ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED: 12/31/2021

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

CCRC(S):
Vi at Palo Alto

PROVIDER CONTACT PERSON:
Tara Cope

TELEPHONE NUMBER:	E-MAIL ADDRESS:
312-803-8555	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: $55,270.51
  - ☐ 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. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).
- ☑ "Continuing Care Retirement Community Disclosure Statement" for ***each*** community.
- ☑ Form 7-1, "Report on CCRC Monthly Service Fees" for ***each*** community.
- ☑ Form 9-1, "Calculation of Refund Reserve Amount", if applicable.
- ☑ Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider's annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.

FORM 1-1:RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	567
[2]	Number at end of fiscal year	594
[3]	Total Lines 1 and 2	1,161
		x.50
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	
[5]	Mean number of continuing care residents	581
	All Residents	
[6]	Number at beginning of fiscal year	589
[7]	Number at end of fiscal year	625
[8]	Total Lines 6 and 7	1,214
		x.50
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	
[10]	Mean number of *all* residents	607
[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).	96

FORM 1-2: ANNUAL PROVIDER FEE

Line		TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	66,231,539.00
[a]	Depreciation	8,435,336.00
[b]	Debt Service (Interest Only)	0.00
[2]	Subtotal (add Line 1a and 1b)	8,435,336.00
[3]	Subtract Line 2 from Line 1 and enter result.	57,796,203.00
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	95.63
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	55,270,509.00
[6]	**Total Amount Due** (multiply Line 5 by .001)	$ 55,270.51

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 12/31/2021 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: March 29, 2022

CC-Palo Alto, Inc., a Delaware corporation

By: Randal J. Richardson

Randal J. Richardson, President

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 03/02/2022

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
MARSH USA INC.
540 W. MADISON
CHICAGO, IL 60661

CN102041886-BERMU-GAUP-21-

CONTACT NAME:
PHONE (A/C, No, Ext): FAX (A/C, No):
E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : National Fire & Marine Insurance Co	20079
INSURER B : N/A	N/A
INSURER C : N/A	N/A
INSURER D :	
INSURER E :	
INSURER F :	

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

COVERAGES CERTIFICATE NUMBER: CHI-009948247-06 REVISION NUMBER: 1

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			42-PSC-306898-04	12/31/2021	12/31/2022	EACH OCCURRENCE	$ 1,000,000
	X CLAIMS-MADE ☐ OCCUR						DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 100,000
	X Ded: $100,000 per occurrence						MED EXP (Any one person)	$ 10,000
							PERSONAL & ADV INJURY	$ 1,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER:						GENERAL AGGREGATE	$ 3,000,000
	☐ POLICY ☐ PRO-JECT X LOC						PRODUCTS - COMP/OP AGG	$ 3,000,000
	OTHER:						POLICY LIMIT	$ 10,000,000
	AUTOMOBILE LIABILITY						COMBINED SINGLE LIMIT (Ea accident)	$
	☐ ANY AUTO						BODILY INJURY (Per person)	$
	☐ OWNED AUTOS ONLY ☐ SCHEDULED AUTOS						BODILY INJURY (Per accident)	$
	☐ HIRED AUTOS ONLY ☐ NON-OWNED AUTOS ONLY						PROPERTY DAMAGE (Per accident)	$
								$
A	X UMBRELLA LIAB ☐ OCCUR			42-USC-306899-04	12/31/2021	12/31/2022	EACH OCCURRENCE	$ 5,000,000
	☐ EXCESS LIAB X CLAIMS-MADE						AGGREGATE	$ 5,000,000
	☐ DED X RETENTION $ 100,000							$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANYPROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? ☐ (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N / A					PER STATUTE / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
A	Professional Liability			42-PSC-306898-04	12/30/2021	12/30/2022	Limits	See Attached
	Claims Made						Deductible (Per Claim)	100,000

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

Marsh USA Inc.

AGENCY CUSTOMER ID: CN102041886
LOC #: Chicago

ACORD®

ADDITIONAL REMARKS SCHEDULE

AGENCY		NAMED INSURED
MARSH USA INC.		CC-Palo Alto, Inc. 620 Sand Hill Road Palo Alto, CA 94304
POLICY NUMBER		
CARRIER	NAIC CODE	EFFECTIVE DATE:

ADDITIONAL REMARKS

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

PROFESSIONAL LIABILITY LIMITS
Each Claim: $1,000,000
Each Location Aggregate: $3,000,000
Deductible: $100,000 Per Claim
Policy Limit: $10,000,000

Excess Professional Liability
Carrier: National Fire & Marine Insurance Company
Policy No.: 42-USC-306899-04
Effective Date: 12/31/21
Expiration Date: 12/31/2022
Each Claim Limit: $5,000,000
Aggregate Limit: $5,000,000
Retention: $100,000

Excess Liability ($10M xs $5M)
Carrier: Admiral Insurance Company
Policy No.: 257AL21A1069AR
Effective Date: 12/31/21
Expiration Date: 12/31/2022
Each Claim Limit: $10,000,000
Aggregate Limit: $10,000,000

Excess Liability ($9M xs $15M)
Carrier: Allied World Assurance Company, Ltd.
Policy No.: C058848/003
Effective Date: 12/31/21
Expiration Date: 12/31/2022
Each Occurrence: $9,000,000
Aggregate Limit: $9,000,000

The $9M xs $15M Excess Liability placement was made by Bowring Marsh (Bermuda) Ltd.. Marsh USA Inc. has only acted in the role of a consultant to the client with respect to this placement, which is indicated here for your convenience.

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CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY): 01/04/2022

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

PRODUCER MARSH USA INC. 540 W. Madison CHICAGO, IL 60661 CN102041886--PROP-21-22	CONTACT NAME: Marsh | U.S. Operations PHONE (A/C, No, Ext): 866-966-4664 FAX (A/C, No): 212-948-0770 E-MAIL ADDRESS: Chicago.CertRequest@marsh.com PRODUCER CUSTOMER ID:
INSURED CC-Palo Alto, Inc. 620 Sand Hill Road Palo Alto, CA 94304	

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : See Attached Schedule of Insurers	
INSURER B :	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

COVERAGES

CERTIFICATE NUMBER: CHI-009974768-06 REVISION NUMBER: 0

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

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INSR LTR	TYPE OF INSURANCE		POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
A	X PROPERTY		SEE ATTACHED	12/31/2021	12/31/2022	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
	X EARTHQUAKE	See Attached				BLANKET BUILDING	$
	X WIND	See Attached				BLANKET PERS PROP	$
	X FLOOD	See Attached				X BLANKET BLDG & PP	$
						X LOSS LIMIT	$ 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)

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

Insured: CC-Development Group, Inc.

Policy Period: 12/31/21 – 12/31/22

Issuing Companies: ***(Quota Share Participation by Layer)***

ALL-RISK			
$25,000,000 Excess Deductible	Policy Number	Participation (%)	Participation ($)
Allied World Assurance Company Ltd	P006392/015	15.00%	$3,750,000
Velocity - Certain Underwriters at Lloyd's, London	VRN-CN-0000681-05 / VNB-CN-0000681-05	7.20%	$1,800,000
Velocity - Independent Specialty Insurance Company	VUX-CN-0000681-05	6.00%	$1,500,000
Velocity - Interstate Fire & Casualty Company	VRX-CN-0000681-05	1.80%	$450,000
Starr Surplus Lines Insurance Company	SLSTPTY11556921	5.00%	$1,250,000
Illinois Union Insurance Company	D39075532 001	10.00%	$2,500,000
Lloyds of London	B0509BOWPN2151811	35.00%	$8,750,000
Ironshore Specialty Insurance Company	1000370378-03	5.00%	$1,250,000
$80,000,000 Excess Deductible	Policy Number	Participation (%)	Participation ($)
Argo Re Ltd.	P152113	5.00%	$4,000,000
Lexington Insurance Company	034250013	10.00%	$8,000,000
$55,000,000 Excess $25,000,000	Policy Number	Participation (%)	Participation ($)
Alcor - Lloyds of London Syndicate 4242	21ALC510410A	5.00%	$2,750,000
Lloyds of London	B0509BOWPN2151811	9.00%	$4,950,000
SRU - Crum & Forster Specialty Insurance Company	SRS-100853	3.00%	$1,650,000
SRU - Western World Insurance Company	SCC0000891	4.88%	$2,681,250
SRU - Palomar Excess and Surplus Insurance Company	PSC00046-01	4.88%	$2,681,250
SRU - Starstone Specialty Insurance Company	CSRU-300294-01	2.25%	$1,237,500
North American Elite Insurance Company	NAP 0452576 08	16.00%	$8,800,000
Arch Specialty Insurance Company	ESP1010377-00	9.00%	$4,950,000
Hamilton Re Ltd.	PX21-4695-01	9.00%	$4,950,000
Oil Casualty Insurance Company Ltd.	P-102279-1221	4.50%	$2,475,000
Hallmark Specialty Insurance Company	73-PX-000675390-00	5.00%	$2,750,000
Ironshore Specialty Insurance Company	1000370405-03	12.50%	$6,875,000
$270,000,000 Excess $80,000,000	Policy Number	Participation (%)	Participation ($)
Chubb Bermuda Insurance Ltd	CCDEVEL002217P	100.00%	$270,000,000
TERRORISM			
$80,000,000 Excess Deductible	Policy Number	Participation (%)	Participation ($)
Lloyds of London	BOWTN2150800	100.00%	$80,000,000

Insured: CC-Development Group, Inc.

Policy Period: 12/31/21 – 12/31/22

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 $80,000,000
- Terrorism...(Lloyds via Stand Alone - $80,000,000 + Chubb BDA via All-Risk $270,000,000) = $350,000,000

Special Deductibles

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

KPMG

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Financial Statements

December 31, 2021 and 2020

(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:

Opinion

We have audited the financial statements of Classic Residence Management Limited Partnership (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, partners' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Chicago, Illinois
March 25, 2022

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Balance Sheets

December 31, 2021 and 2020

Assets		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	5,858,227	5,929,230
Current portion of assets limited as to use		5,167,376	4,943,244
Due from affiliates		7,691,855	9,796,865
Deposits and other		9,794,342	10,800,092
Total current assets		28,511,800	31,469,431
Assets limited as to use, net of amounts required for current liabilities		1,680,289	1,479,079
Property and equipment:			
Leasehold improvements		5,198,775	5,198,775
Furniture, fixtures, and equipment		11,412,405	11,264,055
Construction in progress		151,559	36,297
		16,762,739	16,499,127
Less accumulated depreciation and amortization		10,867,417	9,929,881
Property and equipment, net		5,895,322	6,569,246
Estimated insurance recoveries		1,390,191	1,691,665
Total assets	$	37,477,602	41,209,421
Liabilities and Partners' Equity			
Current liabilities:			
Accounts payable	$	1,094,293	980,206
Accrued expenses		12,120,175	8,546,057
Benefit claims payable		5,672,606	5,207,280
Total current liabilities		18,887,074	14,733,543
General and professional liability claims payable		1,565,250	1,906,708
Unearned rent abatement		4,353,119	4,691,921
Total liabilities		24,805,443	21,332,172
Partners' equity:			
Contributed capital, net		64,724,705	65,724,705
Accumulated deficit		(52,052,546)	(45,847,456)
Total partners' equity		12,672,159	19,877,249
Total liabilities and partners' equity	$	37,477,602	41,209,421

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Operations

Years ended December 31, 2021 and 2020

		2021	2020
Revenue:			
Management fee revenue	$	20,663,446	20,118,366
Commission revenue		1,593,830	792,971
Interest income		8,458	212,165
Total revenue		22,265,734	21,123,502
Expense:			
Salaries and benefits		23,537,166	19,755,759
Rent		1,067,536	1,171,909
Professional services		1,046,704	977,857
Administration		1,449,591	1,184,990
Property taxes		347,306	398,257
Depreciation and amortization		937,536	939,603
Insurance		84,985	79,653
Total expense		28,470,824	24,508,028
Net loss	$	(6,205,090)	(3,384,526)

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Partners' Equity

Years ended December 31, 2021 and 2020

		Contributed capital, net	Accumulated deficit	Total partners' equity
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
Distributions		(1,000,000)	—	(1,000,000)
Net loss		—	(6,205,090)	(6,205,090)
Balance at December 31, 2021	$	64,724,705	(52,052,546)	12,672,159

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Cash Flows

Years ended December 31, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Net loss	$	(6,205,090)	(3,384,526)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization		937,536	939,603
Gain on disposal of property and equipment		—	(44,205)
Rent abatements received		—	4,975,175
Rent abatements recognized		(338,802)	(283,254)
Changes in assets and liabilities:			
Due from affiliates		2,105,010	(2,058,586)
Deposits and other		1,005,750	(10,013,750)
Accounts payable		114,087	391,233
Accrued expenses		3,574,118	(245,264)
Net cash provided by (used in) operating activities		1,192,609	(9,723,574)
Cash flows from investing activities:			
Purchase of property and equipment, net		(263,612)	(2,946,085)
Proceeds from sale of property and equipment		—	368,675
Change in estimated benefit and general and professional liability claims payable		425,342	(53,026)
Net cash provided by (used in) investing activities		161,730	(2,630,436)
Cash flows from financing activity:			
Capital (distributions) contributions		(1,000,000)	11,000,000
Net cash (used in) provided by financing activities		(1,000,000)	11,000,000
Net change in cash, cash equivalents, and restricted cash		354,339	(1,354,010)
Cash, cash equivalents, and restricted cash at beginning of year		12,351,553	13,705,563
Cash, cash equivalents, and restricted cash at end of year	$	12,705,892	12,351,553

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 2021 the Company distributed $1,000,000 of capital to the Limited Partner. During 2020, the Limited Partner contributed $11,000,000 of capital to the Company.

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:

		2021	2020
Cash and cash equivalents	$	5,858,227	5,929,230
Assets limited as to use:			
Cash		1,154,205	—
Certificates of deposit		5,693,460	6,422,323
Total cash, cash equivalents, and restricted cash reported in the statements of cash flows	$	12,705,892	12,351,553

(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, 2021.

(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 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, 2021 and 2020.

(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, 2021. 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	$ 6,847,665	6,847,665	—	—
Total	$ 6,847,665	6,847,665	—	—

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	—	—

(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 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)*. Topic 842 requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. The Company adopted Topic 842 effective January 1, 2022 and estimates an ROU asset increase by approximately $6,100,000 (net of unearned rent abatements of $4,975,975), and a corresponding leasing obligation of approximately $11,100,000 as part of the adoption.

(Continued)

(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 25, 2022, 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 $63,676,112 and $59,209,637 for the years ended December 31, 2021 and 2020, 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 $7,691,855 and $9,796,865 at December 31, 2021 and 2020, 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 $8,709,373 and $9,899,606 of prepaid insurance under these policies at December 31, 2021 and 2020, 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 $5,672,606 and $5,207,280 and related recoveries of $505,230 and $264,036 at December 31, 2021 and 2020, 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 $1,565,250 and $1,906,708 and related recoveries of $884,961 and $1,427,629 at December 31, 2021 and 2020, 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, 2021 and 2020 are adequate to provide for the ultimate

(Continued)

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.

(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, 2021 and 2020, contribution expense of $598,543 and $550,832, 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 $709,782 and $783,222 in 2021 and 2020, 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 balance sheets 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:		
2022	$	1,065,898
2023		1,092,553
2024		1,119,816
2025		1,147,687
2026		1,176,420
Thereafter		5,007,602
	$	10,609,976

(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. The parties have signed a settlement agreement and plaintiffs have filed a motion with the court for preliminary approval of the settlement on March 11, 2022. Final approval of the settlement agreement will resolve the matter 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 $172,435 at December 31, 2021 and $344,871 at December 31, 2020 and recorded the deferral as a component of accrued expenses in the accompanying balance sheets.

KPMG

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

December 31, 2021 and 2020

(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:

Opinion

We have audited the consolidated financial statements of CC-Palo Alto, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

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 GAAS. 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, 2022

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2021 and 2020

Assets		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	30,819,942	16,519,309
Current portion of assets limited as to use		2,231,228	1,195,350
Resident accounts receivable		822,676	464,410
Prepaids and other		382,793	503,155
Total current assets		34,256,639	18,682,224
Long-term investments		1,009,920	3,333,781
Assets limited as to use, net of amounts required for current liabilities		21,714,370	21,640,145
Property and equipment:			
Land improvements		15,995,809	15,860,527
Building and improvements		207,793,142	216,641,684
Furniture, fixtures, and equipment		35,597,039	21,600,102
Construction in progress		565,840	1,252,001
		259,951,830	255,354,314
Less accumulated depreciation		116,183,169	107,747,833
Property and equipment, net		143,768,661	147,606,481
Deferred tax asset, net		19,228,099	14,526,566
Due from affiliate		101,022,500	82,928,287
Deposits		1,277,829	1,283,114
Total assets	$	322,278,018	290,000,598
Liabilities and Stockholders' Deficit			
Current liabilities:			
Accounts payable	$	1,120,750	1,258,785
Accrued expenses		5,885,665	5,906,140
Due to affiliates		1,085,996	1,159,234
Prepaid resident service revenue		2,370,168	379,245
Resident deposits		388,000	1,195,350
Current portion of repayable entrance fees		5,796,564	7,956,360
Total current liabilities		16,647,143	17,855,114
Repayable entrance fees		478,947,724	470,392,070
Deferred revenue from nonrepayable entrance fees		146,784,902	119,287,784
Other liabilities		218,537	189,579
Total liabilities		642,598,306	607,724,547
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		(134,671,552)	(132,075,213)
Total stockholders' deficit		(320,320,288)	(317,723,949)
Total liabilities and stockholders' deficit	$	322,278,018	290,000,598

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2021 and 2020

	2021	2020
Revenue:		
Net resident service revenue	$ 49,220,022	47,556,622
Amortization of entrance fees	13,210,162	11,357,960
Investment return	121,887	473,549
Other income	266,538	239,661
Provider relief fund grant revenue	20,844	1,548,356
Total revenue	62,839,453	61,176,148
Expenses:		
Culinary and dining	6,766,980	6,374,904
Housekeeping and laundry	2,864,148	2,808,054
Resident services	3,615,180	3,552,897
Resident care	8,947,520	8,820,502
Repairs and maintenance	2,577,356	2,463,794
Sales and marketing	1,190,888	962,069
Administration	6,811,121	5,112,754
Utilities	2,307,644	2,160,515
Insurance	2,339,726	2,555,619
Total departmental expenses	37,420,563	34,811,108
Management fees	3,978,478	3,824,380
Property taxes	5,226,117	5,183,138
Ground lease base rent	1,837,565	1,787,475
Ground lease participating rent	8,810,084	7,369,103
Provision for doubtful accounts	2,064	11,553
Loss on disposal of property and equipment	—	6,720
Other expense	578	11,070
Expenses attributable to coronavirus	520,754	1,447,329
Depreciation and amortization	8,435,336	7,764,814
Total expenses	66,231,539	62,216,690
Loss before income taxes	(3,392,086)	(1,040,542)
Income tax benefit	940,532	282,557
Net loss	$ (2,451,554)	(757,985)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Deficit

Years ended December 31, 2021 and 2020

	Common stock		Distributions in excess of	Accumulated	
	Shares	Amount	paid-in capital	deficit	Total
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)
Tax adjustment	—	—	—	(144,785)	(144,785)
Net loss	—	—	—	(2,451,554)	(2,451,554)
Balance at December 31, 2021	100	$ —	(185,648,736)	(134,671,552)	(320,320,288)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from residents with continuing care contracts	$ 42,405,521	40,601,592
Cash received from residents without continuing care contracts	8,529,088	6,983,368
Cash received from provider relief fund grant	20,844	1,548,356
Proceeds received from nonrepayable entrance fees	41,210,280	31,300,100
Interest received	161,568	641,887
Cash paid to suppliers and employees	(39,856,603)	(39,218,822)
Cash paid for management fees	(3,978,478)	(3,824,380)
Cash paid for real estate taxes	(5,226,117)	(8,019,712)
Cash paid for participating rent	(8,810,084)	(7,369,103)
Cash paid for income taxes	(3,905,786)	(1,456,199)
Net cash provided by operating activities	30,550,233	21,187,087
Cash flows from investing activities:		
Additions to property and equipment	(4,597,516)	(6,004,021)
Sale of investments, net	2,293,326	60,136,709
Net change in resident deposits	(807,350)	681,940
Net change in assets limited as to use	2,464,972	(1,242,981)
Net cash (used in) provided by investing activities	(646,568)	53,571,647
Cash flows from financing activities:		
Proceeds from repayable entrance fees	37,048,720	30,986,200
Entrance fee repayments	(30,973,318)	(34,335,052)
Due from affiliate	(18,094,213)	(82,928,287)
Net cash used in financing activities	(12,018,811)	(86,277,139)
Net change in cash, cash equivalents, and restricted cash	17,884,854	(11,518,405)
Cash, cash equivalents, and restricted cash at beginning of year	26,718,010	38,236,415
Cash, cash equivalents, and restricted cash at end of year	$ 44,602,864	26,718,010
Reconciliation of net loss to net cash provided by operating activities:		
Net loss	$ (2,451,554)	(757,985)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Proceeds from nonrepayable entrance fees	41,210,280	31,300,100
Depreciation and amortization	8,435,336	7,764,814
Amortization of entrance fees	(13,210,162)	(11,357,960)
Net realized and change in unrealized losses	39,681	168,338
Utilization of repayable entrance fees in lieu of monthly fees	(182,544)	(179,670)
Provision for doubtful accounts	2,064	11,553
Loss on disposal of property and equipment	—	6,720
Income tax adjustment	(144,785)	(144,664)
Changes in assets and liabilities:		
Accounts receivable	(360,330)	496,082
Prepaids and other	120,362	310,924
Deposits	5,285	(5,824)
Accounts payable	(138,035)	(516,327)
Accrued expenses	(20,475)	(964,853)
Due to affiliates	(73,238)	(2,777,125)
Prepaid resident service revenue	1,990,923	(527,735)
Deferred tax asset	(4,701,533)	(1,594,092)
Other liabilities	28,958	(45,209)
Net cash provided by operating activities	$ 30,550,233	21,187,087

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:

		2021	2020
Cash and cash equivalents	$	30,819,942	16,519,309
Assets limited as to use:			
Cash and cash equivalents		9,013,999	7,082,212
Money markets and certificates of deposit		4,768,923	3,116,489
Total cash, cash equivalents, and restricted cash reported in the consolidated statements of cash flows	$	44,602,864	26,718,010

(Continued)

(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

(Continued)

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, 2021 relates to costs associated with renovations that will be placed in service during 2022. No significant contractual commitments exist as of December 31, 2021.

(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, 2021 or 2020.

(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, 2021 and 2020, 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, 2021, the repayable portion of the entrance fees due to all residents would be approximately $514,261,000.

(Continued)

(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, 2021 and 2020 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)*. Topic 842 requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. The Company adopted Topic 842 effective January 1, 2022 and estimates a ROU asset increase by approximately $49,000,000 to $49,100,000 and a corresponding leasing obligation of the same amount as part of the adoption.

(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, 2021 through April 28, 2022, 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 2021, 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 2021 monthly fees in the amount of $663,599 and as a reduction of 2022 monthly fees in the amount of $1,843,228. As of December 31, 2021, $1,843,228 is reflected as prepaid resident service revenue in the accompanying 2021 consolidated balance sheet.

(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.

(Continued)

(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:

		2021	2020
Independent living revenue	$	35,189,065	34,975,908
Care center revenue:			
Revenue under continuing care residency agreements		4,743,453	4,857,831
Revenue from private payors		2,521,827	2,802,769
Revenue under Medicare and third-party arrangements		5,939,574	4,153,650
Other service revenue		826,103	766,464
Net resident service revenue	$	49,220,022	47,556,622
Amortization of entrance fee revenue	$	13,210,162	11,357,960
Other income		266,538	239,661
Provider relief fund grant revenue (note 10)		20,844	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 stand-alone 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 $149,155,070 and $119,667,029, including $2,370,168 and $379,245 of resident monthly fees billed and received in advance, as of December 31, 2021 and 2020, respectively. For the year ended December 31, 2021, the Company recognized $12,099,857 of revenue that was included in the deferred revenue balance as of January 1, 2021. 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, 2021 and 2020 is as follows:

	2021	2020
Medicare	66 %	79 %
Self-pay and commercial insurance	34	21
	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, 2021 and 2020 is as follows:

	2021	2020
Cash and cash equivalents	$ 9,013,999	7,082,212
Money markets and certificates of deposit	10,768,923	10,393,140
U.S. Treasury securities	—	1,584,208
Corporate bonds and notes	5,172,596	7,109,716
	$ 24,955,518	26,169,276

(Continued)

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

	2021	2020
Current portion of assets limited as to use - by Company for operations	$ 1,843,228	—
Current portion of assets limited as to use – resident deposits	388,000	1,195,350
Current portion of assets limited as to use	2,231,228	1,195,350
Assets limited as to use – by Company for capital improvements	7,617,732	7,134,708
Assets limited as to use – by Company for operations	2,101,939	2,563,506
Assets limited as to use – by Company for entrance fee repayments	5,994,699	5,941,931
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	21,714,370	21,640,145
Long-term investments	1,009,920	3,333,781
	$ 24,955,518	26,169,276

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, 2021. 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	$ 9,263,188	9,263,188	—	—
Money markets and certificates of deposit	10,768,922	10,768,922	—	—
Corporate bonds and notes	4,923,408	—	4,923,408	—
Total	$ 24,955,518	20,032,110	4,923,408	—

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 composition of investment return on the Company's investment portfolio for the years ended December 31, 2021 and 2020 is as follows:

		2021	2020
Interest and dividend income	$	161,568	641,887
Net realized and change in unrealized gains and losses during the holding period		(39,681)	(168,338)
	$	121,887	473,549

(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, 2021 and 2020 totaled $1,837,565 and $1,787,485, 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 $3,978,478 and $3,824,380 for the years ended December 31, 2021 and 2020, 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 $8,801,438 and $6,998,968 for the years ended December 31, 2021 and 2020, respectively. There is no interest associated with these advances. Amounts to Classic of $1,085,996 and $1,159,234 at December 31, 2021 and 2020, respectively, are reflected as due to affiliates in the accompanying consolidated balance sheets.

During 2021 and 2020, the Company made noninterest bearing cash advances to the Parent of $18,094,213 and $82,928,287, respectively. These amounts are reflected as due from affiliate in the accompanying consolidated balance sheets.

(8) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar up to 4% of a participant's salary, the Company matches each participant's contribution in an amount equal to 100% of the participant's deferral. For every dollar in excess of 4% of a participant's salary and limited to 6% of a participant's salary, the Company matches each participant's contribution in an amount equal to 50% of the participant's deferral. For the years ended December 31, 2021 and 2020, the Company recorded matching contribution expense of $547,003 and $497,834, 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, 2021 and 2020, 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.

(Continued)

The income tax benefit for the years ended December 31, 2021 and 2020 comprises the following:

	2021	2020
Current:		
U.S. federal	$ (2,565,297)	(889,621)
State	(1,195,704)	(421,914)
Total current	(3,761,001)	(1,311,535)
Deferred:		
U.S. federal	3,528,217	1,196,269
State	1,173,316	397,823
Total deferred	4,701,533	1,594,092
Income tax benefit	$ 940,532	282,557

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets:		
Deferred revenue from nonrepayable entrance fees	$ 31,193,704	25,918,029
Property tax liabilities	119,507	119,507
Other	1,556,160	803,415
Gross deferred tax assets	32,869,371	26,840,951
Deferred tax liabilities:		
Depreciation	(13,623,686)	(12,287,116)
Other	(17,586)	(27,269)
Gross deferred tax liabilities	(13,641,272)	(12,314,385)
Total deferred tax asset, net	$ 19,228,099	14,526,566

As of December 31, 2021 and 2020, no valuation allowance was considered necessary as management believed that it was more likely than not that the results of future operations would generate sufficient taxable income to realize the deferred tax assets.

Income tax benefit was $940,532 and $282,557 for the years ended December 31, 2021 and 2020, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 21% in 2021 and 2020 to pretax income from continuing operations as a result of the following:

		2021	2020
Computed “expected” tax benefit	$	712,338	218,514
Change in income tax expense resulting from:			
State and local income taxes, net of federal income tax expense		228,710	64,511
Other, net		(516)	(468)
	$	940,532	282,557

(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 have been implemented by federal, state, and local governments in response to the COVID-19 pandemic that caused many people to remain at home. During 2020, the Company began restricting visitors and has had to continually monitor local health authority requirements and assess health trends in considering easing and re-implementing these restrictions.

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

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 2021 and 2020, the Company received $20,844 and $1,548,356, respectively, in general and targeted Provider Relief Fund distributions, as provided for under the CARES Act. 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, 2021 and 2020, the Company recognized the full distributions.

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 $388,038 at December 31, 2021 and $775,771 at December 31, 2020 and recorded the deferral as a component of accrued expenses in the accompanying consolidated balance sheets, respectively.

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 $520,754 and $1,447,329 of expenses attributable to coronavirus recorded in the accompanying 2021 and 2020 consolidated statement of operations, respectively.

(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 at December 31, 2021 and 2020.

(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. The parties have signed a settlement agreement and preliminary approval of the settlement has been granted by the court. The final approval hearing is scheduled for November 17, 2022. Final approval of the settlement agreement would require the Company to utilize cash and cash equivalents to increase assets limited as to use – by Company for entrance fee repayments (note 2(e)). Based on estimated class members with active residency agreements, the amount limited as to use is approximately $17,500,000 and will decline over time.

(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 nonexempt 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 general and administrative expense in the accompanying 2020 consolidated statement of operations is $500,000 related to the disposition of funds pursuant to the terms of the settlement. This amount was included in accrued expenses in the accompanying 2020 consolidated balance sheet and was paid during 2021.

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)			4,806,759
4	Total amount required for long-term debt reserve (A)			4,806,759
(A)	Amount is comprised of the following (see note 5 in the notes to the consolidated financial statements):			
	Ground lease Base Rent		1,837,565	
	Resident service and other revenue	$ 49,486,560		
	Participating Rent percentage	6.0 %		
	2021 Participating Rent on resident service and other revenue (B)		2,969,194	
	Total		4,806,759	

(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		66,231,539
2	Deductions:		
	(a) Interest paid on long-term debt (see instructions)	$ —	
	(b) Credit enhancement premiums paid for long-term debt (see instructions)	—	
	(c) Depreciation	8,435,336	
	(d) Amortization	—	
	(e) Revenues received during fiscal year for services to residents who did not have a continuing care contract	8,529,088	
	(f) Extraordinary expenses approved by the Department (A)	5,327,513	
3	Total deductions		22,291,937
4	Net operating expenses		43,939,602
5	Divide Line 4 by 365 and enter the result		120,382
6	**Multiply Line 5 by 75 and enter the result.** This is the provider’s operating expense reserve amount		9,028,650
(A)	Extraordinary expenses approved by the department consist of amounts classified as debt service as follows:		
	Ground Lease Base Rent (see Form 5-3)	1,837,565	
	Participating Rent on Resident Service and other Revenue (see Form 5-3)	2,969,194	
	Expenses attributable to coronavirus	520,754	
		$ 5,327,513	

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, 2021

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2021 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	$ 4,806,759
(2)	Operating expense reserve amount	9,028,650
(3)	Total liquid reserve amount	$ 13,835,409

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

	Qualifying asset description		Amount (market value at end of quarter) Debt service reserve		Operating reserve
(4)	Cash and cash equivalents		$ 4,806,759		26,013,183
(5)	Investment securities		—		4,955,087
(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		—		1,277,829
	Total amount of qualifying assets listed for liquid reserve	(11)	4,806,759	(12)	38,246,099
	Total amount required	(13)	4,806,759	(14)	9,028,650
	Surplus (deficiency)	(15)	$ —	(16)	29,217,449

Signature ______________________ Date 4/28/22

(Authorized representative) CFO

(Title)

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	$	9,882	
Bank of America, N.A.	Business Checking Account	Operating Account	$	4,891,020	
Bank of America, N.A.	Business Checking Account	Ownership Account (operating portion)	$	21,628,484	
UBS	Self Directed Investment Account	Ownership Account - Money Market	$	4,283,753	
Bank of America, N.A.	Business Checking Account	Payroll Account	$	(3,864)	
Bank of America, N.A.	Business Checking Account	Real Estate Tax Account	$	10,167	
Total Cash and Cash Equivalents			**$**	**30,819,942**	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	$	3,945,167	
UBS	Self Directed Investment Account	Ownership Account - Corporate Bonds and Notes	$	1,009,920	
Total Investment Securities			**$**	**4,955,087**	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	$	1,277,829	
Total Other - Security Deposit			**$**	**1,277,829**	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)	$	388,000	
Bank of America, N.A.	Business Checking Account	Ownership Account (Entrance fee reserve portion)	$	5,994,699	
UBS	Self Directed Investment Account	Capital Reserve - CD's, Money Market, Bonds and Note:	$	7,617,732	
Total Reserves Not Listed on Form 5-5			**$**	**14,000,431**	E
Total Cash and Cash Equivalents and Investment Securities		**(A+B+C+D+E)**	**$**	**57,053,289**	

Cash, Assets Limited as to Use, and Deposits in Audited Financial Statements:		
Cash and cash equivalents (page 3) (policy disclosed on page 7)	$	30,819,942
Current portion of assets limited as to use (page 3) (policy disclosed on page 8&12)	$	2,231,228
Long-term investments (page 3) (policy disclosed on page 12)	$	1,009,920
Assets limited as to use, net of amounts required for current liabilities (page 3) (policy disclosed on page 8 &12)	$	21,714,370
Deposits (page 3) (policy disclosed on page 15)	$	1,277,829
Total cash and cash equivalents and assets limited as to use	**$**	**57,053,289**

Reconciliation of Details Above to Form 5-5:			
Total Qualifying Assets listed for liquid reserve	**(A+B+C+D)**	**$**	**43,052,858**
Qualifying Assets - Cash and Cash Equivalents - Operating Expense Reserve		$	26,013,183
Qualifying Assets - Investment Securities - Operating Expense Reserve		$	4,955,087
Qualifying Assets - Cash and Cash Equivalents - Debt Service Reserve		$	4,806,759
Qualifying Assets - Unused Available Letters of Credit - Operating Expense Reserve		$	6,000,000
Qualifying Assets - Other - Security Deposit - Operating Expense Reserve		$	1,277,829
Total Qualifying Assets listed for liquid reserve		**$**	**43,052,858**

Per Capita Cost Detail:		
Form 1-2 line 5 - Total Operating Expense for Continuing Care Residents	$	55,270,509
Form 1-1 line 5 - Mean # of Continuing Care Residents		580.5
Per Capita Costs	**$**	**95,212**

Date Prepared: 4/21/22

Continuing Care Retirement Community
Disclosure Statement
General Information

FACILITY NAME: Vi at Palo Alto

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

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

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

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

* *

NUMBER OF UNITS:

RESIDENTIAL LIVING		**HEALTH CARE**	
APARTMENTS – STUDIO:	0	ASSISTED LIVING:	38
APARTMENTS – 1 BDRM:	152	SKILLED NURSING:	44
APARTMENTS – 2 BDRM:	229 + 7 3bdrm	SPECIAL CARE:	24
COTTAGES/HOUSES:	0	DESCRIPTION: >	Dementia Care
RLU OCCUPANCY (%) AT YEAR END:	99.7%	>	

* *

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

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

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

RANGE OF ENTRANCE FEES: $ 911,400 - $ 7,490,400 **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 (fee for service)	Hilton Head Island, SC	(843) 341-7200
Vi at Grayhawk, a Vi and Plaza Companies Company	Scottsdale, AZ	(480) 659-5100
Vi at Aventura	Aventura, FL	(305) 692-4700
Vi at the Glen	Glenview, IL	(847) 904-4600
Vi at Highlands Ranch	Highlands Ranch, CO	(720) 747-1234
Vi at Silverstone	Scottsdale, AZ	(480) 476-6100

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

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

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

No listed facility is life care as defined in California

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

PROVIDER NAME: CC-Palo Alto, Inc.

	2018	2019	2020	2021
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	$47,077,882	$50,418,099	$48,269,832	$49,608,447
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	$40,830,645	$46,404,109	$45,635,444	$48,465,365
NET INCOME FROM OPERATIONS	$6,247,237	$4,013,990	$2,634,388	$1,143,082
LESS INTEREST EXPENSE	$0	$0	$0	$0
PLUS CONTRIBUTIONS	$0	$0	$0	$0
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	($6,070,564)	($7,573,819)	($7,369,103)	($8,810,084)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$176,673	($3,559,829)	($4,734,715)	($7,667,002)
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$23,718,041	$36,002,174	$27,951,248	$47,285,682

* *

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

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

* *

FINANCIAL RATIOS (see next page for ratio formulas)

	2017 CCAC Medians 50th Percentile *(optional)*	2019	2020	2021
DEBT TO ASSET RATIO		0	0	0
OPERATING RATIO		.92	.95	.98
DEBT SERVICE COVERAGE RATIO		0	0	0
DAYS CASH ON HAND RATIO		792.16	236.36	326.80

* *

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2018	%	2019	%	2020	%	2021	%
STUDIO	N/A		N/A		N/A		N/A	
ONE BEDROOM	$5,218	2.7	$5,461	4.5	$5,762	5.5	$6,047	4.9
TWO BEDROOM	$7,301	2.7	$7,642	4.5	$8,041	5.5	$8,436	4.9
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

Complete **Form 7-1** to report the monthly care fee increase (MCFI) for **each** community operated by the Provider. If no adjustments were made during the reporting period for a community, indicate by checking the box below **Line [2].** Providers must complete a separate Form 7-1 for each of their continuing care retirement communities.

1. On **Line 1**, enter the amount of monthly care fees for each level of care at the *beginning* of the reporting period.

2. On **Line 2**, indicate the percentage(s) of increase in fees implemented during the *reporting* period.

3. On **Line 3**, indicate the date the fee increase was implemented. If more than one (1) increase was implemented, indicate the date(s) for each increase.

4. Check *each* of the appropriate boxes.

5. Provide a detailed explanation for the increase in monthly care fees including the total dollar amount for the community overall and corresponding percentage increase for each level of care in compliance with the Health and Safety Code. The explanation shall set forth the reasons, by department cost centers, for any increase in monthly care fee. It must include if the change in monthly care fees is due to any actual or projected costs related to any other CCRC community or enterprise affiliated with the provider or parent company.

The methodology used to budget future costs should align with one or more of the following factors: “projected costs, prior year per capita costs and economic indicators.” Describe the methodology used for single or multiple communities. If there are multiple MCFI percentages, i.e., by level of care, a separate explanation for each MCFI will be required.

Also, if there is a positive result of operations, the provider will need to explain how the funds will be used and/or distributed consistent with disclosures made in the applicable sections of the Continuing Care Contract.

This attachment should include the data used in the Monthly Care Fee Increase meeting presentation provided to residents, which will also include actual results and an explanation of any variances.

NOTE: Providers shall retain all documents related to the development of adjusted fees at their respective communities for a period of at least three years, i.e., budgets, statements of operations, cost reports, used near the end of the prior fiscal year to develop adjustments implemented in the current reporting period. These documents must be available for review upon request by the Department.

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	MEMORY CARE	SKILLED NURSING
1.	Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)	5,308-12,034	5,836-15,363	5,836-13,451	5,836-19,375
2.	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.9%	3.0%-4.9%	4.9%-5.0%	3.0%-4.9%

☐ 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: 1/1/2021
(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: 12/1/20 **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:** 11/20/20

☑ 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 distributed the documents to all residents by [check all that apply]:

- ☐ Emailed the documents to those residents for whom the provider had email addresses on file
- ☐ Placed hard copies in resident cubby
- ☑ Placed hard copies at designated locations
- ☑ Provided hard copies to residents upon request, and/or
- ☐ Other: [please describe] ____________
- ☐ **Date of Notice:** ____________

☑ The Provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
Date of Notice: 11/5/20

☑ 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: 11/5/20 **Location of Posting:** Bulletin boards, mailroom, outside of library

☐ Providers evaluated the effectiveness of consultations during the annual budget planning process at a minimum of every two years by the continuing care retirement community administration. The evaluation, including any policies adopted relating to cooperation with residents was made available to the resident association or its governing body, or, if neither exists, to a committee of residents at least 14 days prior to the next semiannual meeting of residents and the Provider's governing body and posted a copy of that evaluation in a conspicuous location at each facility.

Date of Posting:____________________ **Location of Posting:** ____

5. On an attached page, provide a detailed explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code.

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

FORM 7-1 MONTHLY CARE FEE INCREASE (MCFI)
ANNUAL REPORTING YEAR - FY 2021

Line	Fiscal Years	2019	2020	2021
1	FY 2019 Operating Expenses (Note 1)	(48,407,495)		
2	FY 2020 Operating Expenses (Note 1)		(48,766,110)	
3	FY 2021 Projected Operating Expenses (Note 1)			(50,201,443)
4	FY 2021 Anticipated MCF Revenue Based on Current and Projected Occupancy and Other without a MCFI			47,412,607
5	Projected FY 2021 Net Operating Results without an MCFI (Line 3 plus Line 4)			(2,788,836)
6	Projected FY 2021 MCF Revenue Based on Current and Projected Occupancy and Other with a MCFI of 4.90%			49,406,253
7	Grand Total - Projected FY 2021 Net Operating Activity after 4.90% MCFI (Line 3 plus Line 6)			(795,190)

Monthly Care Fee Increase - 4.90%

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:

	2019	2020	2021
Total Expenses	61,348,473	62,216,690	65,315,864
Less - depreciation and amortization	(7,370,545)	(7,764,814)	(9,187,425)
Less - loss on disposal of property and equipment	-	(6,720)	-
Less - provision for doubtful accounts (considered a contra revenue for budgeting)	-	(11,553)	-
Less - expenses specifically excluded from MCFI considerations (Note 2)	(8,323,043)	(8,116,059)	(8,504,432)
Add - funding of capital reserves	2,752,610	2,448,566	2,577,436
Total Operating Expenses above	**48,407,495**	**48,766,110**	**50,201,443**

Note 2:

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 private pay and 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 4.9%

AL 4.9%

SNF 4.9%

Form 7-1 Supplemental Information on Budget Evaluation Process

The final attestation under item 4 of form 7-1 has been left blank, but requires further discussion. The provider evaluates the effectiveness of consultations during the budget process annually and discusses such evaluation with the Resident Finance Committee. This evaluation has not been formally documented or posted. The provider is in the process of implementing that formal practice.

Form 7-1 Supplement to Narrative Explanations

		2020 Actual	2021 Budget	Dollar Change	Percent Change
Salaries and Wages		18,260,542	18,514,049	(253,507)	-1.4%
Employee Benefits		4,330,772	4,673,472	(342,700)	-7.9%
Food Cost		1,891,294	2,131,779	(240,485)	-12.7%
Resident Care (non-salary)		1,507,769	1,444,543	63,227	4.2%
Maintenance		1,237,306	1,221,241	16,065	1.3%
Other Functional Expenses		1,742,848	1,939,194	(196,345)	-11.3%
Utilities		2,160,515	2,350,086	(189,570)	-8.8%
Sales & Marketing		214,585	195,103	19,483	9.1%
Administration		1,971,580	1,741,919	229,661	11.6%
Insurance		2,205,338	2,351,451	(146,114)	-6.6%
Property Taxes		5,183,138	5,271,110	(87,972)	-1.7%
Lease Expense		1,787,475	1,837,562	(50,086)	-2.8%
Management Fees		3,824,380	3,952,500	(128,120)	-3.4%
Total Expenses	A	46,317,543	47,624,008	(1,306,465)	-2.8%
Net Operating Income	B	1,487,210	1,782,246	295,036	
Funding of Capital Replacement Reserve	C	(2,448,567)	(2,577,436)	(128,869)	-5.3%
Total Cash Flow		(961,357)	(795,190)	166,167	
Total Expenses	A	46,317,543	47,624,008	(1,306,465)	-2.8%
Funding of Capital Replacement Reserve	C	2,448,566	2,577,436	(128,870)	-5.3%
Total Expenses for Monthly Fee Consideration		**48,766,110**	**50,201,443**	**(1,177,595)**	**-2.4%**

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.