ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED: 12/31/2022

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: $56,624.28
  - ☐ 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	594
[2]	Number at end of fiscal year	594
[3]	Total Lines 1 and 2	1,188
		x.50
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	
[5]	Mean number of continuing care residents	594
	All Residents	
[6]	Number at beginning of fiscal year	625
[7]	Number at end of fiscal year	621
[8]	Total Lines 6 and 7	1,246
		x.50
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	
[10]	Mean number of *all* residents	623
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	95

FORM 1-2: ANNUAL PROVIDER FEE

Line		TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	72,428,151.00
[a]	Depreciation	13,042,436.00
[b]	Debt Service (Interest Only)	0.00
[2]	Subtotal (add Line 1a and 1b)	13,042,436.00
[3]	Subtract Line 2 from Line 1 and enter result.	59,385,715.00
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	95.35
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	56,624,279.00
[6]	**Total Amount Due** (multiply Line 5 by .001)	$ 56,624.28

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 12/31/2022 is correct to the best of his knowledge, that each continuing care contract form in use or offered to new residents has been approved by the Department, and the provider is maintaining the required liquid reserve and refund reserve.

Dated: April 21, 2023

CC-Palo Alto, Inc., a Delaware corporation

By: ______________________
Gary Smith, President

ACORD®

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

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

INSR LTR	TYPE OF INSURANCE		POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
A	X PROPERTY		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

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.

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

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 12/29/2022

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-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

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-009948247-07 **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 X CLAIMS-MADE ☐ OCCUR X Ded: $100,000 per occurrence GEN'L AGGREGATE LIMIT APPLIES PER: ☐ POLICY ☐ PRO-JECT X LOC OTHER:			*42-PSC-306898-05	12/31/2022	12/31/2023	EACH OCCURRENCE	$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 100,000
							MED EXP (Any one person)	$ 10,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 3,000,000
							PRODUCTS - COMP/OP AGG	$ 3,000,000
							POLICY LIMIT	$ 10,000,000
	AUTOMOBILE LIABILITY ☐ ANY AUTO ☐ OWNED AUTOS ONLY ☐ SCHEDULED AUTOS ☐ HIRED AUTOS ONLY ☐ NON-OWNED AUTOS ONLY						COMBINED SINGLE LIMIT (Ea accident)	$
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
A	X UMBRELLA LIAB ☐ OCCUR EXCESS LIAB X CLAIMS-MADE DED X RETENTION $ 100,000			*42-USC-306899-05	12/31/2022	12/31/2023	EACH OCCURRENCE	$ 5,000,000
							AGGREGATE	$ 5,000,000
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANYPROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) ☐ If yes, describe under DESCRIPTION OF OPERATIONS below	N / A					PER STATUTE / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
A	PROFESSIONAL LIABILITY Claims Made			*42-PSC-306898-05 Policy Limit: $10,000,000	12/31/2022	12/31/2023	EA CLAIM / AGG (LOC)	1M / 3M
							DEDUCTIBLE	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	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.

AGENCY CUSTOMER ID: CN102041886
LOC #: Chicago

ACORD

ADDITIONAL REMARKS SCHEDULE

AGENCY MARSH USA INC.		NAMED INSURED 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

EXCESS PROFESSIONAL LIABILITY
CARRIER: National Fire & Marine Insurance Company
POLICY NO.: 42-USC-306899-05
EFFECTIVE DATE: 12/31/22
EXPIRATION DATE: 12/31/2023
EACH CLAIM LIMIT: $5,000,000
AGGREGATE LIMIT: $5,000,000
RETENTION: $100,000

EXCESS LIABILITY ($10M XS $5M)
CARRIER: Berkley Healthcare Medical Professional
POLICY NO.: SCE280000901
EFFECTIVE DATE: 12/31/22
EXPIRATION DATE: 12/31/2023
EACH CLAIM LIMIT: $10,000,000
AGGREGATE LIMIT: $10,000,000

EXCESS LIABILITY ($9M XS $15M)
CARRIER: Allied World Assurance Company, Ltd.
POLICY NO.: C058848/004
EFFECTIVE DATE: 12/31/22
EXPIRATION DATE: 12/31/2023
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.

KPMG

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

December 31, 2022 and 2021

(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 balance sheets as of December 31, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2022, the Company adopted new accounting guidance Accounting Standards Update (ASU) No. 2016-02, *Leases (ASC Topic 842)*. Our opinion is not modified with respect to this matter.

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 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 27, 2023

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2022 and 2021

Assets		2022	2021
Current assets:			
Cash and cash equivalents	$	13,904,897	30,819,942
Current portion of assets limited as to use		914,943	2,231,228
Resident accounts receivable		1,207,219	822,676
Prepaids and other		427,917	382,793
Total current assets		16,454,976	34,256,639
Long-term investments		—	1,009,920
Assets limited as to use, net of amounts required for current liabilities		37,822,030	21,714,370
Property and equipment:			
Land improvements		17,699,607	15,995,809
Building and improvements		208,359,357	207,793,142
Furniture, fixtures, and equipment		40,159,848	35,597,039
Construction in progress		201,727	565,840
		266,420,539	259,951,830
Less accumulated depreciation		129,196,746	116,183,169
Property and equipment, net		137,223,793	143,768,661
Right of use assets – finance leases		28,201	—
Right of use assets – operating lease		48,582,043	—
Deferred tax asset, net		22,272,170	19,228,099
Due from affiliate		—	101,022,500
Deposits		1,292,655	1,277,829
Total assets	$	263,675,868	322,278,018
Liabilities and Stockholders' Deficit			
Current liabilities:			
Accounts payable	$	1,444,519	1,120,750
Accrued expenses		3,994,927	5,885,665
Due to affiliates		4,087,999	1,085,996
Current installments of obligations under finance leases		16,115	—
Current installments of obligations under operating leases		384,517	—
Prepaid resident service revenue		957,719	2,370,168
Resident deposits		398,500	388,000
Current portion of repayable entrance fees		2,147,010	5,796,564
Total current liabilities		13,431,306	16,647,143
Repayable entrance fees		471,103,053	478,947,724
Deferred revenue from nonrepayable entrance fees		168,497,491	146,784,902
Obligations under finance leases		12,086	—
Obligations under operating leases		48,197,526	—
Other liabilities		243,120	218,537
Total liabilities		701,484,582	642,598,306
Stockholders' deficit:			
Common stock, no par value, no assigned value. Authorized, issued, and outstanding, 100 shares		—	—
Distributions in excess of paid-in capital		(302,671,236)	(185,648,736)
Accumulated deficit		(135,137,478)	(134,671,552)
Total stockholders' deficit		(437,808,714)	(320,320,288)
Total liabilities and stockholders' deficit	$	263,675,868	322,278,018

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2022 and 2021

		2022	2021
Revenue:			
Net resident service revenue	$	54,148,560	49,220,022
Amortization of entrance fees		17,235,724	13,210,162
Investment return		256,325	121,887
Other income		353,924	266,538
Provider relief fund grant revenue		—	20,844
Total revenue		71,994,533	62,839,453
Expenses:			
Culinary and dining		7,475,896	6,766,980
Housekeeping and laundry		3,053,827	2,864,148
Resident services		3,970,134	3,615,180
Resident care		10,335,998	8,947,520
Repairs and maintenance		2,741,899	2,577,356
Sales and marketing		1,153,740	1,190,888
Administration		5,866,086	6,811,121
Utilities		2,563,153	2,307,644
Insurance		2,277,535	2,339,726
Total departmental expenses		39,438,268	37,420,563
Management fees		4,365,237	3,978,478
Property taxes		5,004,388	5,226,117
Ground lease expense – base rent		1,837,565	1,837,565
Variable ground lease expense – participating rent		8,448,724	8,810,084
Provision for doubtful accounts		—	2,064
Other expense		—	578
Interest on finance lease obligations		1,169	—
Expenses attributable to coronavirus		290,364	520,754
Depreciation and amortization		13,042,436	8,435,336
Total expenses		72,428,151	66,231,539
Loss before income taxes		(433,618)	(3,392,086)
Income tax benefit		112,316	940,532
Net loss	$	(321,302)	(2,451,554)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Deficit

Years ended December 31, 2022 and 2021

	Common stock		Distributions in excess of paid-in capital	Accumulated deficit	Total
	Shares	Amount			
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)
Tax adjustment	—	—	—	(144,624)	(144,624)
Net loss	—	—	—	(321,302)	(321,302)
Distribution to Parent	—	—	(117,022,500)	—	(117,022,500)
Balance at December 31, 2022	100	$ —	(302,671,236)	(135,137,478)	(437,808,714)

See accompanying notes to consolidated financial statements.

CC-PALO ALTO, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Cash received from residents with continuing care contracts	$	42,666,467	42,405,521
Cash received from residents without continuing care contracts		9,901,763	8,529,088
Cash received from provider relief fund grant		—	20,844
Proceeds received from nonrepayable entrance fees		39,163,190	41,210,280
Interest received		355,900	161,568
Interest paid for finance lease obligations		(1,169)	—
Cash paid to suppliers and employees		(40,166,530)	(39,856,603)
Cash paid for management fees		(4,365,237)	(3,978,478)
Cash paid for real estate taxes		(5,004,388)	(5,226,117)
Cash paid for participating rent		(8,448,724)	(8,810,084)
Cash paid for income taxes		(3,076,379)	(3,905,786)
Net cash provided by operating activities		31,024,893	30,550,233
Cash flows from investing activities:			
Additions to property and equipment		(6,474,535)	(4,597,516)
Sale of investments, net		1,009,920	2,293,326
Net change in resident deposits		10,500	(807,350)
Net change in assets limited as to use		(12,227,211)	2,464,972
Net cash used in investing activities		(17,681,326)	(646,568)
Cash flows from financing activities:			
Proceeds from repayable entrance fees		32,266,510	37,048,720
Entrance fee repayments		(43,838,350)	(30,973,318)
Principal payments on finance lease obligations		(23,033)	—
Distributions to parent		(117,022,500)	—
Due from affiliate		101,022,500	(18,094,213)
Net cash used in financing activities		(27,594,873)	(12,018,811)
Net change in cash, cash equivalents, and restricted cash		(14,251,306)	17,884,854
Cash, cash equivalents, and restricted cash at beginning of year		44,602,864	26,718,010
Cash, cash equivalents, and restricted cash at end of year	$	30,351,558	44,602,864
Reconciliation of net loss to net cash provided by operating activities:			
Net loss	$	(321,302)	(2,451,554)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Proceeds from nonrepayable entrance fees		39,163,190	41,210,280
Depreciation and amortization		13,042,436	8,435,336
Amortization of entrance fees		(17,235,724)	(13,210,162)
Net realized and change in unrealized losses		99,575	39,681
Utilization of repayable entrance fees in lieu of monthly fees		(137,262)	(182,544)
Provision for doubtful accounts		—	2,064
Income tax adjustment		(144,624)	(144,785)
Changes in assets and liabilities:			
Accounts receivable		(384,543)	(360,330)
Prepaids and other		(45,124)	120,362
Deposits		(14,826)	5,285
Accounts payable		323,769	(138,035)
Accrued expenses		(1,890,738)	(20,475)
Due to affiliates		3,002,003	(73,238)
Prepaid resident service revenue		(1,412,449)	1,990,923
Deferred tax asset		(3,044,071)	(4,701,533)
Other liabilities		24,583	28,958
Net cash provided by operating activities	$	31,024,893	30,550,233

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:

		2022	2021
Cash and cash equivalents	$	13,904,897	30,819,942
Assets limited as to use:			
Cash and cash equivalents		1,818,267	9,013,999
Money markets and certificates of deposit		14,628,394	4,768,923
Total cash, cash equivalents, and restricted cash reported in the consolidated statements of cash flows	$	30,351,558	44,602,864

(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 by the Company 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 by the Company for entrance fee repayments represent funds designated to establish certain entrance fee repayments reserves. Subject to the agreement discussed in Note 11(d), the Company funded assets held for entrance fee repayments equal to 75% of the annual entrance fee repayments that are actuarially estimated to be due to the Settlement Class members in the following year. Assets held by the Company under Ground Lease Agreement represent funds designated to secure payments under the ground lease (note 6). Assets held for operations are for funding operating reserves over which the Company retains control and may use in accordance with the Company's policies. Assets limited as to use for capital improvements represent funds designated by the Company for acquisition of property and equipment, in accordance with the Company's policies.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets ranging from 4 to 40 years. Construction in progress at December 31, 2022 relates to costs associated with renovations that will be placed in service during 2023. No significant contractual commitments exist as of December 31, 2022.

(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, 2022 or 2021.

(h) Leases

The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes an ROU asset and a lease liability at the lease commencement date if the lease period exceeds one year. Leases less than one year are expensed monthly as incurred.

Key estimates and judgments include how the Company determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

ASC 842-20-30-3 provides a practical expedient for nonpublic business entities, which allows a lessee to use a risk-free interest rate for a period comparable to the lease term. The Company has elected to use the risk-free rate, which is the rate of a U.S. Treasury security for a period comparable to the lease term.

The Company has a non-cancellable operating ground lease with the Board of Trustees of the Leland Stanford Junior University (Lessor) that expires in 2075. The Company also has finance leases, primarily for on-site vehicles that expire over the next two years. The Company's leases generally do not include termination options for either party to the lease, restrictive financial or other covenants or residual value guarantees.

Right of use (ROU) assets are periodically reduced by impairment losses. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, Property, Plant, and Equipment – Overall, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

The Company monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the ROU asset is reduced to zero and the remainder of the adjustment is recorded in profit or loss.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other leases.

The Company's leases may include non-lease maintenance services (i.e. equipment maintenance or common area maintenance). For all leases, the Company has elected the practical expedient to account for the lease and non-lease maintenance components as a single lease component. Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract.

(i) 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, 2022 and 2021, and accordingly, no obligation to provide future services has been recognized in the accompanying consolidated balance sheets.

(j) 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, 2022, the repayable portion of the entrance fees due to all residents would be approximately $513,058,000.

(k) Ground Lease Participating Rent

Pursuant to its Ground Lease Agreement with the lessor (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. As the associated lease payments are variable in nature, they are recognized as expense in their entirety in the period in which the related net resident service revenue and other income are recognized, and in the period in which the proceeds from entrance fees are received.

(l) Income Taxes

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

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

The Company accounts for tax provisions in accordance with ASC Topic 740, *Income Taxes*. ASC Topic 740 clarifies the accounting for uncertainty in tax positions and also provides guidance on when the tax positions are recognized in an entity's financial statements and how the values of these positions are determined. The Company has recognized no liabilities as of December 31, 2022 and 2021 related to uncertain tax positions.

(m) Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a right of use model that requires a lessee to recognize a right of use 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 expense recognition in the income statement.

The Company adopted all of Topic 842 effective January 1, 2022 using a modified retrospective transition approach. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption. The Company elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. The Company did not elect the practical expedient to use hindsight for leases existing at the adoption date.

Adoption drove a $49,007,395 increase in obligations under leases (of which $397,150 was current) and a corresponding increase in ROU assets

(Continued)

as of the date of adoption. Adoption had no material effect on the Company's consolidated statement of cash flows but did affect its disclosures. See Note 10 for additional lease disclosures.

(n) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated events and transactions after the balance sheet date of December 31, 2022 through April 27, 2023, 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 2022 and 2021, the Company determined that it would return a portion of its excess cash flows generated from operations back to its residents in the amount of $516,443 and $2,506,827, respectively. For the 2022 amounts, the Company will reduce monthly fees paid by residents in 2023. For the 2021 amounts, $663,599 was returned as a reduction of 2021 monthly fees and $1,843,228 was returned as a reduction of 2022 monthly fees. As of December 31, 2022 and 2021, $516,443 and $1,843,228 is reflected as prepaid resident service revenue in the accompanying 2022 and 2021 consolidated balance sheets, respectively.

(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, *Revenue from Contracts with Customers.* 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:

		2022	2021
Independent living revenue	$	38,625,131	35,189,065
Care center revenue:			
Revenue under continuing care residency agreements		4,804,665	4,743,453
Revenue from private payors		2,435,018	2,521,827
Revenue under Medicare and third-party arrangements		7,353,493	5,939,574
Other service revenue		930,253	826,103
Net resident service revenue	$	54,148,560	49,220,022
Amortization of entrance fee revenue	$	17,235,724	13,210,162
Other income		353,924	266,538
Provider relief fund grant revenue (note 11)		—	20,844

(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 $169,455,210 and $149,155,070, including $957,719 and $2,370,168 of resident monthly fees billed and received in advance, as of December 31, 2022 and 2021, respectively. For the year ended December 31, 2022, the Company recognized $18,604,385 of revenue that was included in the deferred revenue balance as of January 1, 2022. 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, 2022 and 2021 is as follows:

	2022	2021
Medicare	73 %	66 %
Self-pay and commercial insurance	27	34
	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, 2022 and 2021 is as follows:

	2022	2021
Cash and cash equivalents	$ 1,818,269	9,013,999
Money markets and certificates of deposit	20,628,394	10,768,923
U.S. Treasury securities	1,079,205	—
Government agencies	4,703,742	—
Corporate bonds and notes	10,507,363	5,172,596
	$ 38,736,973	24,955,518

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

	2022	2021
Current portion of assets limited as to use – by Company for operations	$ 516,443	1,843,228
Current portion of assets limited as to use – resident deposits	398,500	388,000
Current portion of assets limited as to use	914,943	2,231,228
Assets limited as to use – by Company for capital improvements	7,284,225	7,617,732
Assets limited as to use – by Company for operations	3,003,287	2,101,939
Assets limited as to use – by Company for entrance fee repayments	21,534,518	5,994,699
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	37,822,030	21,714,370
Long-term investments	—	1,009,920
	$ 38,736,973	24,955,518

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, 2022. 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	$ 1,818,269	1,818,269	—	—
Money markets and certificates of deposit	20,628,394	20,628,394	—	—
U.S. Treasury securities	1,079,205	1,079,205	—	—
Government agencies	4,703,742	—	4,703,742	—
Corporate bonds and notes	10,507,363	—	10,507,363	—
Total	$ 38,736,973	23,525,868	15,211,105	—

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	10,769,922	10,769,922	—	—
Corporate bonds and notes	4,923,408	—	4,923,408	—
Total	$ 24,956,518	20,033,110	4,923,408	—

The composition of investment return on the Company's investment portfolio for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Interest and dividend income	$ 355,900	161,568
Net realized and change in unrealized losses during the holding period	(99,575)	(39,681)
	$ 256,325	121,887

(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, 2022 and 2021 totaled $1,837,565, each year. 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 $4,365,237 and $3,978,478 for the years ended December 31, 2022 and 2021, 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 $9,235,536 and $8,801,438 for the years ended December 31, 2022 and 2021, respectively. There is no interest associated with these advances. Amounts to Classic of $1,011,621 and $1,085,996 and amounts due to the Parent of $3,076,378 and $0 at December 31, 2022 and 2021, respectively, are reflected as due to affiliates in the accompanying consolidated balance sheets.

During 2022 and 2021, the Company made noninterest bearing cash advances to the Parent of $16,000,000 and $18,094,213, respectively. The cumulative amount of the advances of $117,022,500 were distributed to the Parent during 2022.

(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, 2022 and 2021, the Company recorded matching contribution expense of $628,762 and $547,003, 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, 2022 and 2021, 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)

CC-PALO ALTO, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The income tax benefit for the years ended December 31, 2022 and 2021 comprises the following:

		2022	2021
Current:			
U.S. federal	$	(1,998,018)	(2,565,297)
State		(933,737)	(1,195,704)
Total current		(2,931,755)	(3,761,001)
Deferred:			
U.S. federal		2,284,391	3,528,217
State		759,680	1,173,316
Total deferred		3,044,071	4,701,533
Income tax benefit	$	112,316	940,532

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are as follows:

		2022	2021
Deferred tax assets:			
Deferred revenue from nonrepayable entrance fees	$	35,411,017	31,193,704
Property tax liabilities		—	119,507
Other		910,828	1,556,160
Gross deferred tax assets		36,321,845	32,869,371
Deferred tax liabilities:			
Depreciation and amortization		(14,022,420)	(13,623,686)
Other		(27,255)	(17,586)
Gross deferred tax liabilities		(14,049,675)	(13,641,272)
Total deferred tax asset, net	$	22,272,170	19,228,099

As of December 31, 2022 and 2021, 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 $112,316 and $940,532 for the years ended December 31, 2022 and 2021, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 21% in 2022 and 2021 to pretax income from continuing operations as a result of the following:

		2022	2021
Computed "expected" tax benefit	$	91,060	712,338
Change in income tax expense resulting from:			
State and local income taxes, net of federal income tax expense		22,027	228,710
Other, net		(771)	(516)
	$	112,316	940,532

(10) Leases

The Company has a operating ground lease with the lessor that expires in 2075, along with finance leases, primarily for vehicles that expire over the next two years. Payments due under the lease contracts include fixed payments plus, for many of the Company's leases, variable payments, including the participating rent discussed in note 2(k). The Company has elected not to separate lease and non-lease components but rather has elected to include all components within a single, combined lease component. The Company also elected to discount its lease liabilities using a risk-free rate.

Amounts reported in the consolidated balance sheet as of December 31, 2022 were as follows:

Right of use assets – operating leases	$	48,956,160
Accumulated amortization		(374,117)
Right of use assets – operating leases, net		48,582,043
Right of use assets – finance leases		51,234
Accumulated amortization		(23,033)
Right of use assets – finance leases, net		28,201
Total right of use asset	$	48,610,244
Current portion of operating lease liabilities	$	384,517
Operating lease liabilities, net of current portion		48,197,526
Total operating lease liabilities		48,582,043
Current portion of finance lease liabilities		16,115
Finance lease liabilities, net of current portion		12,086
Total finance lease liabilities		28,201
Total lease liabilities	$	48,610,244

(Continued)

Other information related to leases as of December 31, 2022 was as follows:

Cash paid for amounts included in the measurement of lease liabilities	$	397,150
Weighted average remaining lease term – operating leases		52.62 years
Weighted average remaining lease term – finance leases		1.67 years
Weighted average discount rate – finance leases		2.50 %
Weighted average discount rate – operating leases		3.00

Maturities of lease liabilities under noncancellable leases as of December 31, 2022 are as follows:

Year ending December 31		
2023	$	400,632
2024		409,249
2025		409,301
2026		421,751
2027		434,579
Thereafter		46,534,732
Total lease liabilities	$	48,610,244

(11) 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.

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 2022, the Company did not receive any general and targeted Provider Relief Fund distributions, as provided for under the CARES Act. In 2021, the Company received $20,844 of such funds. 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, 2022 and 2021, the Company recognized the full distributions.

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 had deferred payroll taxes of $388,038 at December 31, 2021 and recorded the deferral as a component of accrued expenses in the accompanying consolidated balance sheet. These amounts were repaid during 2022.

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 $290,364 and $520,754 of expenses attributable to coronavirus recorded in the accompanying 2022 and 2021 and consolidated statements of operations, respectively.

(d) Contingency

On February 19, 2014, a class action complaint was filed against the Company, Classic, and the Parent. The Complaint was dismissed on November 25, 2014. On December 10, 2014, the First Amended Complaint (FAC) was filed. 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 included 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 signed a settlement agreement dated February 25, 2022, which was subsequently approved by the court on November 17, 2022. The settlement agreement required the Company to utilize cash and cash equivalents to increase assets limited as to use – by the Company for entrance fee repayments (note 2(e)). Based on the class members with active residency agreements, the amount limited as to use is $21,534,518 as of December 31, 2022 and will decline over time.

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)				5,107,714
4	Total amount required for long-term debt reserve (A)			$	5,107,714

(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	$	54,502,484	
Participating Rent percentage		6.0 %	
2022 Participating Rent on resident service and other revenue (B)			3,270,149
Total		$	5,107,714

(B) As described in note 6 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		72,428,151
2	Deductions:		
	(a) Interest paid on long-term debt (see instructions)	$ —	
	(b) Credit enhancement premiums paid for long-term debt (see instructions)	—	
	(c) Depreciation	13,019,403	
	(d) Amortization	23,033	
	(e) Revenues received during fiscal year for services to residents who did not have a continuing care contract	9,901,763	
	(f) Extraordinary expenses approved by the Department (A)	5,398,078	
3	Total deductions		28,342,277
4	Net operating expenses		44,085,874
5	Divide line 4 by 365 and enter the result		120,783
6	Multiply line 5 by 75 and enter the result. This is the provider's operating expense reserve amount		9,058,725
(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)	3,270,149	
	Expenses attributable to coronavirus	290,364	
		$ 5,398,078	

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, 2022
We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2022 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	$	5,107,714
(2)	Operating expense reserve amount		9,058,725
(3)	Total liquid reserve amount	$	14,166,439

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		$	5,107,714		8,797,183
(5)	Investment securities			—		3,519,730
(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			—		1,292,655
	Total amount of qualifying assets listed for liquid reserve	(11)		5,107,714	(12)	19,609,568
	Total amount required	(13)		5,107,714	(14)	9,058,725
	Surplus (deficiency)	(15)	$	—	(16)	10,550,843

Signature ______________________ Date 4-27-2023

(Authorized representative)

(Title) CFO

See accompanying independent auditors' report on supplementary information.

KPMG

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Financial Statements

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Table of Contents

KPMG

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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2022, the Company adopted new accounting guidance Accounting Standard Update (ASU) No. 2016-02, Leases, and related updates, which established Accounting Standard Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

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 28, 2023

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Balance Sheets

December 31, 2022 and 2021

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	9,224,097	5,858,227
Current portion of assets limited as to use		5,321,242	5,167,376
Due from affiliates		10,598,040	7,691,855
Deposits and other		12,305,923	9,794,342
Total current assets		37,449,302	28,511,800
Assets limited as to use, net of amounts required for current liabilities		1,667,869	1,680,289
Property and equipment:			
Leasehold improvements		5,198,775	5,198,775
Furniture, fixtures, and equipment		11,546,378	11,412,405
Construction in progress		995	151,559
		16,746,148	16,762,739
Less accumulated depreciation and amortization		11,815,618	10,867,417
Property and equipment, net		4,930,530	5,895,322
Right of use assets – finance leases		47,405	—
Right of use assets – operating lease		4,792,046	—
Estimated insurance recoveries		1,826,849	1,390,191
Total assets	$	50,714,001	37,477,602
Liabilities and Partners' Equity			
Current liabilities:			
Accounts payable	$	1,444,219	1,094,293
Accrued expenses		14,975,179	12,120,175
Current installments of obligations under finance leases		40,342	—
Current installments of obligations under operating lease		882,790	—
Benefit claims payable		5,852,137	5,672,606
Total current liabilities		23,194,667	18,887,074
General and professional liability claims payable		2,163,823	1,565,250
Obligations under finance leases		7,063	—
Obligations under operating lease		7,908,635	—
Unearned rent abatement		—	4,353,119
Total liabilities		33,274,188	24,805,443
Partners' equity:			
Contributed capital, net		75,724,705	64,724,705
Accumulated deficit		(58,284,892)	(52,052,546)
Total partners' equity		17,439,813	12,672,159
Total liabilities and partners' equity	$	50,714,001	37,477,602

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Operations

Years ended December 31, 2022 and 2021

		2022	2021
Revenue:			
Management fee revenue	$	22,231,675	20,663,446
Commission revenue		1,510,320	1,593,830
Marketing fee revenue		695,000	—
Interest income		8,283	8,458
Total revenue		24,445,278	22,265,734
Expense:			
Salaries and benefits		25,009,975	23,537,166
Lease expense		1,109,416	1,067,536
Professional services		1,112,885	1,046,704
Administration		1,829,645	1,449,591
Property taxes		358,884	347,306
Interest on finance lease obligations		1,813	—
Loss on disposal of equipment		150,429	—
Depreciation and amortization		994,587	937,536
Insurance		109,990	84,985
Total expense		30,677,624	28,470,824
Net loss	$	(6,232,346)	(6,205,090)

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Partners' Equity

Years ended December 31, 2022 and 2021

		Contributed capital, net	Accumulated deficit	Total partners' equity
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
Contributions		11,000,000	—	11,000,000
Net loss		—	(6,232,346)	(6,232,346)
Balance at December 31, 2022	$	75,724,705	(58,284,892)	17,439,813

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Cash Flows

Years ended December 31, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Net loss	$	(6,232,346)	(6,205,090)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization		994,587	937,536
Loss on disposal of equipment		150,429	—
Lease incentives recognized		(353,740)	(338,802)
Changes in assets and liabilities:			
Due from affiliates		(2,906,185)	2,105,010
Deposits and other		(2,511,581)	1,005,750
Accounts payable		349,926	114,087
Accrued expenses		2,855,004	3,574,118
Net cash (used in) provided by operating activities		(7,653,906)	1,192,609
Cash flows from investing activities:			
Purchase of property and equipment, net		(133,838)	(263,612)
Change in estimated benefit and general and professional liability claims payable		341,446	425,342
Net cash provided by investing activities		207,608	161,730
Cash flows from financing activity:			
Principal payments on finance lease obligations		(46,386)	—
Capital contributions (distributions)		11,000,000	(1,000,000)
Net cash provided by (used in) financing activities		10,953,614	(1,000,000)
Net change in cash, cash equivalents, and restricted cash		3,507,316	354,339
Cash, cash equivalents, and restricted cash at beginning of year		12,705,892	12,351,553
Cash, cash equivalents, and restricted cash at end of year	$	16,213,208	12,705,892

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Notes to Financial Statements

December 31, 2022 and 2021

(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 2022, the Limited Partner contributed $11,000,000 of capital to the Company. During 2021 the Company distributed $1,000,000 of capital to the Limited Partner.

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:

	2022	2021
Cash and cash equivalents	$ 9,224,097	5,858,227
Assets limited as to use:		
Cash	1,495,651	1,154,205
Certificates of deposit	5,493,460	5,693,460
Total cash, cash equivalents, and restricted cash reported in the statements of cash flows	$ 16,213,208	12,705,892

(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, 2022.

(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, 2022 and 2021.

(f) Leases

The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes an ROU asset and a lease liability at the lease commencement date if the lease period exceeds one year. Leases less than one year are expensed monthly as incurred.

Key estimates and judgments include how the Company determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

ASC 842-20-30-3 provides a practical expedient for nonpublic business entities, which allows a lessee to use a risk-free interest rate for a period comparable to the lease term. The Company has elected to use the risk-free rate, which is the rate of a U.S. Treasury security for a period comparable to the lease term.

The Company has a non-cancellable operating lease for certain office facilities that expires in 2031. These leases generally contain renewal options for periods ranging from one to five years. When the Company is not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term and associated potential option payments are excluded from lease payments. The Company also has finance leases, primarily for on-site vehicles that expire over the next two years. The Company's leases generally do not include termination options for either party to the lease, restrictive financial or other covenants or residual value guarantees.

Right of use (ROU) assets are periodically reduced by impairment losses. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, Property, Plant, and Equipment – Overall, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

The Company monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the ROU asset is reduced to zero and the remainder of the adjustment is recorded in profit or loss.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other leases.

The Company's leases may include non-lease maintenance services (i.e. equipment maintenance or common area maintenance). For all leases, the Company has elected the practical expedient to account for the lease and non-lease maintenance components as a single lease component. Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract.

(g) 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, 2022. 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	$ 6,989,111	6,989,111	—	—
Total	$ 6,989,111	6,989,111	—	—

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	—	—

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a right of use model that requires a lessee to recognize a right of use 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 expense recognition in the income statement.

The Company adopted all of Topic 842 effective January 1, 2022 using a modified retrospective transition approach. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption. The Company elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs

(Continued)

that were previously capitalized. The Company did not elect the practical expedient to use hindsight for leases existing at the adoption date.

Adoption of the new leasing standard did not have a material effect on the Company's consolidated balance sheet or the consolidated statement of income. Adoption drove a $9,719,796 increase in obligations under leases (of which $881,106 was current) and a corresponding increase in ROU assets of $5,360,144 as of the date of adoption. The obligations under leases includes the unearned rent abatement of $4,353,119 as of adoption. Adoption had no material effect on the Company's consolidated statement of cash flows but did affect its disclosures. See Note 5 for additional lease disclosures.

(n) 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 28, 2023, 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 $66,938,772 and $63,676,112 for the years ended December 31, 2022 and 2021, 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 $10,598,040 and $7,691,855 at December 31, 2022 and 2021, respectively.

The Company processes premium and claim payments for property, health, workers' compensation, and general and professional liability policies and claims. The Company has made premium payments in accordance with the payment terms of the policies. The Company is reimbursed by the Communities for these payments on a monthly basis over the term of the policy. Included in deposits and other are $9,261,411 and $8,709,373 of prepaid insurance under these policies at December 31, 2022 and 2021, 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 $5,852,137 and $5,672,606 and related recoveries of $530,895 and $505,230 at December 31, 2022 and 2021, 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 $2,163,823 and $1,565,250 and related recoveries of $1,295,954 and $884,961 at December 31, 2022 and 2021, 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, 2022 and 2021 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities. In the event that actual claim payments differ from estimates, it is the intent of the Company to recover or return such differences with the Communities.

(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, 2022 and 2021, contribution expense of $644,362 and $598,543, respectively, is included as a component of salaries and benefits in the accompanying statements of operations. Contributions are funded on a current basis.

(5) Leases

The Company has a noncancellable operating lease for office space that expires in 2031, along with finance leases, primarily for vehicles that expire over the next two years. Payments due under the lease contracts include fixed payments plus, for many of the Company's leases, variable payments. The Company has elected not to separate lease and non-lease components but rather has elected to include all components within a single, combined lease component. The Company also elected to discount its office related lease liabilities using a risk-free rate.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Notes to Financial Statements

December 31, 2022 and 2021

Amounts reported in the consolidated balance sheet as of December 31, 2022 were as follows:

Right of use assets – operating leases	$	5,266,353
Accumulated amortization		(474,307)
Right of use assets – operating leases, net		4,792,046
Right of use assets – finance leases		93,791
Accumulated amortization		(46,386)
Right of use assets – finance leases, net		47,405
Total right of use asset	$	4,839,451
Current portion of operating lease liabilities	$	882,790
Operating lease liabilities, net of current portion		7,908,635
Total operating lease liabilities		8,791,425
Current portion of finance lease liabilities		40,342
Finance lease liabilities, net of current portion		7,063
Total finance lease liabilities		47,405
Total lease liabilities	$	8,838,830

Other information related to leases as of December 31, 2022 was as follows:

Cash paid for amounts included in the measurement of lease liabilities	$	881,106
Weighted average remaining lease term – operating leases		8.17 years
Weighted average remaining lease term – finance leases		1.10 years
Weighted average discount rate		2.50 %

Maturities of lease liabilities under noncancellable leases as of December 31, 2022 are as follows:

Year ending December 31		
2023	$	923,132
2024		939,755
2025		984,470
2026		1,038,428
2027		1,094,418
Thereafter		3,858,627
Total lease liabilities	$	8,838,830

(6) 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 in 2021 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 2021 balance sheet and was amortized as a reduction of rent expense ratably over the term of the lease during 2021. Future minimum rental payments over the remainder of the operating lease terms as of December 31, 2021, 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) 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 and 2021. 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.

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 had deferred payroll taxes of $172,435 at December 31, 2021 and recorded the deferral as a component of accrued expenses in the accompanying balance sheets. These amounts were repaid in 2022.

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

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

Financial Institution	Account Type	Account Details		Amount	
None	Cash	Petty Cash maintained on site	$	500	
Bank of America, N.A.	Business Checking Account	Petty Cash Checking Account	$	10,313	
Bank of America, N.A.	Business Checking Account	Operating Account	$	4,169,914	
Bank of America, N.A.	Business Checking Account	Ownership Account (operating portion)	$	9,711,053	
Bank of America, N.A.	Business Checking Account	Payroll Account	$	2,950	
Bank of America, N.A.	Business Checking Account	Real Estate Tax Account	$	10,167	
Total Cash and Cash Equivalents			**$**	**13,904,897**	**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	$	3,519,730	
Total Investment Securities			**$**	**3,519,730**	**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	$	1,292,655	
Total Other - Security Deposit			**$**	**1,292,655**	**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)	$	398,500	
UBS	Self Directed Investment Account	Class Restricted Cash Account	$	21,534,518	
UBS	Self Directed Investment Account	Capital Reserve - CD's, Money Market, Bonds and Not	$	7,284,225	
Total Reserves Not Listed on Form 5-5			**$**	**29,217,243**	**E**
Total Cash and Cash Equivalents and Investment Securities		**(A+B+C+D+E)**	**$**	**53,934,525**	

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

Cash and cash equivalents (page 3) (policy disclosed on page 7)	$	13,904,897
Current portion of assets limited as to use (page 3) (policy disclosed on page 8&12)	$	914,943
Assets limited as to use, net of amounts required for current liabilities (page 3) (policy disclosed on page 8 &12)	$	37,822,030
Deposits (page 3) (policy disclosed on page 15)	$	1,292,655
Total cash and cash equivalents and assets limited as to use	**$**	**53,934,525**

Reconciliation of Details Above to Form 5-5:

Total Qualifying Assets listed for liquid reserve	**(A+B+C+D)**	**$**	**24,717,282**
Qualifying Assets - Cash and Cash Equivalents - Operating Expense Reserve		$	8,797,183
Qualifying Assets - Investment Securities - Operating Expense Reserve		$	3,519,730
Qualifying Assets - Cash and Cash Equivalents - Debt Service Reserve		$	5,107,714
Qualifying Assets - Unused Available Letters of Credit - Operating Expense Reserve		$	6,000,000
Qualifying Assets - Other - Security Deposit - Operating Expense Reserve		$	1,292,655
Total Qualifying Assets listed for liquid reserve		**$**	**24,717,282**

Per Capita Cost Detail:

Form 1-2 line 5 - Total Operating Expense for Continuing Care Residents	$	56,624,279
Form 1-1 line 5 - Mean # of Continuing Care Residents		594.0
Per Capita Costs	**$**	**95,327**

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 4/7/23

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: $ 1,031,600 - $ 8,307,700 **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
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☐	☐
COFFEE SHOP	☑	☑
CRAFT ROOMS	☐	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☑	☐
SHUFFLEBOARD	☐	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☑	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☐	☐
OTHER Computer Room	☑	☐

SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING (4 TIMES/MONTH)	☑	☐
MEALS (1 /DAY)	☑	☐
SPECIAL DIETS AVAILABLE	☐	☑
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☐
LINENS FURNISHED	☐	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☑
PERSONAL HOME CARE	☐	☐
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☑
OTHER ______	☐	☐

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.

	2019	2020	2021	2022
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	$50,418,099	$48,269,832	$49,608,447	$54,758,809
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	$46,404,109	$45,635,444	$48,465,365	$50,645,458
NET INCOME FROM OPERATIONS	$4,013,990	$2,634,388	$1,143,082	$4,113,351
LESS INTEREST EXPENSE	$0	$0	$0	$0
PLUS CONTRIBUTIONS	$0	$0	$0	$0
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	($7,573,819)	($7,369,103)	($8,810,084)	$(8,449,893)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	($3,559,829)	($4,734,715)	($7,667,002)	$(4,336,542)
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$36,002,174	$27,951,248	$47,285,682	$27,591,350

* *

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)*	2020	2021	2022
DEBT TO ASSET RATIO		0	0	0
OPERATING RATIO		.95	.98	1.19
DEBT SERVICE COVERAGE RATIO		0	0	0
DAYS CASH ON HAND RATIO		236.36	326.80	178.07

* *

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2019	%	2020	%	2021	%	2022	%
STUDIO	N/A		N/A		N/A		N/A	
ONE BEDROOM	$5,461	4.5	$5,762	5.5	$6,047	4.9	$6,224	3.0
TWO BEDROOM	$7,642	4.5	$8,041	5.5	$8,436	4.9	$8,695	3.0
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)	5,467-12,395	6,011-15,820	6,011-13,850	6,011-19,964
2.	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.0%	3.0%	3.0%	3.0%

☐ 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: 1/1/2022
(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: 12/1/21 **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:** 11/30/21

☑ 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: 11/16/21

☑ 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: 11/16/21 **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 2022

Line	Fiscal Years	2020	2021	2022
1	FY 2020 Operating Expenses (Note 1)	(48,766,110)		
2	FY 2021 Operating Expenses (Note 1)		(50,036,827)	
3	FY 2022 Projected Operating Expenses (Note 1)			(52,544,917)
4	FY 2022 Anticipated MCF Revenue Based on Current and Projected Occupancy and Other without a MCFI			51,184,104
5	Projected FY 2022 Net Operating Results without an MCFI (Line 3 plus Line 4)			(1,360,813)
6	Projected FY 2022 MCF Revenue Based on Current and Projected Occupancy and Other with a MCFI of 3.0%			52,546,427
7	Grand Total - Projected FY 2022 Net Operating Activity after 3.0% MCFI (Line 3 plus Line 6)			1,510

Monthly Care Fee Increase - 3.0%

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:

	2020	2021	2022
Total Expenses	62,216,690	66,231,539	68,200,972
Less - depreciation and amortization	(7,764,814)	(8,435,336)	(9,003,141)
Less - loss on disposal of property and equipment	(6,720)	-	-
Less - provision for doubtful accounts (considered a contra revenue for budgeting)	(11,553)	(2,064)	-
Less - expenses specifically excluded from MCFI considerations (Note 2)	(8,116,059)	(10,366,864)	(9,298,333)
Add - funding of capital reserves	2,448,566	2,609,552	2,645,419
Total Operating Expenses above	**48,766,110**	**50,036,827**	**52,544,917**

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 3.0%

AL 3.0%

SNF 3.0%

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

		2021 Actual	2022 Budget	Dollar Change	Percent Change
Salaries and Wages		18,268,212	19,392,234	(1,124,021)	-6.2%
Employee Benefits		4,510,143	5,133,424	(623,281)	-13.8%
Food Cost		2,141,790	2,241,438	(99,648)	-4.7%
Resident Care (non-salary)		1,685,469	1,788,051	(102,582)	-6.1%
Maintenance		1,386,927	1,409,070	(22,143)	-1.6%
Other Functional Expenses		1,905,743	2,349,177	(443,435)	-23.3%
Utilities		2,307,644	2,421,995	(114,351)	-5.0%
Sales & Marketing		241,427	249,699	(8,272)	-3.4%
Administration		1,580,368	1,080,839	499,529	31.6%
Insurance		2,357,390	2,442,494	(85,104)	-3.6%
Property Taxes		5,226,117	5,349,797	(123,680)	-2.4%
Lease Expense		1,837,565	1,837,564	1	0.0%
Management Fees		3,978,478	4,203,715	(225,237)	-5.7%
Total Expenses	A	47,427,274	49,899,498	(2,472,224)	-5.2%
Net Operating Income	B	4,522,590	2,646,929	(1,875,661)	
Funding of Capital Replacement Reserve	C	(2,609,552)	(2,645,419)	(35,866)	-1.4%
Total Cash Flow		1,913,037	1,510	(1,911,527)	
Total Expenses	A	47,427,274	49,899,498	(2,472,224)	-5.2%
Funding of Capital Replacement Reserve	C	2,609,552	2,645,419	(35,866)	-1.4%
Total Expenses for Monthly Fee Consideration		**50,036,827**	**52,544,917**	**(2,436,358)**	**-4.9%**

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.