assets limited as to use include amounts maintained by the Company to pay for estimated general and professional liability and workers' compensation claims and amounts maintained by the Company to collateralize a letter of credit issued to the lessor of the Company's new office space (note 5(a)). Assets limited as to use are invested in money market accounts and certificates of deposit and are considered cash and cash equivalents. Assets limited as to use are classified as noncurrent assets to the extent that they are not expected to be expended to satisfy obligations classified as current liabilities.

The following table presents the Company's fair value hierarchy for those investments and assets limited as to use measured at fair value on a recurring basis as of December 31, 2020. None of these assets has any redemption restrictions, so the redemption frequency is on a daily basis and would have a one-day notice for redemption:

	Fair value	Level 1	Level 2	Level 3
Cash equivalents	$ 6,422,323	6,422,323	—	—
Total	$ 6,422,323	6,422,323	—	—

The following table presents the Company's fair value hierarchy for those investments and assets limited as to use measured at fair value on a recurring basis as of December 31, 2019. None of these assets has any redemption restrictions, so the redemption frequency is on a daily basis and would have a one-day notice for redemption:

	Fair value	Level 1	Level 2	Level 3
Cash equivalents	$ 6,475,349	6,475,349	—	—
Total	$ 6,475,349	6,475,349	—	—

(g) Self-Insurance

The Company applies the provisions of ASC Subtopic 954-450, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that healthcare entities should not net insurance recoveries against the related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries.

(h) Management Fee Revenue

Management fee revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. Management fee revenue consists of revenue received pursuant to various management agreements with the Communities. The transaction price of management fees are calculated as a specified percentage of revenues of the Communities ranging

(Continued)

from 5% to 10% of revenues as defined in the management agreements. The management agreements expire on various dates through 2055. The Company has determined that the services provided are a series of distinct services that are considered one performance obligation, which is satisfied over time.

(i) Commission Revenue

Commission revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. Commission revenue consists of revenues received pursuant to management and marketing agreements. The transaction price of commissions are calculated as a specified percentage of certain entrance fees received by the Communities as a one-time payment by new residents as defined in the management and marketing agreements. Percentages are equal to 5% of entrance fee proceeds, as defined. The management and marketing agreements expire on various dates through 2030. The Company has determined that the services provided are a series of distinct services that are considered one performance obligation which is satisfied over time.

(j) Marketing Fee Revenue

Marketing fee revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. The transaction price of marketing fee revenue consists of revenue received pursuant to a management and marketing agreement with a community undergoing a repositioning. Marketing fees are received during the construction period. The Company has determined that the services provided are a series of distinct services that are considered one performance obligation which is satisfied over time.

(k) Income Taxes

No provision for federal and state income taxes has been provided in the accompanying financial statements because such taxes are the obligations of the owners of the Company.

(l) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (ASC Topic 842)*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability, resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842),* which deferred the effective date of the adoption of ASU No. 2016-02 to the year ending December 31, 2021. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which permitted the Company to defer the effective date of ASU No. 2016-02 for the year ending December 31, 2022. The Company is evaluating the impact of this standard on the accompanying balance sheets and statements of operations.

(m) Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated events and transactions through March 29, 2021, the date the financial statements were issued, noting no subsequent events requiring recording or disclosure in the financial statements or related notes to the financial statements.

(3) Transactions with Related Parties

The Company entered into agreements with the Communities whereby the Company manages the operations of the Communities. The Limited Partner has a full or partial ownership interest in all but one of the Communities. Management fee revenue and commission revenue are received pursuant to these agreements.

The Company contracts with third parties on behalf of the Communities to provide property, health, and liability insurance, and various marketing and other services. The Company advances funds to third parties and is reimbursed by the Communities. Reimbursement to the Company for such advances amounted to $59,209,637 and $52,421,109 for the years ended December 31, 2020 and 2019, respectively. There is no interest associated with these advances as they are reimbursed on a current basis. Net amounts due from the Communities are reported as due from affiliates and totaled $9,796,865 and $7,738,279 at December 31, 2020 and 2019, respectively.

The Company processes premium and claim payments for property, health, workers' compensation, and general and professional liability policies and claims. The Company has made premium payments in accordance with the payment terms of the policies. The Company is reimbursed by the Communities for these payments on a monthly basis over the term of the policy. Included in deposits and other are $9,899,606 and $54,640 of prepaid insurance under these policies at December 31, 2020 and 2019, respectively.

Additionally, the Company processes claim payments for health, workers' compensation, and general and professional liability claims, which fall below the deductible and stop-loss reinsurance levels set forth in the policies. The Company is reimbursed by the Communities for claim payments on a monthly basis over the term of the policy. Monthly payments are determined based on estimated ultimate claims costs inclusive of the ultimate cost of both reported losses and losses incurred but not reported. Amounts received from the Communities for future claim payments are included in assets limited as to use and will be utilized to pay claims as they become due. The Company has estimated benefit claims payable under health and workers' compensation programs of $5,207,280 and $5,352,020 and related recoveries of $264,036 and $285,336 at December 31, 2020 and 2019, respectively. The portion of health and workers' compensation claims expected to be paid beyond one year of the balance sheet date is not readily determinable, and therefore, the entire accrual is classified as a current liability in the accompanying balance sheets. The Company accounts for estimated general and professional liability claims payable without consideration of estimated insurance recoveries, which are shown separately in the accompanying balance sheets. The Company has estimated general and professional liability claims payable of $1,906,708 and $1,603,903 and related recoveries of $1,427,629 and $1,195,238 at December 31, 2020 and 2019, respectively. The portion of the accrual for estimated general and professional liability claims expected to be paid within one year of the balance sheet is not readily determinable, and therefore, the entire accrual is classified as a noncurrent liability. It is the opinion of management that the estimated costs accrued for benefit and general and professional liability claims at December 31, 2020 and 2019 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities. In the event that actual claim payments differ from estimates, it is the intent of the Company to recover or return such differences with the Communities.

(Continued)

(4) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by the Company. 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, 2020 and 2019, contribution expense of $550,832 and $551,244, respectively, is included as a component of salaries and benefits in the accompanying statements of operations. Contributions are funded on a current basis.

(5) Commitments and Contingencies

(a) Operating Leases

The Company maintains operating lease agreements for certain office facilities and equipment, which expire through February 28, 2031. Rental expense recognized under these operating leases approximated $783,222 and $1,061,945 in 2020 and 2019, respectively, and is included with rent expense in the accompanying statements of operations.

On March 25, 2019, the Company entered into a lease agreement for office facilities at 233 South Wacker Drive. Rent payments under this lease commenced on February 3, 2020. The lease agreement entitles the Company to tenant improvement allowances of $3,045,000 and abatement for rent for the first lease year of the term and for a portion of the second year of the term. The Company has elected to convert the rent abatement amounts into additional tenant improvement allowances in accordance with the terms of the lease agreement. Tenant improvement allowance and converted rent abatements of $4,975,175 were received during 2020. This amount has been recorded as unearned rent abatement in the accompanying 2020 balance sheet and is being amortized as a reduction of rent expense ratably over the term of the lease. Future minimum rental payments over the remainder of the operating lease terms are as follows:

Year ending December 31:		
2021	$	1,039,851
2022		1,065,898
2023		1,092,553
2024		1,119,816
2025		1,147,687
Thereafter		6,401,367
	$	11,867,172

(b) Contingency

In February 2014, a class action complaint was filed against CC Palo Alto, Inc. (one of the operating communities the Company manages), Classic Residence Management Limited Partnership, and CC Development Group, Inc. Following motions to dismiss and other motion practice, on February 14, 2018, the court granted Defendants' Motion for Summary Judgment dismissing all then-remaining causes of action. Plaintiffs appealed, and the appellate court reversed the trial court's order on certain claims sending the case back to the trial court. Plaintiffs filed an amended complaint in the trial court which now includes causes of action for financial abuse of elders, concealment, negligent misrepresentation, breach of fiduciary duty, violation of California Civil Code §1750, violation of California Business and Professions Code §17200, breach of contract, breach of the implied covenant of good faith and fair dealing, and fraudulent transfer of assets. In December 2020, Defendants filed a motion for summary judgment, which remains pending. The Company believes that the matter will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

(c) COVID-19 Pandemic

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. New resident move-ins at the Communities and the related management fee and commission revenues were impacted throughout 2020. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that have caused many people to remain at home and forced the closure of or limitations on certain businesses. While some of these restrictions have been eased across the U.S., some restrictions remain in place, and state and local governments continue to evaluate certain restrictions while monitoring rates of COVID-19 cases. Management does not yet know the full extent of potential impacts on the business but is actively monitoring.

In March 2020, the Coronavirus Aid, Relief and Economic Securities Act (CARES Act) was signed into law, providing temporary and limited relief to companies during the COVID-19 outbreak. The CARES Act provides for a deferral of payments of the employer portion of social security payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. The Company has deferred payroll taxes of $344,871 and recorded the deferral as a component of accrued expenses in the accompanying balance sheet at December 31, 2020.