CC-LA JOLLA, INC. AND SUBSIDIARY

Consolidated Financial Statements and Supplementary Schedules

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

CC-LA JOLLA, INC. AND SUBSIDIARY

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Independent Auditors' Report

The Shareholder
CC-La Jolla, Inc.:

We have audited the accompanying consolidated financial statements of CC-La Jolla, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CC-La Jolla, Inc. and subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Emphasis of Matter

As discussed in note 2 to the financial statements, in 2019 CC-La Jolla, Inc. and subsidiary adopted new accounting guidance for Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-18, *Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. Our opinion is not modified with respect to these matters.

Other Matter

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

KPMG LLP

Chicago, Illinois
April 28, 2020

CC-LA JOLLA, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2019 and 2018

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	8,264,519	7,357,317
Current portion of assets limited as to use		578,862	69,330
Resident accounts receivable		498,713	509,537
Prepaids and other		207,762	144,109
Total current assets		9,549,856	8,080,293
Assets limited as to use, net of amounts required for current liabilities		3,673,309	3,652,211
Property and equipment:			
Land		8,288,908	8,288,908
Building and improvements		208,820,064	206,642,467
Furniture, fixtures, and equipment		52,543,871	48,754,730
Construction in progress		880,828	65,268
		270,533,671	263,751,373
Less accumulated depreciation		152,972,800	141,808,519
Property and equipment, net		117,560,871	121,942,854
Long-term accounts receivable – master trust		11,630,278	13,152,188
Cost to acquire initial continuing care contracts, net		472,204	1,349,497
Deferred tax asset		11,944,210	11,274,008
Goodwill		5,984,168	5,984,168
Total assets	$	160,814,896	165,435,219
Liabilities and Stockholder's Deficit			
Current liabilities:			
Accounts payable	$	1,530,773	1,151,158
Accrued expenses		2,160,932	2,211,660
Due to affiliates		977,275	857,224
Prepaid resident service revenue		241,686	199,791
Resident deposits		578,862	69,330
Current portion of repayable entrance fees		5,065,466	2,043,495
Total current liabilities		10,554,994	6,532,658
Repayable entrance fees		90,244,174	96,064,780
Deferred revenue from nonrepayable entrance fees		82,677,366	78,597,739
Master trust loan		14,411,555	16,346,777
Total liabilities		197,888,089	197,541,954
Stockholder's deficit:			
Common stock, no par value, $10 assigned value. Authorized, issued, and outstanding, 100 shares		1,000	1,000
Additional paid-in capital		62,314,235	66,537,534
Accumulated deficit		(99,388,428)	(98,645,269)
Total stockholder's deficit		(37,073,193)	(32,106,735)
Total liabilities and stockholder's deficit	$	160,814,896	165,435,219

See accompanying notes to consolidated financial statements.

CC-LA JOLLA, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

		2019	2018
Revenue:			
Net resident service revenue	$	38,193,652	36,292,401
Amortization of entrance fees		10,504,764	10,601,051
Investment income		87,791	54,255
Other income		114,454	120,526
Total revenue		48,900,661	47,068,233
Expenses:			
Food and beverage		7,297,736	6,793,673
Dining room		2,497,866	2,352,113
Resident services		3,113,540	3,028,035
Resident care		6,909,078	6,415,197
Repairs and maintenance		2,366,398	2,255,637
Sales and marketing		1,481,091	1,440,164
Administration		4,325,264	4,290,029
Utilities		2,488,124	2,425,956
Insurance		1,267,629	1,363,031
Total departmental expenses		31,746,726	30,363,835
Management fees		2,283,100	2,169,853
Property taxes		2,669,864	2,581,742
Provision for doubtful accounts		256,443	248,290
Loss on disposal of property and equipment		47,392	25,000
Other expense		374,540	895,584
Depreciation and amortization		12,559,843	12,065,138
Total expenses		49,937,908	48,349,442
Loss before income taxes		(1,037,247)	(1,281,209)
Income tax benefit		294,088	391,840
Net loss	$	(743,159)	(889,369)

See accompanying notes to consolidated financial statements.

CC-LA JOLLA, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholder's Deficit

Years ended December 31, 2019 and 2018

	Common stock		Additional paid-in capital	Accumulated deficit	Total stockholder's deficit
	Number	Assigned value			
Balance at December 31, 2017	100	$ 1,000	71,779,201	(97,755,900)	(25,975,699)
Distributions to Parent	—	—	(5,241,667)	—	(5,241,667)
Net loss	—	—	—	(889,369)	(889,369)
Balance at December 31, 2018	100	1,000	66,537,534	(98,645,269)	(32,106,735)
Distributions to Parent	—	—	(4,223,299)	—	(4,223,299)
Net loss	—	—	—	(743,159)	(743,159)
Balance at December 31, 2019	100	$ 1,000	62,314,235	(99,388,428)	(37,073,193)

See accompanying notes to consolidated financial statements.

CC-LA JOLLA, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Cash received from residents with continuing care contracts	$	32,553,352	31,402,824
Cash received from residents without continuing care contracts		5,551,030	4,643,820
Proceeds from nonrepayable entrance fees		18,112,011	12,635,780
Interest received		73,641	60,610
Cash paid to suppliers and employees		(31,735,981)	(30,847,397)
Cash paid for management fees		(2,283,100)	(2,169,853)
Cash paid for real estate taxes		(2,669,864)	(2,581,742)
Cash paid for income taxes		(376,114)	(5,611)
Net cash provided by operating activities		19,224,975	13,138,431
Cash flows from investing activities:			
Additions to property and equipment		(7,347,959)	(6,305,460)
Net change in resident deposits		509,532	(86,980)
Net change in assets limited as to use		(1,251,500)	(1,497,905)
Net cash used in investing activities		(8,089,927)	(7,890,345)
Cash flows from financing activities:			
Distributions to Parent		(4,223,299)	(5,241,667)
Proceeds from repayable entrance fees		7,044,395	12,863,053
Repayments of repayable entrance fees		(12,589,707)	(9,789,447)
Repayments to master trust loan		(1,194,255)	(1,053,152)
Net cash used in financing activities		(10,962,866)	(3,221,213)
Net change in cash, cash equivalents, and restricted cash		172,182	2,026,873
Cash, cash equivalents, and restricted cash at beginning of year		9,587,308	7,560,435
Cash, cash equivalents, and restricted cash at end of year	$	9,759,490	9,587,308
Reconciliation of net loss to net cash provided by operating activities:			
Net loss	$	(743,159)	(889,369)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Proceeds from nonrepayable entrance fees		18,112,011	12,635,780
Depreciation and amortization		12,559,843	12,065,138
Amortization of entrance fees		(10,504,764)	(10,601,051)
Provision for doubtful accounts		256,443	248,290
Net realized and change in unrealized losses on assets limited as to use		(14,150)	6,355
Loss on disposal of property and equipment		47,392	25,000
Changes in assets and liabilities:			
Accounts receivable		(245,619)	(472,563)
Prepaids and other		(63,653)	196,444
Accounts payable		379,615	(45,228)
Accrued expenses		(50,728)	168,945
Due to affiliates		120,051	91,861
Prepaid resident service revenue		41,895	106,280
Deferred tax asset		(670,202)	(397,451)
Net cash provided by operating activities	$	19,224,975	13,138,431

See accompanying notes to consolidated financial statements.

(1) Purpose and Organization

The accompanying consolidated financial statements include the accounts of CC-La Jolla, Inc. (La Jolla) and its consolidated subsidiary, CCW La Jolla, L.L.C. (the L.L.C.). La Jolla is the sole corporate member of the L.L.C. La Jolla and the L.L.C. are collectively referred to herein as CC-La Jolla, Inc. (Company), a wholly owned subsidiary of CC-Development Group, Inc. (Parent).

The L.L.C. was formed in 1998 for the purpose of owning, developing, and operating a senior living community containing 403 independent living apartments, 36 assisted living units, 19 memory support units, and a 60-bed healthcare center located in La Jolla, California. The community was acquired under a Joint Plan of Reorganization from La Jolla Village Tower – 500, a Chapter 11 bankrupt partnership.

All 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:

		2019	2018
Cash	$	8,264,519	7,357,317
Assets limited as to use:			
Cash		1,141,620	677,439
Money markets and certificates of deposit		353,351	1,552,552
Total cash, cash equivalents, and restricted cash reported in the statements of cash flows	$	9,759,490	9,587,308

(c) Fair Value Measurements

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

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

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

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

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

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

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

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

(d) Assets Limited as to Use

Assets limited as to use include restricted resident deposits, assets set aside by the Company for capital improvements, assets set aside to satisfy state operating reserve requirements, and assets held for entrance fee repayments. Restricted resident deposits represent good faith deposits. Good faith deposits are received by the Company from prospective residents who are interested in occupying one of the community units. Good faith deposits do not earn interest on behalf of the prospective residents. Assets limited as to use for capital improvements represent funds designated by the Company for acquisition of property and equipment, which may be used at the discretion of the Company. Assets limited as to use by state for operations represent funds designated by the Company to satisfy state operating reserve requirements. Assets held for entrance fee repayments represent funds designated to establish certain entrance fee repayment reserves. The amounts held for entrance fee repayments relate to certain residency agreements entered into from June 1, 2012 through December 31, 2016. The total reserve amount of $1,812,211 is comprised of cash and cash equivalents of $543,663 and real estate of the community of $1,268,548. Amounts required to retire current liabilities have been classified as current portion of assets limited as to use. The Company reports its investments at fair value and considers all investments to be trading securities. Money markets and certificates of deposits are considered cash equivalents, and are considered Level 1 investments within the fair value hierarchy. Corporate bonds and notes are considered Level 2 investments within the fair value hierarchy. Investment income or loss (including realized gains and losses on investments, changes in

unrealized gains and losses on trading securities, interest, and dividends) is included in investment income in the accompanying consolidated statements of operations.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets ranging from 4 to 40 years. Construction in progress at December 31, 2019 relates to costs associated with renovations that will be placed in service during 2020. No significant contractual commitments exist related to these renovations as of December 31, 2019.

(f) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the 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, 2019 or 2018.

(g) Long-Term Accounts Receivable – Master Trust

Long-term accounts receivable represent the earned portion of nonrepayable entrance fees due from a residents pursuant to the Master Trust Agreement (note 5). Upon termination of resident contracts, such amounts are offset against amounts due under the Master Trust Agreement.

(h) Costs of Acquiring Initial Continuing Care Contracts

Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts. In accordance with ASC Subtopic 720-35, *Other Expenses – Advertising Costs*, the Company capitalizes costs incurred in connection with direct response advertising whose primary purpose is to secure deposits from residents who are shown to have responded specifically to the advertising. Such advertising costs include newspaper, magazine, television, radio, brochures, and other costs. The Costs are being amortized using the straight-line method over the expected stay at the community of the first resident group, beginning in the first period in which revenue associated with the Costs are earned. Upon occupancy of the first resident group, additional costs are expensed as incurred. The Costs are shown net of accumulated amortization of $10,055,310 and $9,178,017 as of December 31, 2019 and 2018, respectively.

(i) Goodwill

Goodwill represents the excess of the fair value of the Company as determined through an independent valuation at the time of the formation of the Company over the fair value of tangible assets contributed to the Company by its members. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of ASC Subtopic 350-20, *Intangibles – Goodwill and Other*.

In connection with this evaluation, the Company was required to determine the fair value of the acquired reporting entity, including goodwill and intangible assets, and compare it to the carrying value of the assets. If the goodwill is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of the acquired reporting entity exceeded its carrying amount, and the Company was not required to recognize an impairment loss during the years ended December 31, 2019 and 2018.

(j) 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 and the use of facilities) 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 both December 31, 2019 and 2018, and accordingly, no future service obligation has been recognized in the accompanying consolidated balance sheets.

(k) 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 and then earns 2% of the fee per month up to varying amounts of 100%, 60%, 58%, 20%, or 18%, dependent on the residency agreement. The Company amortizes the nonrepayable portion of the entrance fee over the estimated life of the residents. Through July 31, 2005, entrance fees were remitted to a trustee pursuant to the Master Trust Agreement (note 5). Beginning August 1, 2005, entrance fees were remitted directly to the Company. The Company has recorded the repayable portion of the entrance fees (remitted directly to the Company) separately from the nonrepayable portion within the accompanying consolidated balance sheets. If all contracts terminated on December 31, 2019, the repayable portion of the entrance fees due to all residents would be $117,273,171, of which $114,491,894 relates to residents who remitted their entrance fees directly to the Company and $2,781,277 relates to residents who remitted their entrance fees to the Master Trust.

(l) Income Taxes

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

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

The Company accounts for tax positions 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 consolidated financial statements and how the values of these positions are determined. The Company does not have any liabilities recognized for uncertain tax positions.

(m) New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. ASU No. 2014-09 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for the Company for the year ending December 31, 2019. The Company adopted this guidance as of January 1, 2019 under the modified retrospective approach. The adoption did not have a material impact on the Company's consolidated balance sheets, results of operations, or cash flows, other than expanded disclosures. There was no cumulative effect of a change in accounting principle recorded related to the adoption.

In November 2016, FASB issued ASU No. 2016-18, *Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statements of cash flows. ASU No. 2016-18 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. The Company adopted this guidance in 2019 and retrospectively applied it to the 2018 consolidated statement of cash flows. Within the consolidated statements of cash flows, net change in assets limited as to use for the year ended December 31, 2018 was adjusted by $1,528,973 and cash, cash equivalents and restricted cash at December 31, 2017 was adjusted by $3,758,964.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability, resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. The requirements of this statement are effective for the Company for the year ending December 31, 2021. The Company is evaluating the impact of this standard on the accompanying consolidated balance sheets and statements of operations.

(n) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation. Reclassifications include the adoption of new accounting standards as discussed in note 2(m).

(o) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated subsequent events and transactions after the balance sheet date of December 31, 2019 through April 28, 2020, 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.

(a) Daily or Monthly Fee Revenue

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

(b) Healthcare Services Revenue

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

(c) Disaggregation of Revenue

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

		2019	2018
Independent living revenue	$	28,080,630	27,271,736
Care center revenue:			
Revenue under Continuing Care residency agreements		4,017,794	3,826,810
Revenue from private payors		1,659,415	1,178,832
Revenue under Medicare and third-party arrangements		3,816,779	3,426,830
Other service revenue		619,034	588,193
Net resident service revenue	$	38,193,652	36,292,401
Amortization of entrance fee revenue	$	10,504,764	10,601,051
Other income		114,454	120,526

(d) Contract Balances

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

Resident fee revenue for standalone or certain healthcare services is generally billed monthly in arrears. Amounts of revenue that are collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied. The Company had total deferred revenue (included within prepaid resident service revenue and deferred revenue from nonrepayable entrance fees within the balance sheets) of $82,919,052 and $78,797,530, including $241,686 and $199,791 of resident monthly fees billed and received in advance, as of December 31, 2019 and 2018, respectively. For the year ended December 31, 2019, the Company recognized $10,236,414 of revenue that was included in the deferred revenue balance as of January 1, 2019. The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

For the years ended December 31, 2019 and 2018, the Company recognized $256,443 and $248,290, respectively, of charges within the provision for doubtful accounts within the consolidated statements of operations for additions to the allowance for doubtful accounts.

(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, 2019 and 2018 is as follows:

	2019	2018
Medicare	58 %	61 %
Self-pay and commercial insurance	42	39
	100 %	100 %

(5) Assets Limited as to Use

A summary of the composition of the Company's investment portfolio at December 31, 2019 and 2018 is as follows:

		2019	2018
Money markets, certificates of deposit, and cash	$	1,494,971	2,229,991
Corporate bonds and notes		2,757,200	1,491,550
	$	4,252,171	3,721,541

Assets limited as to use are reported in the accompanying consolidated balance sheets as follows:

		2019	2018
Current portion of assets limited as to use – resident deposits	$	578,862	69,330
Assets limited as to use – by state for operations	$	3,129,646	3,050,069
Assets limited as to use – by Company for entrance fee repayments		543,663	602,142
Assets limited as to use, net of amounts required for current liabilities	$	3,673,309	3,652,211

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

		Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$	1,141,620	1,141,620	—	—
Money markets		353,351	353,351	—	—
Corporate bonds and notes		2,757,200	—	2,757,200	—
Total	$	4,252,171	1,494,971	2,757,200	—

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, 2018. 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	$	677,439	677,439	—	—
Money markets		1,552,552	1,552,552	—	—
Corporate bonds and notes		1,491,550	—	1,491,550	—
Total	$	3,721,541	2,229,991	1,491,550	—

The composition of investment return on the Company's investment portfolio for the years ended December 31, 2019 and 2018 is as follows:

		2019	2018
Interest and dividend income	$	73,641	60,610
Net realized and change in unrealized gains and losses during the holding period		14,150	(6,355)
	$	87,791	54,255

(6) Master Trust Agreement

Through July 31, 2005, upon entrance into a residency agreement, residents also entered into a Master Trust Agreement with an independent trustee. Upon execution of the agreements, resident deposits were due to the trustee. The trustee entered into a loan agreement with the Company dated June 29, 2000. The terms of the loan agreement allow the Company to borrow up to $100,000,000 on a demand basis evidenced by a promissory note in the amount of $100,000,000. The loan bears no interest and becomes due and payable on June 29, 2050. The promissory note is secured by a deed of trust covering the real property of the Company.

Once entrance fees were deposited with the trustee of the Master Trust and then loaned to the Company, the funds were used primarily for original acquisition indebtedness, capital acquisitions, operating deficits, and cash distributions to members. Repayments to residents are paid directly out of the trust. In the event the trust has no liquid assets to make repayments, the Company is obligated to fund the trust. As the trust had no liquid assets, the Company funded the trust in order for the trustee to make repayments of $1,194,255 and $1,053,152 during the years ended December 31, 2019 and 2018, respectively. The source of the repayments is provided by new resident entrance fee proceeds.

The Master Trust Agreement with each resident is for 100% of the resident's entrance fee. Upon termination of the residency agreement, the repayable portion of the entrance fee, ranging from 0% to 82%, is due to the resident, and the earned portion of nonrepayable entrance fees is due to the Company. The Company is entitled to 2% of the entrance fee per month up to the maximum of 100%, dependent on the contract provisions (note 2(k)).

(7) Transactions with Related Parties

The Company entered into a management agreement dated April 28, 1998 between the Company and Classic Residence Management Limited Partnership (Classic), an affiliate of La Jolla, whereby Classic manages the operations of the Company. On October 26, 2005, the management agreement was amended to include management of the operations of a second independent living tower. The agreement is for a term of 25 years and requires the Company to pay an annual management fee equal to 6% of annual resident service revenue, excluding certain items, as defined in the management agreement. The Company incurred management fee expense of $2,283,100 and $2,169,853 for the years ended December 31, 2019 and 2018, 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 third parties and is reimbursed by the Company. Reimbursement to Classic for such advances amounted to $5,582,268 and $5,386,370 for the years ended December 31, 2019 and 2018, respectively. There is no interest associated with these advances. Amounts due to Classic totaled $977,275 and $857,224 at December 31, 2019 and 2018, respectively, and are reported as due to affiliates in the accompanying consolidated balance sheets.

(8) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar up to 4% of a participant's salary, the Company matches each participant's contribution in an amount equal to 100% of the participant's deferral. For every dollar in excess of 4% of a participant's salary and limited to 6% of a participant's salary, the Company matches each participant's contribution in an amount equal to 50% of the participant's deferral. For the years ended December 31, 2019 and 2018, the Company recorded matching contribution expense of $365,525 and $359,161, 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.

The income tax benefit for the years ended December 31, 2019 and 2018 comprises the following:

		2019	2018
Current:			
U.S. federal	$	257,300	(8,961)
State		118,814	14,572
Total current		376,114	5,611
Deferred:			
U.S. federal		(502,946)	(298,263)
State		(167,256)	(99,188)
Total deferred		(670,202)	(397,451)
Income tax benefit	$	(294,088)	(391,840)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are as follows:

		2019	2018
Deferred tax assets:			
Accrued expenses and other	$	639,711	580,048
Deferred revenue from nonrepayable entrance fees		16,354,919	15,457,081
Total net deferred tax assets		16,994,630	16,037,129
Deferred tax liabilities:			
Depreciation		(3,243,694)	(2,710,897)
Amortization of goodwill		(1,674,586)	(1,674,586)
Costs to acquire initial continuing care contracts		(132,140)	(377,638)
Total deferred tax liabilities		(5,050,420)	(4,763,121)
Net deferred tax assets	$	11,944,210	11,274,008

As of December 31, 2019 and 2018, no valuation allowance is considered necessary as management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets.

Income tax benefit was $(294,088) and $(391,840) for the years ended December 31, 2019 and 2018, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 21% in 2019 and 2018 to pretax income from continuing operations as a result of the following:

		2019	2018
Computed "expected" tax benefit	$	(217,822)	(269,054)
Change in income taxes resulting from:			
State and local income taxes, net of federal income tax expense		(73,393)	(87,676)
Other, net		(2,873)	(35,110)
Income tax benefit	$	(294,088)	(391,840)

(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) Regulatory Investigations

The U.S. Department of Justice (DOJ) and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Company is subject to these regulatory efforts. On May 22, 2017, Classic Residence Management Limited Partnership (Classic) was notified by the DOJ that it was initiating an investigation of CC-Development Group, Inc. (Parent) pursuant to the federal Fair Housing Act. While the notification did not specifically name the Company, Classic has produced requested documents related to certain subsidiaries of the Parent. Interviews with personnel were conducted in May 2019 and resolution is expected to take place in 2020. Management is currently unaware of any regulatory matters that may have a material adverse effect on the Company and its consolidated financial position, statements of operations, or cash flows.

(d) Business Disruption

Subsequent to year end, a public health emergency of international concern was declared due to the COVID-19 virus. As a result of the outbreak, there has been instability in the capital markets and disruption in the senior living industry. The ultimate impact of the COVID-19 outbreak is highly uncertain. The Company's business and investment values are likely to be impacted as a result of the outbreak. Management does not yet know the full extent of potential impacts on the business but is actively monitoring.

CC-LA JOLLA, 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-La Jolla, Inc. and CCW La Jolla, L.L.C.

COMMUNITY: Vi at La Jolla Village

See accompanying independent auditors' report.

CC-LA JOLLA, 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-La Jolla, Inc. and CCW La Jolla, L.L.C.

COMMUNITY: Vi at La Jolla Village

See accompanying independent auditors' report.

CC-LA JOLLA, 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	Total amount required for long-term debt reserve	$	—

PROVIDER: CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

COMMUNITY: Vi at La Jolla Village

See accompanying independent auditors' report.

CC-LA JOLLA, INC. AND SUBSIDIARY

Form 5-4

Calculation of Net Operating Expenses

Line		Amount	Total
1	Total operating expenses from financial statements		$ 49,937,908
2	Deductions:		
	a Interest paid on long-term debt (see instructions)	$ —	
	b Credit enhancement premiums paid for long-term debt (see instructions)	—	
	c Depreciation	11,682,550	
	d Amortization	877,293	
	e Revenue received during fiscal year for services to residents who did not have a continuing care contract	5,551,030	
	f Extraordinary expenses approved by the Department	—	
3	Total deductions		18,110,873
4	Net operating expenses		31,827,035
5	Divide Line 4 by 365 and enter the result		87,197
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount		$ 6,539,775

PROVIDER: CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

COMMUNITY: Vi at La Jolla Village

See accompanying independent auditors' report.

CC-LA JOLLA, INC. AND SUBSIDIARY

Form 5-5

Annual Reserve Certification

Provider Name: CC-La Jolla, Inc. and CCW La Jolla, L.L.C.
Fiscal Year Ended: December 31, 2019

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2019 and are in compliance with those requirements.

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

		Amount
(1)	Debt service reserve amount	$ —
(2)	Operating expense reserve amount	6,539,775
(3)	Total liquid reserve amount	$ 6,539,775

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

		Amount (market value at end of quarter)		
	Qualifying asset description		Debt service reserve	Operating reserve
(4)	Cash and cash equivalents		$ —	8,264,519
(5)	Investment securities		—	3,129,646
(6)	Equity securities		—	—
(7)	Unused available lines of credit		—	—
(8)	Unused available letters of credit		—	—
(9)	Debt service reserve		—	—
(10)	Other (describe qualifying asset)		—	—
	Total amount of qualifying assets listed for liquid reserve	(11)	—	(12) 11,394,165
	Total amount required	(13)	—	(14) 6,539,775
	Surplus (deficiency)	(15)	$ —	(16) 4,854,390

Signature:

Date 4/29/20

(Authorized representative)

CFO of CRMLP

(Title)

See accompanying independent auditors' report.