ANNUAL REPORT CHECKLIST
for
FISCAL YEAR ENDED:
December 31, 2012

PROVIDER: **Oakmont Senior Living / Segovia Operations**

FACILITY(IES): **Segovia at Palm Desert**

CONTACT PERSON: **Joseph G Lin**

TELEPHONE NO.: **(707) 535.3288**

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

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

✗ This cover sheet.

✗ Annual Provider Fee in the amount of: $ 4,541.00

- ✓ 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 reserve and refund reserve, if applicable.

✗ Evidence of the provider's fidelity bond.

✗ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

✗ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

✗ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (4 copies)

Oakmont
Senior Living

RECEIVED
CONTINUING CARE
CONTRACTS BRANCH

April 26, 2013

Continuing Care Contracts Branch
Department of Social Services
744 P Street
MS 8-3-90
Sacramento, CA 95814

Re: Oakmont Senior Living
Segovia of Palm Desert

Enclosed, please find the following:

- Check to the Continuing Care Providers fee Fund
- 3 copies of the 2012 Annual Report for Segovia of Palm Desert, along with applicable attachments
- 4 Copies of 2012 Disclosure Statement

As always, please do not hesitate to let me know if you have any questions or need further information.

Sincerely,

Elena Feliciano

Elena Feliciano
Controller

220 Concourse Blvd. • Santa Rosa, CA 95403
Main 707-535-3200 • Fax 707-535-3299
oakmontseniorliving.com

Continuing Care Retirement Community
Disclosure Statement
General Information

04/29/2013

FACILITY NAME: Segovia of Palm Desert
ADDRESS: 39905 Via Scena, Palm Desert, CA ZIP CODE: 92260 PHONE: 760-610-0349
PROVIDER NAME: Oakmont / Segovia FACILITY OPERATOR: Segovia operations LLC
RELATED FACILITIES: Cardinal Point RELIGIOUS AFFILIATION:
YEAR OPENED: 2010 NO. OF ACRES: 8 MULTI-STORY: ☐ SINGLE STORY: ☐ BOTH: ☑
MILES TO SHOPPING CTR: <1 MILES TO HOSPITAL: <1

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO		ASSISTED LIVING	42
APARTMENTS – 1 BDRM		SKILLED NURSING	
APARTMENTS – 2 BDRM	75	SPECIAL CARE	
COTTAGES/HOUSES	4	DESCRIBE SPECIAL CARE:	
% OCCUPANCY AT YEAR END	73%		

TYPE OF OWNERSHIP: ☐ NOT FOR PROFIT ☑ FOR PROFIT ☐ ACCREDITED: ☐ Y ☐ N BY:

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☑ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☑ RENTAL

REFUND PROVISIONS (Check all that apply): ☐ 90% ☑ 75% ☑ 50% ☐ PRORATED TO 0% ☑ OTHER: 0 / 100%

RANGE OF ENTRANCE FEES: $ 79,000 TO $ 579,500 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: n/a

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: n/a OTHER: Physicians Report

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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 Theater / Ballroom	☑	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	4 to 5	
NUMBER OF MEALS/DAY	1 to 3	
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☐
LINENS FURNISHED	☐	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☐
PERSONAL NURSING/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: Oakmont Senior Living / Segovia Operations

CCRCs	LOCATION (City, State)	PHONE (with area code)
Cardinal Point at Mariner Square	Alameda, CA	510.337.1033
Varenna at Fountaingrove	Santa Rosa, CA	707.526.1226
Segovia of Palm Desert	Palm Desert, CA	760.610.0349

MULTI-LEVEL RETIREMENT COMMUNITIES

Oakmont of Chino Hills	Chino Hills, CA	909.606.3010
Oakmont of Escondido	Escondido, CA	760.884.8141
Oakmont of Concord	Concord, CA	925.265.8555

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: Oakmont Senior Living / Segovia Operation

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$66,573,800	$41,815,300	$47,073,100	$32,555,700
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$63,964,400	$50,664,700	$54,073,000	$33,207,300
NET INCOME FROM OPERATIONS	$2,609,400	-$8,849,400	-$6,999,900	-$651,600
LESS INTEREST EXPENSE	-$3,262,800	-$2,967,300	-$3,098,300	-$638,700
PLUS CONTRIBUTIONS	$56,878,400	$40,745,60	$105,881,6	$72,981,60
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$4,545,500	$4,789,600	-$2,238,400	$22,276,600
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$60,770,500	$33,718,500	$93,545,000	$93,967,90
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$23,295,800	$15,128,900	$27,557,300	$8,116,200

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
See Attached					
(A through I)					

FINANCIAL RATIOS (see next page for ratio formulas)

	2009 CCAC Medians 50th Percentile *(optional)*	2010	2011	2012
DEBT TO ASSET RATIO		.56	.66	.66
OPERATING RATIO		1.21	1.15	1.02
DEBT SERVICE COVERAGE RATIO		3.17	5.18	2.42
DAYS CASH-ON-HAND RATIO		262	250	369

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2009	%	2010	%	2011	%	2012
STUDIO		0.0%	$2,795	3.0%	$2,879	3.0%	$2,965
ONE BEDROOM		0.0%	$2,878	3.0%	$2,964	3.0%	$3,053
TWO BEDROOM		0.0%	$3,815	3.0%	$3,929	3.0%	$4,047
COTTAGE/HOUSE		0.0%	$4,618	3.0%	$4,757	3.0%	$4,900
ASSISTED LIVING		0.0%		0.0%	$3,783	3.0%	$3,896
SKILLED NURSING		0.0%		0.0%		0.0%	
SPECIAL CARE		0.0%		0.0%		0.0%	

COMMENTS FROM PROVIDER:

PROVIDER NAME: ______________________________

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

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

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.

DESCRIPTION OF PROVIDERS CONSOLIDATED SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Fannie Mae / CSCDA	$ 23,500,000	0.90	Dec-03	Dec-36	33 Years
Fannie Mae / CSCDA	$ 12,452,000	0.10	Dec-03	Dec-36	33 Years
Fannie Mae	$ 7,000,000	0.62	May-07	May-17	10 Years
East West Bank	$ 56,000,000	0.24	Dec-12	Dec-21	10 Years
Fannie Mae / CSCDA	$ 15,100,000	0.10	Jun-03	Jun-36	33 Years
Fannie Mae / CSCDA	$ 12,495,000	0.62	May-07	May-17	10 Years
East West Bank / CSCDA	$ -	0.24	Mar-06	Feb-41	35 years
East West Bank / CSCDA	$ -	0.24	Mar-06	Feb-41	35 years
First Community Bank	$ 583,000	8.00	Jun-09	Apr-13	4 Years
Luther Burbank Savings	$ 1,349,400	5.20	Jun-09	Jul-39	30 Years
East West Bank / CSCDA	$ 12,650,000	0.14	Dec-03	Dec-36	33 Years

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	**$1,108 - $5,146**		
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	**3.0%**		

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: **Anniversary Date**
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☐ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☐ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☐ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☐ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☐ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☐ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Oakmont Senior Living / Segovia Operations LLC
COMMUNITY: Segovia of Palm Desert LLC

SEGOVIA
Oakmont Signature Living

July 31, 2012

Mr. Stan Praver
39905 Via Scena, #140
Palm Desert, CA 92260

Dear Mr. Praver:

I sincerely hope you are enjoying all of the services, amenities, activities and the feeling of community which Segovia at Palm Desert offers. We are delighted to have you as a resident of our wonderful community.

August 6, 2012 marks your two year anniversary as a resident of our community. I must inform you that due to increased operating costs related to energy, employee benefits, insurance premiums and food costs, we will be implementing a modest monthly fee increase of three (3) percent, effective October 1, 2012. Therefore, your current monthly rent of $3,995.35 will increase $116.37 per month to a new monthly rental of $3,995.35.

I appreciate your understanding of this subject. Please contact me directly if I may be of assistance at anytime.

Sincerely,

Pam Munday
Executive Director
Segovia at Palm Desert
RCFE#336424396

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	102
[2]	Number at end of fiscal year	102
[3]	Total Lines 1 and 2	204
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	102
	All Residents	
[6]	Number at beginning of fiscal year	119
[7]	Number at end of fiscal year	148
[8]	Total Lines 6 and 7	267
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	133.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.76

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$5,985,800
[a]	Depreciation	$42,900	
[b]	Debt Service (Interest Only)	$0	
[2]	Subtotal (add Line 1a and 1b)		$42,900
[3]	Subtract Line 2 from Line 1 and enter result.		$5,942,900
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		76%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$4,540,643
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$4,541

PROVIDE| Oakmont Senior Living LLC
COMMUN| Segovia of Palm Desert

Oakmont
Senior Living

RECEIVED
APR 30 2013
CONTINUING CARE
CONTRACTS BRANCH

April 26, 2013

Continuing Care Contracts Branch
California Department of Social Services

To Whom It May Concern:

I, William P Gallaher, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2012 for Oakmont Senior LLC / Segovia Operations LLC are true and correct to the best of my knowledge.

Oakmont Senior Living / Segovia Operations continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

Oakmont Senior Living / Segovia Operations are maintaining the required liquid reserve.

Oakmont Senior Living / Segovia Operations do not offer refundable Contracts.

Sincerely,

William P Gallaher
Oakmont Senior Living LLC / Segovia Operations LLC
Managing Member

220 Concourse Blvd. • Santa Rosa, CA 95403
Main 707-535-3200 • Fax 707-535-3299
oakmontseniorliving.com

Client#: 139723 OAKMMANA

ACORD™ CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY) 04/22/2013

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 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	CONTACT
Propel Insurance Tacoma Commercial Insurance 1201 Pacific Ave, Suite 1000 Tacoma, WA 98402	CONTACT NAME: Karen Robinson PHONE (A/C, No, Ext): 800 499-0933 FAX (A/C, No): 866.577.1326 E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Columbia Casualty Company	31127
INSURER B : American Casualty Co of Reading	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

INSURED
Integral Senior Living, LLC
c/o Oakmont Management Group LLC
220 Concourse Blvd.
Santa Rose, CA 95403

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

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

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY CLAIMS-MADE X OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: POLICY PRO-JECT X LOC			4022802553	08/04/2012	08/04/2013	EACH OCCURRENCE	$1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$100,000
							MED EXP (Any one person)	$5,000
							PERSONAL & ADV INJURY	$1,000,000
							GENERAL AGGREGATE	$3,000,000
							PRODUCTS - COMP/OP AGG	$3,000,000
							Prof. Liab.	$$1mm/$3mm
B	AUTOMOBILE LIABILITY X ANY AUTO X ALL OWNED AUTOS X SCHEDULED AUTOS X HIRED AUTOS X NON-OWNED AUTOS X $1,000 Comp. X $1,000 Coll			4022802522	08/04/2012	08/04/2013	COMBINED SINGLE LIMIT (Ea accident)	$1,000,000
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
A	X UMBRELLA LIAB X OCCUR EXCESS LIAB CLAIMS-MADE DED X RETENTION $$10,000			4022802536	08/04/2012	08/04/2013	EACH OCCURRENCE	$10,000,000
							AGGREGATE	$10,000,000
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$

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

RE Named Insureds:
*Cardinal Point at Mariner Square, LLC
OakmontSL of Alameda, LP
2431 Mariner Square Dr., Alameda CA 94501
*Varenna Assisted Living, LLC
(See Attached Descriptions)

CERTIFICATE HOLDER	CANCELLATION
Evidence of Insurance	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 Teresa Grady Mann

DESCRIPTIONS (Continued from Page 1)

Varenna at Fountaingrove, LLC
Varenna Care Center, LP
dba Villa Capri at Fountaingrove
1397 Fountaingrove Pkwy., Santa Rosa CA 95403
*Varenna, LLC
Varenna at Fountaingrove, LLC
1401 Fountaingrove Pkwy., Santa Rosa CA 95403
*Segovia Operations, LLC
Segovia of Palm Desert, LLC
39905 Via Scena, Palm Desert CA 92260

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

RECEIVED

REPORT OF INDEPENDENT AUDITORS

To the Members
Oakmont Senior Living LLC and Subsidiaries

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Oakmont Senior Living LLC (a California limited liability company) and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in owners' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oakmont Senior Living LLC and Subsidiaries (the Company) as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of Oakmont Senior Living LLC and Subsidiaries taken as a whole. The 2012 consolidating information presented on pages 20 through 23 is presented for purposes of additional analysis and is not a required part of the basic 2012 consolidated financial statements. Such consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Santa Rosa, California
April 26, 2013

CONSOLIDATED FINANCIAL STATEMENTS

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 33,577,800	$ 36,884,800
Restricted cash	5,636,700	7,285,600
Accounts receivable and other assets, net	945,300	2,179,200
Due from related parties	17,013,700	4,973,400
Investments in tenant-in-common interests	2,498,100	4,301,000
Deferred financing related costs, net	3,007,500	3,483,100
Investment in real estate		
Buildings and improvements	160,764,100	163,809,000
Land	17,741,000	14,139,800
Furniture, fixtures, and equipment	9,647,700	9,770,100
Projects under development	3,483,400	-
Accumulated depreciation	(37,847,600)	(30,997,200)
Total investments in real estate, net	153,788,600	156,721,700
Total assets	$ 216,467,700	$ 215,828,800
LIABILITIES AND OWNERS' DEFICIT		
Accounts payable and accrued liabilities	$ 3,042,100	$ 3,178,800
Accrued interest	23,800	4,900
Deferred revenue	520,100	1,009,600
Due to related parties	4,638,100	2,004,100
Deferred rent	4,005,400	9,552,000
Deferred revenue from entrance fees	129,746,700	130,037,600
Deferred gain	-	21,300,700
Notes payable to members	2,300,000	2,300,000
Debt obligations	143,369,400	141,869,400
Total liabilities	287,645,600	311,257,100
OWNERS' DEFICIT		
Noncontrolling interest	(10,915,200)	(9,338,000)
Controlling interest	(60,262,700)	(86,090,300)
Total owners' deficit	(71,177,900)	(95,428,300)
Total liabilities and owners' deficit	$ 216,467,700	$ 215,828,800

See accompanying notes.

	2012	2011
REVENUE		
Continuing care contracts	$ 22,296,500	$ 23,509,900
Non-continuing care contracts	16,575,800	15,426,900
Management fees	-	2,856,200
Total revenue	38,872,300	41,793,000
OPERATING EXPENSES		
Continuing care contracts operating expenses	14,847,200	16,135,000
Non-continuing care contracts operating expenses	8,128,900	7,662,200
Management fees	2,393,600	1,353,100
General and administrative	1,204,500	2,553,800
Letter of credit fees	2,069,000	813,200
Depreciation	7,149,300	6,540,300
Facility lease	4,564,100	5,478,200
Total expenses	40,356,600	40,535,800
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,484,300)	1,257,200
OTHER INCOME (EXPENSE)		
Gain on sales of real estate	22,288,900	3,548,600
Loss on investments in tenant-in-common interests	(123,500)	(53,400)
Interest income	184,000	224,000
Amortization of deferred financing related costs	(688,700)	(798,200)
Interest expense	(739,200)	(3,098,300)
Management contract settlement	-	(5,583,200)
Miscellaneous	27,700	(386,900)
INCOME (LOSS), before discontinued operations and allocation to noncontrolling interest	19,464,900	(4,890,200)
DISCONTINUED OPERATIONS		
Loss from operations	-	(6,561,000)
NET INCOME (LOSS), before allocation to noncontrolling interest	19,464,900	(11,451,200)
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(431,600)	386,800
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTEREST	$ 19,033,300	$ (11,064,400)

See accompanying notes.

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' DEFICIT
Years Ended December 31, 2012 and 2011

	Noncontrolling Interest	Controlling Interest	Total
BALANCE, December 31, 2010	$ (3,667,400)	$ (58,145,300)	$ (61,812,700)
Capital contributions	131,000	105,881,600	106,012,600
Member distributions	(5,414,800)	(122,762,200)	(128,177,000)
Net loss	(386,800)	(11,064,400)	(11,451,200)
BALANCE, December 31, 2011	(9,338,000)	(86,090,300)	(95,428,300)
Distribution of OSL Management LLC	-	13,282,900	13,282,900
Distribution of members' deficit in Villa Capri Property	298,100	4,945,800	5,243,900
Transfer of Alameda TIC to OakmontSL of Alameda LP	674,300	-	674,300
Member contributions	-	72,981,600	72,981,600
Member distributions	(2,981,200)	(84,416,000)	(87,397,200)
Net loss	431,600	19,033,300	19,464,900
BALANCE, December 31, 2012	$ (10,915,200)	$ (60,262,700)	$ (71,177,900)

See accompanying notes.

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from continuing care contracts	$ 15,898,600	$ 14,853,200
Cash received from entrance fees	18,950,700	37,562,100
Cash received from non-continuing care contracts - Cardinal Point	271,800	447,600
Cash received from non-continuing care contracts - Segovia	1,361,900	771,500
Cash received from non-continuing care contracts - all other	16,346,400	26,654,600
Cash received from affiliates, net	1,716,800	6,731,200
Cash paid to employees and suppliers	(24,070,200)	(38,897,000)
Cash paid for management fees	(2,393,600)	(1,698,800)
Cash paid for letter of credit fees	(2,069,000)	(813,200)
Cash paid for facility lease	(4,607,400)	(10,834,700)
Interest received	184,000	236,500
Interest paid	(721,000)	(4,809,400)
Miscellaneous receipts (payments)	27,700	(5,970,100)
Net cash from operating activities	20,896,700	24,233,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(5,846,400)	(2,726,200)
Cash received from (paid to) an affiliate on notes receivable	-	3,226,500
Cash received from investment in tenant-in-common interests	-	633,200
Proceeds from sale of investment in real estate	3,000,000	20,300
Net cash from investing activities	(2,846,400)	1,153,800
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of entrance fees	(11,647,800)	(10,004,800)
Proceeds from debt obligations	10,975,000	56,000,000
Payments on debt obligations	(5,645,000)	(47,450,600)
Change in restricted cash	(235,000)	(238,600)
Controlling interest distributions	(84,416,000)	(122,074,300)
Noncontrolling interest distributions	(2,543,400)	(5,414,800)
Controlling interest contributions	72,981,600	105,881,600
Noncontrolling interest contributions	-	131,000
Deferred financing related costs	(507,500)	(1,699,300)
Net cash from financing activities	(21,038,100)	(24,869,800)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,987,800)	517,500
CASH INCLUDED IN DISTRIBUTION OF OSL MANGEMENT LLC	(319,200)	-
CASH AND CASH EQUIVALENTS, beginning of year	36,884,800	36,367,300
CASH AND CASH EQUIVALENTS, end of year	$ 33,577,800	$ 36,884,800
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES		
Net income (loss)	$ 19,464,900	$ (11,451,200)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	7,149,300	6,903,900
Amortization of deferred financing related costs	688,700	798,200
Amortization of deferred revenue from entrance fees	(6,316,600)	(8,587,500)
Loss on investments in tenant-in-common interests	123,500	53,400
Gain on sales of real estate	(22,288,900)	(3,548,600)
Changes in:		
Restricted cash	2,072,300	8,835,300
Accounts receivable and other current assets	728,700	(334,900)
Due from related parties	(15,712,400)	2,354,300
Accounts payable and accrued liabilities	74,800	(68,900)
Accrued interest	18,200	(1,711,100)
Deferred revenue	(165,200)	(184,800)
Due to related parties	17,429,200	1,520,700
Deferred revenue from entrance fees	17,673,500	27,891,500
Deferred rent	(43,300)	1,763,200
Net cash from operating activities	$ 20,896,700	$ 24,233,500

See accompanying notes.

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

SUPPLEMENTAL CASH-FLOW INFORMATION				
Noncash investing and financing activities:				
Distribution of members' deficit in Villa Capri Property				
Deferred financing costs	$	646,100	$	-
Investment in real estate, net	$	14,260,000	$	-
Debt obligations	$	(20,150,000)	$	-
Owners' deficit	$	5,243,900	$	-
Distributions payable to members included in accounts payable and accrued liabilities	$	437,800	$	-
Distribution of OSL Management LLC, and Subsidiary				
Restricted cash	$	146,100	$	-
Accounts receivable and other assets	$	514,300	$	-
Due from related parties	$	3,672,100	$	-
Investment in tenant-in-common interests	$	825,000	$	-
Investment in real estate, net	$	2,588,700	$	-
Accounts payable and accrued liabilities	$	(733,000)	$	-
Due to related parties	$	(14,795,200)	$	-
Deferred income	$	(324,300)	$	-
Deferred rent	$	(5,503,300)	$	-
Owners' equity	$	13,282,900	$	-
Transfer from Alameda TIC to OakmontSL of Alameda LP				
Restricted cash	$	(334,500)	$	-
Accounts receivable and other assets	$	(9,100)	$	-
Investments in TICs	$	854,400	$	-
Investment in real estate, net	$	(17,230,300)	$	-
Deferred financing costs	$	(351,700)	$	-
Accounts payable and accrued liabilities	$	83,700	$	-
Accrued interest payable	$	700	$	-
Debt obligations	$	16,320,000	$	-
Owners' equity	$	674,300	$	-
Sale of ownership interest in American Senior Living of San Rafael LLC				
Accounts receivable and other assets	$	-	$	3,100
Investment in real estate	$	-	$	333,000
Accounts payable and accrued liabilities	$	-	$	(204,300)
Due to related parties	$	-	$	(611,800)
Deferred rent	$	-	$	(566,700)
Owners' equity	$	-	$	1,046,700

See accompanying notes.

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations – Oakmont Senior Living LLC (the Company) was formed on November 1, 2000, as a California limited liability company. The Company's purpose is to develop, construct, operate, lease, and own apartments, independent living, assisted living, and continuing care retirement communities. The Company operates retirement facilities it owns or leases in Chino Hills, Escondido, Alameda, Santa Rosa, Palm Desert, and Concord, California. The Company is currently in the development phase of two more retirement facilities in Brea and Santa Rosa, California that are expected to be completed in late 2013. The Company also owns and leases an apartment complex in Santa Rosa, California.

Basis of accounting and principles of consolidation – The consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and the following entities:

OSL Operations of Chino Hills LLC
OSL of Escondido LLC
OSL of Chino Hills LLC
OakmontSL of Chino Hills LP
American Senior Living of San Rafael LLC [Sold January 1, 2011]
Cardinal Point at Mariner Square LLC
Cardinal Point Social Club LLC
OSL of Alameda LLC
Oakmont Ventures, LLC [Distributed to members January 1, 2012]
Capriana Operations LLC
OSL of Vineyard Creek LLC
Vineyard Creek LP
OakmontSL of Alameda LP
Varenna at Fountaingrove LLC
Varenna LLC
Varenna Apartments LLC
Varenna Assisted Living LLC
OSL Management LLC [Distributed to members January 1, 2012]
Varenna Care Center LP
Segovia Operations LLC
Fountaingrove Lodge LLC

The purpose of these entities is to develop, construct, operate, lease, and own apartments, independent living, assisted living, and continuing care retirement communities. All significant transactions between these entities have been eliminated.

On January 1, 2012, OSL Management LLC, and its wholly owned subsidiary, Oakmont Ventures, LLC, were distributed proportionately to the individual members of the Company.

The Company adopted accounting standards that address consolidation by business enterprises of variable interest entities (VIEs). The Company has considered its agreements and business activities with related parties in order to determine whether any of the relationships would qualify as VIEs and whether the Company would be deemed to be the primary beneficiary and be required to consolidate the activities of these VIEs in the Company's consolidated financial statements. The Company identified OSL of Escondido LLC; OSL of Chino Hills LLC; OakmontSL of Chino Hills LP; American Senior Living LLC; and Vineyard Creek LP, as VIEs and has concluded that it is the primary beneficiary in accordance with GAAP, primarily due to the fact that the Company has an ownership percentage of 49.95% to 50% and ultimately the Company, combined with its related parties and de facto agents, controls and supports the activities that most significantly impact the entities. These entities have been financed through bank debt and capital contributions. The Company's consolidated equity is reflected as the controlling financial interest in the accompanying consolidated financial statements. The Company does not consider tenancy-in-common arrangements to be VIEs.

The total impact to the consolidated financial statements at December 31, 2012 and 2011, and for the years then ended, consisted of the following:

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,431,300	$ 910,000
Restricted cash	723,300	1,279,100
Accounts receivable and other assets	1,739,400	1,523,200
Notes receivable	141,200	344,400
Due from related parties	2,770,100	2,553,700
Deferred financing related costs, net	1,190,400	1,365,000
Investment in real estate		
Buildings and improvements	52,429,000	52,429,000
Land	9,632,600	9,632,600
Furniture, fixtures, and equipment	1,967,300	1,967,300
Accumulated depreciation	(14,540,000)	(12,519,600)
Total investments in real estate, net	49,488,900	51,509,300
Total assets	$ 57,484,600	$ 59,484,700
LIABILITIES AND OWNERS' DEFICIT		
Accounts payable and accrued liabilities	$ 477,100	$ 423,100
Accrued interest	18,600	2,600
Deferred revenue	227,300	217,300
Due to related parties	248,200	95,900
Debt obligations	66,907,000	66,907,000
Total liabilities	67,878,200	67,645,900
OWNERS' DEFICIT		
Noncontrolling interest	(4,684,500)	(3,634,700)
Controlling interest	(5,709,100)	(4,526,500)
Total owners' deficit	(10,393,600)	(8,161,200)
Total liabilities and owners' deficit	$ 57,484,600	$ 59,484,700

As a member in the VIEs, the Company would provide additional support through contributions or intercompany loans to cover operations if the need arose. The lenders on the mortgages do not have any recourse against the assets of the Company (Note 5).

OSL Construction, Inc. (OSL Construction), is wholly owned by the managing member of the Company and was formed in 2001 with the intention that it would perform the construction of all the real estate properties for the Company and other affiliated companies. Prior to 2012 OSL Construction was determined to constitute a VIE in accordance with GAAP, and the Company determined it was not the primary beneficiary of OSL Construction. The activities for which the power to direct the activities of OSL Construction was evaluated in making this determination included fixed contracts for unconsolidated entities, and the Company concluded that the sole shareholder of OSL Construction, and not the Company was determined to hold this decision making power. Further, it was concluded that the sole shareholder of OSL Construction has the obligation to absorb potential losses and the right to receive the benefits derived from OSL Construction. Future construction projects are expected be financed through contributions by the sole member of OSL Construction. The Company does not believe they are exposed to any future losses from the relationship with OSL Construction. Effective in 2012, the Company has concluded that OSL Construction is no longer a VIE.

The Company has no direct ownership in OSL Construction and has not provided any financial or other support, explicitly or implicitly during 2012 or 2011 that it was not previously contractually required to provide. While the Company has neither a contractual obligation to do so nor any current intent, it may voluntarily elect to provide OSL Construction with additional direct or indirect financial support based on OSL Construction's business objectives and cash flow needs.

The summarized financial information for OSL Construction at December 31, 2011 is as follows:

ASSETS		
Cash and cash equivalents	$	15,100
Accounts receivable and other assets		286,500
Costs in excess of billings		415,000
Construction equipment, net		1,000
Construction in progress		1,498,200
Total assets	$	2,215,800
LIABILITIES AND OWNERS' EQUITY		
Accounts payable and accrued liabilities	$	339,700
Due to the Company		172,200
Total liabilities		511,900
Owners' equity		1,703,900
Total liabilities and owners' equity	$	2,215,800
STATEMENTS OF OPERATIONS		
Construction contract revenues - related party	$	2,417,600
Cost of construction contract revenues		2,282,200
		135,400
General and administrative		378,900
Management fees		48,000
Total expenses		426,900
NET INCOME (LOSS)	$	(291,500)

Use of estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of risk – Financial instruments potentially subjecting the Company to concentrations of credit risk consist primarily of demand deposits and other cash accounts (including restricted amounts) that may be in excess of FDIC insured limits, and accounts receivable.

Cash and cash equivalents – The Company considers all highly-liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Restricted cash – Restricted cash consists of collections for entrance fee deposits, operating expense impound accounts required by the Company's lenders, and restricted cash accounts used as collateral as required by one of the Company's lenders.

Investments in real estate – Investments in real estate is recorded at the lesser of cost or estimated fair-market value, if impaired, and includes interest and property taxes capitalized on long-term construction projects during the construction period, as well as other costs directly related to the development and construction of facilities. Investment earnings from unexpended proceeds of tax-exempt borrowings are also capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	30 - 40 years
Furniture, fixtures, and equipment	3 - 10 years

The Company reviews its investments in real estate whenever events or changes in circumstances indicate that the cost basis of such assets may not be recoverable. If the cost basis of an investment in real estate is greater than the projected future undiscounted net cash flows (before interest) from that property, an impairment loss is recognized. Impairment losses are calculated as the difference between the property's cost basis and its estimated fair value, net of disposal costs. No such impairment losses have been recognized to date. An investment in real estate held for sale is carried at the lower of its carrying amount or estimated fair value less costs to sell. The Company considers an investment in real estate held for sale when the property is being actively marketed for sale, and expects it to sell within one year. There were no properties held for sale at December 31, 2012 and 2011.

Accounts receivable and other assets – Accounts receivable and other assets consist of trade receivables, receivables from tenants, deposits, and prepaid expenses. Accounts receivable consists of payments owed from residents for services rendered, which does not represent concentrated credit risks to the Company. Management regularly monitors and adjusts its reserves and allowances related to these receivables. Accounts deemed to be uncollectible are written-off only after all reasonable collection efforts are exhausted. At December 31, 2012 and 2011, accounts receivable is presented net of an allowance of approximately $6,300 and $107,300, respectively.

Investments in tenant-in-common interests – Investments in tenant-in-common (TIC) interests are accounted for using the equity method of accounting, whereby the Company's investment balance reflects its proportionate share of profits and losses from the TIC interests. Contributions made to the TIC interests are reflected as increases in the Company's investment balance and distributions are reflected as decreases. During 2012, the Company distributed its interest in the Airplane TIC as part of the distribution of its membership interest in OSL Management LLC. Also during 2012, the Alameda TIC interest was restructured into an LLC and is now included in the consolidated group (Note 3).

Deferred rent – Deferred rent consists of the difference between the amount recognized as rent expense and the amount of rent paid due to step increases in the lease agreement.

Deferred financing related costs – Costs incurred in connection with obtaining construction and permanent financing have been deferred and are amortized on a straight line basis over the term of the associated indebtedness, which approximates the effective-interest method.

Interest rate caps – The Company entered into interest rate cap agreements associated with its borrowings as disclosed in Note 5. An interest rate cap is considered a derivative financial instrument in accordance with accounting standards that require every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its estimated fair value. The accounting standards also require that changes in the derivative's fair value be recognized currently in consolidated earnings unless specific hedge accounting criteria are met. The only derivatives used by the Company are interest rate caps with changes in their fair-market value recorded as a component of interest expense. As of December 31, 2012 and 2011, management has determined the difference between the carrying value and the fair-market value of the derivatives to be immaterial.

Revenue recognition – Resident fee revenue is recorded when services are rendered and consist of fees for basic housing, support services, and fees associated with additional services, such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenues for certain care services provided are also charged in advance. Additional ancillary charges are billed monthly in arrears. As of December 31, 2012 and 2011, approximately $520,100 and $1,009,600, respectively, has been recorded in deferred revenue related to fees paid by applicants prior to occupancy.

Residents pay an entrance fee to occupy a unit and pay monthly fees for housing, food, and services. The Company has residency agreements that require the resident to pay an upfront entrance fee prior to joining the community that are 100% refundable within 90 days of occupancy. After the initial 90 days of occupancy, the entrance fees are a combination of refundable and non-refundable in accordance with the terms of the contracts. The nonrefundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee is refundable upon the resale of the unit and is amortized over the remaining life of the facility.

Certain contracts require the refundable portion of the entrance fee to be refunded only upon resale of the unit (contingently refundable). Upon resale, the Company may receive re-occupancy proceeds in the form of additional contingently refundable fees, refundable fees, or nonrefundable fees.

Deferred revenue from entrance fees, amortized over the life of the facility and subject to refund, was approximately $103,967,800 and $104,025,000 at December 31, 2012 and 2011, respectively. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements. Deferred revenue amortized over the stay of residents was approximately $25,778,900 and $26,012,600 at December 31, 2012 and 2011, respectively.

Revenue recognized from amortization of refundable and nonrefundable entrance fees totaled $6,316,600 and $8,587,500 for the years ended December 31, 2012 and 2011, respectively.

The Company's operations also include leasing apartment units. Rental income is recognized on a straight-line basis over the lives of the related leases when collectability is reasonably assured. The lease terms are generally for periods of one year or less. Differences between the rental revenue recognized and amounts due under the respective lease agreements with terms in excess of one year are recorded as deferred rent receivable. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Advertising – The Company expenses its advertising costs as they are incurred. Advertising expenses amounted to $686,400 and $639,200 for the years ended December 31, 2012 and 2011, respectively.

Income taxes – The Company is taxed as a partnership for federal and state purposes. As a partnership, all federal and state income tax liability flows through to the Company's members. No provision for income taxes is included in the accompanying consolidated financial statements.

The Company follows the accounting standard related to accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters, such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the State of California. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return. The Company recognizes interest and penalties related to income tax matters in operating expenses.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Company has determined that no accrual for the obligation to provide future services and use of facilities to current residents was required at December 31, 2012 and 2011. The discount rate used to calculate the obligation to provide future services is 5%.

Statutory cash reserve requirements – The Company is subject to statutory cash reserve requirements. At December 31, 2012 and 2011, the Company's reserves were in excess of such requirements by $23,244,800 and $14,333,700, respectively, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code.

New accounting pronouncements – In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees* ("ASU No. 2012-01") to clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The adoption of ASU No. 2012-01 is effective for the Company beginning January 1, 2014. Management is currently evaluating the impact of the adoption of ASU No. 2012-01 on the Company's consolidated financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date, but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet, but arose after the consolidated balance sheet date and before the consolidated financial statements were available to be issued.

The Company has evaluated subsequent events through April 26, 2013, which is the date the consolidated financial statements were available to be issued, in accordance with the Company's policy related to disclosures of subsequent events, and has not identified any material events that should be disclosed.

Reclassifications – Certain reclassifications have been made to conform the prior year consolidated financial statements to the current year presentation. Such reclassifications had no impact on the consolidated results of operations, as previously reported.

NOTE 2 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has adopted accounting standards for fair value measurements for all financial instruments accounted for at fair value on a recurring basis. The accounting standards establish a framework for measuring fair value and expand related disclosures. Broadly, this framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The standard establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by the standard are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The three levels of inputs used to establish fair-value are as follows:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drives are observable.

Level 3: Significant inputs to the valuation model that are unobservable.

As of December 31, 2012 and 2011, the Company had no material balances recorded at fair value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates fair value because of the short maturity of those instruments.

Interest rate caps – The interest rate caps are recorded at the estimated fair value, which management has determined is not material.

Debt obligations – The fair value of the Company's debt obligations is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The estimated fair values of the Company's debt obligations approximate the carrying values at December 31, 2012 and 2011.

NOTE 3 – INVESTMENTS IN TENANT-IN-COMMON INTERESTS

The Company owned the following interest in TIC interests as of December 31:

Investment	% Interest	Description of Property	2012	2011
Bell Village	40.33%	Land held for development	$ 2,498,100	$ 2,621,600
Airplane	33.33%	Airplane	-	825,000
Alameda TIC	66.56%	Real estate - senior living facility	-	854,400
			$ 2,498,100	$ 4,301,000

During 2012, the Company distributed its interest in the Airplane TIC as part of the distribution of its membership interest in OSL Management LLC. Also during 2012, the Alameda TIC interest was restructured into an LLC and is now included in the consolidated group.

Combined condensed financial information for the TIC interest as of and for the year ended December 31, 2012, was as follows:

	Bell Village (unaudited)
Other assets	$ 641,000
Investment in real estate	7,959,600
Construction-in-progress	10,778,200
	$ 19,378,800
Other liabilities	$ 572,100
Debt obligations	5,689,400
Equity	13,117,300
	$ 19,378,800
Rent revenue	$ 33,600
General and administrative	(339,900)
Net income (loss)	$ (306,300)

Combined condensed financial information for the TIC interests as of and for the year ended December 31, 2011, was as follows:

	Alameda TIC	Bell Village (unaudited)	Airplane	Total
Other assets	$ 663,400	$ 379,500	$ 2,475,000	$ 3,517,900
Investment in real estate	17,230,300	7,959,600	-	25,189,900
Construction-in-progress	-	10,353,200	-	10,353,200
	$ 17,893,700	$ 18,692,300	$ 2,475,000	$ 39,061,000
Other liabilities	$ 45,000	$ 333,000	$ -	$ 378,000
Debt obligations	16,320,000	5,358,000	-	21,678,000
Equity	1,528,700	13,001,300	2,475,000	17,005,000
	$ 17,893,700	$ 18,692,300	$ 2,475,000	$ 39,061,000
Rent revenue	$ 1,219,900	$ 32,000	$ -	$ 1,251,900
General and administrative	(926,300)	(139,300)	(450,000)	(1,515,600)
Interest expense	(80,300)	-	-	(80,300)
Net income (loss)	$ 213,300	$ (107,300)	$ (450,000)	$ (344,000)

Future minimum principal payments due under the debt obligations subsequent to December 31, 2012, are as follows:

Year Ending December 31,		
2013	$	2,238,200
2014		602,900
2015		26,100
2016		27,500
2017		19,524,100
Thereafter		120,950,600
	$	143,369,400

NOTE 6 – NOTES PAYABLE TO MEMBERS

	2012	2011
Note payable to member's Roth IRA for $2,300,000; bearing interest of 8% per annum; payable monthly on the first of each month; maturing in January 2015; secured by real property of an affiliated entity	$ 2,300,000	$ 2,300,000

Interest on these loans totaled $184,400 and $184,000 for the years ended December 31, 2012 and 2011, respectively. Included in accrued interest is interest payable to members of $400 and $0 at December 31, 2012 and 2011, respectively, which relates to notes payable to members that were paid off in previous years.

NOTE 7 – RELATED-PARTY TRANSACTIONS

As of December 31, 2012 and 2011, the Company had amounts due from related parties of $17,013,700 and $4,973,400, respectively. As of December 31, 2012 and 2011, the Company had amounts due to related parties of $4,638,100 and $2,004,100, respectively. These balances are noninterest bearing and are due on demand.

The Company entered into notes receivable agreements with affiliated companies and is charging interest at a rate of 6%. The notes are payable on demand. The notes receivable balance was $3,599,400 and $2,285,300 as of December 31, 2012 and 2011, respectively, and is included in due from related parties in the consolidated balance sheets. During 2012 and 2011, the Company recorded interest income of $144,000 and $174,500, respectively, on these notes, which is included in interest income in the consolidated statements of operations. There was no interest income receivable at December 31, 2012 and 2011.

Pursuant to asset management agreements between the Company and affiliated entities, the Company is obligated to receive monthly asset management fees. For the year ended December 31, 2011, asset management fees in the amount of $473,000 were incurred and are included in management fee income in the accompanying consolidated statements of operations. There were no asset management fees incurred for the year ended December 31, 2012.

The Company receives reimbursement for overhead costs from an unconsolidated affiliate. The reimbursements totaled $0 and $2,383,200 for the years ended December 31, 2012 and 2011, respectively, and are included in management fee income in the accompanying consolidated statements of operations.

The Company's majority member has a controlling financial interest in a financial institution. As of December 31, 2012 and 2011, the Company had cash deposits with this financial institution of $19,752,000 and $25,279,100, respectively, and had outstanding debt obligations due to this financial institution of $583,000 and $589,900, respectively, (Note 5). For the years ended December 31, 2012 and 2011, the Company paid interest of $47,000 and $47,500, respectively, to this financial institution.

During the year, the Company purchased a parcel of land from an outside party for $2,011,800 and then sold this parcel of land to a related party for $3,000,000, resulting in a gain on sale of real estate of $988,200 for the year ended December 31, 2012.

Pursuant to asset management agreements between the Company and an unconsolidated affiliate, the Company is obligated to pay monthly asset management fees in the amount of $662,000, which were paid to the unconsolidated affiliate during the year ended December 31, 2012.

NOTE 8 – OWNERS' DEFICIT

Membership investments in OSL of Chino Hills LLC are entitled to an annual priority return equal to 8% of invested capital. Invested capital for this membership interest was $3,114,400 at December 31, 2012 and 2011.

The liability of each member of Oakmont Senior Living LLC is limited to the amount of his or her required capital contribution. The Company will cease to exist on January 30, 2051, unless it is dissolved at an earlier date in accordance with the operating agreement.

NOTE 9 – EMPLOYEE BENEFIT PLAN

The Company sponsors a 401(k) defined contribution retirement plan for all full-time employees with at least 12 months of continuous service and who have reached the age of 21 years. The plan is qualified under Section 401(k) of the Internal Revenue Code so that contributions to the plan by the Company are not taxable until distributed to employees. The Company matches up to 3% of each participating employee's annual salary at its discretion, and such employer contributions are vested immediately. Employer contributions totaling $0 and $65,500 were made to the plan for the years ended December 31, 2012 and 2011, respectively.

NOTE 10 – DEFERRED GAIN ON SALES OF PROPERTY AND EQUIPMENT

During 2005, two consolidated entities each sold an assisted living facility with a total carrying cost of $38,109,600 for a combined sales price of $78,000,000. The sales price included cash amounting to $31,320,600, a note receivable of $1,500,000, ownership units received of $5,839,400, and the assumption of debt by the buyers amounting to $39,340,000. Another consolidated entity then entered into 15-year lease agreements with the buyers for these two properties. Gain in the amount of $37,224,300 was deferred related to these two sales and is being recognized ratably over the terms of the leases. As leases for these two properties were distributed to the members along with OSL Management LLC during 2012, the Company no longer has any continuing involvement with the properties. Therefore, any previously unrecognized gain was recognized during 2012. The Company recognized gain of $21,300,700 and $2,481,600 for 2012 and 2011, respectively.

NOTE 11 – COMMITMENTS

The Company operates assisted living facilities under long-term noncancelable operating leases with initial lease terms of 15 years, renewal options of 15 to 30 years, and expiration dates through October 2032. The Company also leases an office building under a noncancelable operating lease with an expiration date of March 2013. Operating lease rent expense is recorded on the straight-line basis and amounted to $4,564,100 and $5,478,200 for the years ended December 31, 2012 and 2011, respectively. The adjustment to straight-line the lease expense resulted in a deferred rent liability of $4,005,400 and $9,552,000 as of December 31, 2012 and 2011, respectively.

Future minimum lease payments under these operating lease agreements in effect as of December 31, 2012, are as follows:

Year Ending December 31,		
2012	$	6,358,100
2013		6,437,400
2014		6,286,900
2015		6,426,300
2016		6,451,400
Thereafter		55,802,500
	$	87,762,600

NOTE 12 – CONTINGENCIES

Environmental matters – The Company is not aware of any environmental liability with respect to the properties that would have a material adverse effect on the Company's business, consolidated assets, or consolidated results of operations. There can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on the Company's consolidated results of operations.

Litigation – The Company may be involved, from time-to-time, in legal actions relating to the ownership and operations of its properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

Report of Independent Auditors and
Consolidated Financial Statements with
Consolidating Information

Oakmont Senior Living LLC and Subsidiaries

December 31, 2012 and 2011

CONTENTS

CONSOLIDATING INFORMATION

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
December 31, 2012

	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
ASSETS												
Cash and cash equivalents	$ 16,596,600	$ 1,000	$ 447,100	$ 5,800	$ 11,477,000	$ 4,692,600	$ 350,700	$ 5,200	$ 1,800	$ 33,577,800	$ -	$ 33,577,800
Restricted cash	1,549,200	-	90,600	-	949,700	-	172,200	1,448,400	1,426,600	5,636,700	-	5,636,700
Accounts receivable and other assets, net	573,200	-	49,900	3,500	186,000	54,700	78,000	-	-	945,300	-	945,300
Due from related parties	22,139,900	-	10,594,600	-	22,273,000	1,221,000	4,341,800	-	-	60,570,300	(43,556,600)	17,013,700
Investments in tenant-in-common interests	2,498,100	-	-	-	-	-	-	-	-	2,498,100	-	2,498,100
Deferred financing related costs, net	1,494,300	-	-	21,800	1,491,400	-	-	-	-	3,007,500	-	3,007,500
Investments in subsidiaries	(50,635,900)	(19,982,000)	-	-	-	-	-	-	-	(70,617,900)	70,617,900	-
Investment in real estate												
Buildings and improvements	68,990,500	-	17,100	5,285,800	85,740,800	570,400	159,500	-	-	160,764,100	-	160,764,100
Land	13,905,000	-	-	71,000	3,765,000	-	-	-	-	17,741,000	-	17,741,000
Furniture, fixtures, and equipment	3,463,200	-	1,117,400	51,500	4,582,700	126,600	291,800	7,300	7,200	9,647,700	-	9,647,700
Projects under development	3,483,400	-	-	-	-	-	-	-	-	3,483,400	-	3,483,400
Accumulated depreciation	(19,509,700)	-	(872,900)	(1,017,000)	(16,179,100)	(120,600)	(142,700)	(4,000)	(1,600)	(37,847,600)	-	(37,847,600)
Total investments in real estate, net	70,332,400	-	261,600	4,391,300	77,909,400	576,400	308,600	3,300	5,600	153,708,600	-	153,780,600
Total assets	$ 64,547,000	$ (19,981,000)	$ 11,443,800	$ 4,422,400	$ 114,206,500	$ 6,544,700	$ 5,251,300	$ 1,456,900	$ 1,434,000	$ 189,406,400	$ 27,061,300	$ 216,467,700
LIABILITIES AND OWNERS' EQUITY (DEFICIT)												
Accounts payable and accrued liabilities	$ 1,258,500	$ 440,300	$ 248,700	$ 10,200	$ 421,300	$ 426,600	$ 212,500	$ 24,000	$ -	$ 3,042,100	$ -	$ 3,042,100
Accrued interest	19,900	-	-	3,900	-	-	-	-	-	23,800	-	23,800
Deferred revenue	258,400	-	62,300	13,500	180,600	3,900	1,400	-	-	520,100	-	520,100
Due to related parties	12,479,700	-	7,521,000	-	22,553,400	1,273,200	4,367,400	-	-	48,194,700	(43,556,600)	4,638,100
Deferred rent	-	-	-	-	-	4,005,400	-	-	-	4,005,400	-	4,005,400
Deferred revenue from entrance fees	-	-	-	-	83,022,300	26,264,500	17,584,900	1,448,400	1,426,600	129,746,700	-	129,746,700
Notes payable to members	2,300,000	-	-	-	-	-	-	-	-	2,300,000	-	2,300,000
Debt obligations	85,437,000	-	-	1,932,400	56,000,000	-	-	-	-	143,369,400	-	143,369,400
Total liabilities	101,753,500	440,300	7,832,000	1,960,000	162,177,600	31,973,600	22,166,200	1,472,400	1,426,600	331,202,200	(43,556,600)	287,645,600
OWNERS' EQUITY (DEFICIT)												
Noncontrolling interest	(1,738,300)	(4,452,400)	(109,700)	(128,400)	(2,019,100)	(2,467,300)	-	-	-	(10,915,200)	-	(10,915,200)
Controlling interest	(35,467,400)	(15,968,900)	3,721,500	2,590,800	(45,872,000)	(22,961,600)	(16,914,900)	(15,500)	7,400	(130,880,600)	70,617,900	(60,262,700)
Total owners' equity (deficit)	(37,205,700)	(20,421,300)	3,611,800	2,462,400	(47,891,100)	(25,428,900)	(16,914,900)	(15,500)	7,400	(141,795,800)	70,617,900	(71,177,900)
Total liabilities and owners' equity (deficit)	$ 64,547,800	$ (19,981,000)	$ 11,443,800	$ 4,422,400	$ 114,286,500	$ 6,544,700	$ 5,251,300	$ 1,456,900	$ 1,434,000	$ 189,406,400	$ 27,061,300	$ 216,467,700

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES												
Cash received from continuing care contracts	$ -	$ -	$ -	$ -	$ 8,418,100	$ 3,590,500	$ 3,890,000	$ -	$ -	$ 15,898,600	$ -	$ 15,898,600
Cash received from entrance fees	-	-	-	-	9,701,000	6,019,800	2,619,800	39,000	490,300	18,950,700	-	18,950,700
Cash received from non-continuing care contracts - Cardinal Point	-	-	-	-	-	-	271,800	-	-	271,800	-	271,800
Cash received from non-continuing care contracts - Segovia	-	-	-	-	-	1,361,900	-	-	-	1,361,900	-	1,361,900
Cash received from non-continuing care contracts - all other	11,409,700	-	4,717,300	219,400	-	-	-	-	-	16,346,400	-	16,346,400
Cash received from rent revenue	1,253,400	-	-	-	-	-	-	-	-	1,253,400	(1,253,400)	-
Cash received from (paid to) affiliates, net	4,567,000	-	(3,087,500)	(1,100)	252,100	(16,900)	3,200	-	-	1,716,800	-	1,716,800
Cash paid to employees and suppliers	(5,135,600)	(17,000)	(2,718,300)	(75,700)	(7,219,500)	(5,660,400)	(3,208,700)	(31,300)	(3,700)	(24,070,200)	-	(24,070,200)
Cash paid for management fees	(797,200)	(30,000)	(366,400)	(4,500)	(548,600)	(351,800)	(295,100)	-	-	(2,393,600)	-	(2,393,600)
Cash paid for letter of credit fees	(556,900)	-	(292,700)	-	(1,219,400)	-	-	-	-	(2,069,000)	-	(2,069,000)
Cash paid for facility lease	-	-	(300,000)	-	-	(4,307,400)	(1,253,400)	-	-	(5,860,800)	1,253,400	(4,607,400)
Interest received	162,300	-	2,800	-	16,800	2,100	-	-	-	184,000	-	184,000
Interest paid	(455,700)	-	(26,500)	(113,900)	(124,900)	-	-	-	-	(721,000)	-	(721,000)
Miscellaneous receipts (payments)	24,000	-	-	3,700	-	-	-	-	-	27,700	-	27,700
Net cash from operating activities	10,471,000	(47,000)	(2,071,300)	27,900	9,356,400	637,800	2,027,600	7,700	486,600	20,896,700	-	20,896,700
CASH FLOWS FROM INVESTING ACTIVITIES												
Investment in real estate	(5,579,700)	-	(28,100)	-	(61,200)	(28,600)	(148,800)	-	-	(5,846,400)	-	(5,846,400)
Proceeds from sale of investment in real estate	3,000,000	-	-	-	-	-	-	-	-	3,000,000	-	3,000,000
Receipts from investment in subsidiary	-	13,100	-	-	-	-	-	-	-	13,100	(13,100)	-
Net cash from investing activities	(2,579,700)	13,100	(28,100)	-	(61,200)	(28,600)	(148,800)	-	-	(2,833,300)	(13,100)	(2,846,400)
CASH FLOWS FROM FINANCING ACTIVITIES												
Refunds of entrance fees	-	-	-	-	(7,575,700)	(1,226,900)	(2,315,900)	(39,000)	(490,300)	(11,647,800)	-	(11,647,000)
Proceeds from debt obligations	2,210,000	-	8,765,000	-	-	-	-	-	-	10,975,000	-	10,975,000
Payments on debt obligations	-	-	(5,615,000)	(30,000)	-	-	-	-	-	(5,645,000)	-	(5,645,000)
Change in restricted cash	-	-	603,700	-	(838,700)	-	-	-	-	(235,000)	-	(235,000)
Controlling interest distributions	(42,120,200)	(15,365,000)	(2,269,700)	(1,044,000)	(19,820,200)	-	-	-	-	(80,619,100)	(3,796,900)	(84,416,000)
Noncontrolling interest distributions	(2,543,400)	-	-	-	-	-	-	-	-	(2,543,400)	-	(2,543,400)
Controlling interest contributions	33,780,900	15,398,400	562,600	1,047,800	16,266,600	1,339,000	737,300	36,000	3,000	69,171,600	3,810,000	72,981,600
Deferred financing related costs	(21,400)	-	(486,100)	-	-	-	-	-	-	(507,500)	-	(507,500)
Net cash from financing activities	(8,694,100)	33,400	1,560,500	(26,200)	(11,968,000)	112,100	(1,578,600)	(3,000)	(487,300)	(21,051,200)	13,100	(21,038,100)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(802,800)	(500)	(538,900)	1,700	(2,672,800)	721,300	300,200	4,700	(700)	(2,987,800)	-	(2,987,800)
CASH INCLUDED IN DISTRIBUTION OF OSL MANAGEMENT LLC	(319,200)	-	-	-	-	-	-	-	-	(319,200)	-	(319,200)
CASH AND CASH EQUIVALENTS, beginning of year	17,718,600	1,500	986,000	4,100	14,149,800	3,971,300	50,500	500	2,500	36,884,800	-	36,884,800
CASH AND CASH EQUIVALENTS, end of year	$ 16,596,600	$ 1,000	$ 447,100	$ 5,800	$ 11,477,000	$ 4,692,600	$ 350,700	$ 5,200	$ 1,800	$ 33,577,800	$ -	$ 33,577,800

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
Year ended December 31, 2012

RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
Net income (loss)	$ 23,594,500	$ (47,000)	$ 129,600	$ (156,700)	$ (455,000)	$ (3,457,400)	$ (80,700)	$ (57,700)	$ (4,700)	$ 19,464,900	$ -	$ 19,464,900
Adjustments to reconcile net income (loss) to net cash from operating activities:												
Depreciation	2,760,600	-	612,600	183,500	3,493,900	42,900	52,400	2,400	1,000	7,149,300	-	7,149,300
Amortization of deferred financing related costs	243,900	-	240,200	2,200	202,400	-	-	-	-	688,700	-	688,700
Amortization of deferred revenue from entrance fees	-	-	-	-	(3,963,300)	(1,705,300)	(568,000)	-	-	(6,316,600)	-	(6,316,600)
Loss on investments in tenant-in-common interests	123,500	-	-	-	-	-	-	-	-	123,500	-	123,500
Gain on sales of real estate	(22,288,900)	-	-	-	-	-	-	-	-	(22,288,900)	-	(22,288,900)
Changes in:												
Restricted cash	813,300	-	(18,200)	-	(62,400)	2,997,100	(60,700)	(1,402,400)	(194,400)	2,072,300	-	2,072,300
Accounts receivable and other current assets	783,600	-	(17,600)	900	(76,400)	21,000	17,200	-	-	728,700	-	728,700
Due from related parties	(7,894,900)	-	(5,747,800)	-	(4,691,200)	556,300	(893,800)	-	-	(18,671,400)	2,959,000	(15,712,400)
Accounts payable and accrued liabilities	(64,200)	-	69,300	(5,000)	85,200	(65,600)	31,100	24,000	-	74,800	-	74,800
Accrued interest	16,600	-	(2,300)	3,900	-	-	-	-	-	18,200	-	18,200
Deferred revenue	(78,900)	-	2,600	200	35,700	(77,400)	(47,400)	-	-	(165,200)	-	(165,200)
Due to related parties	12,461,900	-	2,660,300	(1,100)	4,943,300	(573,200)	897,000	-	-	20,388,200	(2,959,000)	17,429,200
Deferred revenue from entrance fees	-	-	-	-	9,844,200	3,022,700	2,680,500	1,441,400	684,700	17,673,500	-	17,673,500
Deferred rent	-	-	-	-	-	(43,300)	-	-	-	(43,300)	-	(43,300)
Net cash from operating activities	$ 10,471,000	$ (47,000)	$ (2,071,300)	$ 27,900	$ 9,356,400	$ 637,800	$ 2,027,600	$ 7,700	$ 406,600	$ 20,896,700	$ -	$ 20,896,700
SUPPLEMENTAL CASH-FLOW INFORMATION												
Noncash investing and financing activities:												
Distribution of members' deficit in Villa Capri Property												
Deferred financing costs	$ -	$ -	$ 646,100	$ -	$ -	$ -	$ -	$ -	$ -	$ 646,100	$ -	$ 646,100
Investment in real estate, net	$ -	$ -	$ 14,260,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,260,000	$ -	$ 14,260,000
Debt obligations	$ -	$ -	$ (20,150,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20,150,000)	$ -	$ (20,150,000)
Owners' deficit	$ -	$ 5,243,900	$ 3,796,900	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,040,800	$ (3,796,900)	$ 5,243,900
Distributions payable to members included in accounts payable and accrued liabilities	$ -	$ 437,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 437,800	$ -	$ 437,800
Distribution of OSL Management LLC, and Subsidiary												
Restricted cash	$ 146,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 146,100	$ -	$ 146,100
Accounts receivable and other assets	$ 514,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 514,300	$ -	$ 514,300
Due from related parties	$ 3,672,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,672,100	$ -	$ 3,672,100
Investment in tenant-in-common interests	$ 825,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 825,000	$ -	$ 825,000
Investment in real estate, net	$ 2,588,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,588,700	$ -	$ 2,588,700
Accounts payable and accrued liabilities	$ (733,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (733,000)	$ -	$ (733,000)
Due to related parties	$ (14,795,200)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (14,795,200)	$ -	$ (14,795,200)
Deferred income	$ (324,300)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (324,300)	$ -	$ (324,300)
Deferred rent	$ (5,503,300)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,503,300)	$ -	$ (5,503,300)
Owners' equity	$ 13,282,900	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,282,900	$ -	$ 13,282,900
Transfer from Alameda TIC to OakmontSL of Alameda LP												
Restricted cash	$ (334,500)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (334,500)	$ -	$ (334,500)
Accounts receivable and other assets	$ (9,100)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (9,100)	$ -	$ (9,100)
Investments in TICs	$ 854,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 854,400	$ -	$ 854,400
Investment in real estate, net	$ (17,230,300)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (17,230,300)	$ -	$ (17,230,300)
Deferred financing costs	$ (351,700)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (351,700)	$ -	$ (351,700)
Accounts payable and accrued liabilities	$ 83,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 83,700	$ -	$ 83,700
Accrued interest payable	$ 700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 700	$ -	$ 700
Debt obligations	$ 16,320,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,320,000	$ -	$ 16,320,000
Owners' equity	$ 674,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 674,300	$ -	$ 674,300

Report of Independent Auditors and
Consolidated Financial Statements with
Consolidating Information

Oakmont Senior Living LLC and Subsidiaries

December 31, 2012 and 2011

CONTENTS

CONSOLIDATING INFORMATION

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
December 31, 2012

	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
ASSETS												
Cash and cash equivalents	$ 16,596,600	$ 1,000	$ 447,100	$ 5,800	$ 11,477,000	$ 4,692,600	$ 350,700	$ 5,200	$ 1,800	$ 33,577,800	$ -	$ 33,577,800
Restricted cash	1,549,200	-	90,600	-	949,700	-	172,200	1,448,400	1,426,600	5,636,700	-	5,636,700
Accounts receivable and other assets, net	573,200	-	49,900	3,500	186,000	54,700	78,000	-	-	945,300	-	945,300
Due from related parties	22,139,900	-	10,594,600	-	22,273,000	1,221,000	4,341,800	-	-	60,570,300	(43,556,600)	17,013,700
Investments in tenant-in-common interests	2,498,100	-	-	-	-	-	-	-	-	2,498,100	-	2,498,100
Deferred financing related costs, net	1,494,300	-	-	21,800	1,491,400	-	-	-	-	3,007,500	-	3,007,500
Investments in subsidiaries	(50,635,900)	(19,982,000)	-	-	-	-	-	-	-	(70,617,900)	70,617,900	-
Investment in real estate												
Buildings and improvements	68,990,500	-	17,100	5,285,800	85,740,800	570,400	159,500	-	-	160,764,100	-	160,764,100
Land	13,905,000	-	-	71,000	3,765,000	-	-	-	-	17,741,000	-	17,741,000
Furniture, fixtures, and equipment	3,463,200	-	1,117,400	51,500	4,582,700	126,600	291,800	7,300	7,200	9,647,700	-	9,647,700
Projects under development	3,483,400	-	-	-	-	-	-	-	-	3,483,400	-	3,483,400
Accumulated depreciation	(19,509,700)	-	(872,900)	(1,017,000)	(16,179,100)	(120,600)	(142,700)	(4,000)	(1,600)	(37,847,600)	-	(37,847,600)
Total investments in real estate, net	70,332,400	-	261,600	4,391,300	77,909,400	576,400	308,600	3,300	5,600	153,708,600	-	153,708,600
Total assets	$ 64,547,800	$ (19,981,000)	$ 11,443,800	$ 4,422,400	$ 114,286,500	$ 6,544,700	$ 5,251,300	$ 1,456,900	$ 1,434,000	$ 189,406,400	$ 27,061,300	$ 216,467,700
LIABILITIES AND OWNERS' EQUITY (DEFICIT)												
Accounts payable and accrued liabilities	$ 1,258,500	$ 440,300	$ 248,700	$ 10,200	$ 421,300	$ 426,600	$ 212,500	$ 24,000	$ -	$ 3,042,100	$ -	$ 3,042,100
Accrued interest	19,900	-	-	3,900	-	-	-	-	-	23,800	-	23,800
Deferred revenue	258,400	-	62,300	13,500	180,600	3,900	1,400	-	-	520,100	-	520,100
Due to related parties	12,479,700	-	7,521,000	-	22,553,400	1,273,200	4,367,400	-	-	48,194,700	(43,556,600)	4,638,100
Deferred rent	-	-	-	-	-	4,005,400	-	-	-	4,005,400	-	4,005,400
Deferred revenue from entrance fees	-	-	-	-	83,022,300	26,264,500	17,584,900	1,448,400	1,426,600	129,746,700	-	129,746,700
Notes payable to members	2,300,000	-	-	-	-	-	-	-	-	2,300,000	-	2,300,000
Debt obligations	85,437,000	-	-	1,932,400	56,000,000	-	-	-	-	143,369,400	-	143,369,400
Total liabilities	101,753,500	440,300	7,832,000	1,960,000	162,177,600	31,973,600	22,166,200	1,472,400	1,426,600	331,202,200	(43,556,600)	287,645,600
OWNERS' EQUITY (DEFICIT)												
Noncontrolling interest	(1,738,300)	(4,452,400)	(109,700)	(128,400)	(2,019,100)	(2,467,300)	-	-	-	(10,915,200)	-	(10,915,200)
Controlling interest	(35,467,400)	(15,968,900)	3,721,500	2,590,800	(45,872,000)	(22,961,600)	(16,914,900)	(15,500)	7,400	(130,880,600)	70,617,900	(60,262,700)
Total owners' equity (deficit)	(37,205,700)	(20,421,300)	3,611,800	2,462,400	(47,891,100)	(25,428,900)	(16,914,900)	(15,500)	7,400	(141,795,800)	70,617,900	(71,177,900)
Total liabilities and owners' equity (deficit)	$ 64,547,000	$ (19,981,000)	$ 11,443,800	$ 4,422,400	$ 114,286,500	$ 6,544,700	$ 5,251,300	$ 1,456,900	$ 1,434,000	$ 189,406,400	$ 27,061,300	$ 216,467,700

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2012

	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
REVENUE												
Continuing care contracts	$ -	$ -	$ -	$ -	$ 12,346,300	$ 5,428,500	$ 4,521,700	$ -	$ -	$ 22,296,500	$ -	$ 22,296,500
Non-continuing care contracts	10,007,100	-	4,716,700	218,300	-	1,361,900	271,800	-	-	16,575,800	-	16,575,000
Rent Revenue	1,253,400	-	-	-	-	-	-	-	-	1,253,400	(1,253,400)	-
Total revenue	11,260,500	-	4,716,700	218,300	12,346,300	6,790,400	4,793,500	-	-	40,125,700	(1,253,400)	38,872,300
OPERATING EXPENSES												
Continuing care contracts operating expenses	-	-	-	-	6,948,600	5,178,000	2,720,600	-	-	14,847,200	-	14,847,200
Non-continuing care contracts operating expenses	4,699,200	-	2,613,000	-	-	338,500	478,200	-	-	8,128,900	-	8,128,900
Management fees	797,200	30,000	366,400	4,500	548,600	351,800	295,100	-	-	2,393,600	-	2,393,600
General and administrative	487,600	17,000	140,800	70,700	280,300	74,600	74,500	55,300	3,700	1,204,500	-	1,204,500
Letter of credit fees	556,900	-	292,700	-	1,219,400	-	-	-	-	2,069,000	-	2,069,000
Depreciation	2,760,600	-	612,600	183,500	3,493,900	42,900	52,400	2,400	1,000	7,149,300	-	7,149,300
Facility lease	-	-	300,000	-	-	4,264,100	1,253,400	-	-	5,817,500	(1,253,400)	4,564,100
Total expenses	9,301,500	47,000	4,325,500	258,700	12,490,800	10,249,900	4,874,200	57,700	4,700	41,610,000	(1,253,400)	40,356,600
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,959,000	(47,000)	391,200	(40,400)	(144,500)	(3,459,500)	(80,700)	(57,700)	(4,700)	(1,484,300)	-	(1,484,300)
OTHER INCOME (EXPENSE)												
Gain on sales of real estate	22,288,900	-	-	-	-	-	-	-	-	22,288,900	-	22,288,900
Loss on investments in tenant-in-common interests	(123,500)	-	-	-	-	-	-	-	-	(123,500)	-	(123,500)
Interest income	162,300	-	2,800	-	16,800	2,100	-	-	-	184,000	-	184,000
Amortization of deferred financing related costs	(243,900)	-	(240,200)	(2,200)	(202,400)	-	-	-	-	(688,700)	-	(688,700)
Interest expense	(472,300)	-	(24,200)	(117,800)	(124,900)	-	-	-	-	(739,200)	-	(739,200)
Miscellaneous	24,000	-	-	3,700	-	-	-	-	-	27,700	-	27,700
INCOME (LOSS), before allocation to noncontrolling interest	23,594,500	(47,000)	129,600	(156,700)	(455,000)	(3,457,400)	(80,700)	(57,700)	(4,700)	19,464,900	-	19,464,900
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,025,900)	6,000	(16,600)	20,100	58,200	526,600	-	-	-	(431,600)	-	(431,600)
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTEREST	$ 22,568,600	$ (41,000)	$ 113,000	$ (136,600)	$ (396,800)	$ (2,930,800)	$ (80,700)	$ (57,700)	$ (4,700)	$ 19,033,300	$ -	$ 19,033,300

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES												
Cash received from continuing care contracts	$ -	$ -	$ -	$ -	$ 8,418,100	$ 3,590,500	$ 3,890,000	$ -	$ -	$ 15,898,600	$ -	$ 15,898,600
Cash received from entrance fees	-	-	-	-	9,781,800	6,019,800	2,619,800	39,000	490,300	18,950,700	-	18,950,700
Cash received from non-continuing care contracts - Cardinal Point	-	-	-	-	-	-	271,800	-	-	271,800	-	271,800
Cash received from non-continuing care contracts - Segovia	-	-	-	-	-	1,361,900	-	-	-	1,361,900	-	1,361,900
Cash received from non-continuing care contracts - all other	11,409,700	-	4,717,300	219,400	-	-	-	-	-	16,346,400	-	16,346,400
Cash received from rent revenue	1,253,400	-	-	-	-	-	-	-	-	1,253,400	(1,253,400)	-
Cash received from (paid to) affiliates, net	4,567,000	-	(3,087,500)	(1,100)	252,100	(16,900)	3,200	-	-	1,716,800	-	1,716,800
Cash paid to employees and suppliers	(5,135,600)	(17,000)	(2,718,300)	(75,700)	(7,219,500)	(5,660,400)	(3,208,700)	(31,300)	(3,700)	(24,070,200)	-	(24,070,200)
Cash paid for management fees	(797,200)	(30,000)	(366,400)	(4,500)	(548,600)	(351,800)	(295,100)	-	-	(2,393,600)	-	(2,393,600)
Cash paid for letter of credit fees	(556,900)	-	(292,700)	-	(1,219,400)	-	-	-	-	(2,069,000)	-	(2,069,000)
Cash paid for facility lease	-	-	(300,000)	-	-	(4,307,400)	(1,253,400)	-	-	(5,860,800)	1,253,400	(4,607,400)
Interest received	162,300	-	2,800	-	16,800	2,100	-	-	-	184,000	-	184,000
Interest paid	(455,700)	-	(26,500)	(113,900)	(124,900)	-	-	-	-	(721,000)	-	(721,000)
Miscellaneous receipts (payments)	24,000	-	-	3,700	-	-	-	-	-	27,700	-	27,700
Net cash from operating activities	10,471,000	(47,000)	(2,071,300)	27,900	9,356,400	637,800	2,027,600	7,700	486,600	20,896,700	-	20,896,700
CASH FLOWS FROM INVESTING ACTIVITIES												
Investment in real estate	(5,579,700)	-	(28,100)	-	(61,200)	(28,600)	(140,000)	-	-	(5,846,400)	-	(5,846,400)
Proceeds from sale of investment in real estate	3,000,000	-	-	-	-	-	-	-	-	3,000,000	-	3,000,000
Receipts from investment in subsidiary	-	13,100	-	-	-	-	-	-	-	13,100	(13,100)	-
Net cash from investing activities	(2,579,700)	13,100	(28,100)	-	(61,200)	(28,600)	(148,800)	-	-	(2,833,300)	(13,100)	(2,846,400)
CASH FLOWS FROM FINANCING ACTIVITIES												
Refunds of entrance fees	-	-	-	-	(7,575,700)	(1,226,900)	(2,315,900)	(39,000)	(490,300)	(11,647,800)	-	(11,647,800)
Proceeds from debt obligations	2,210,000	-	8,765,000	-	-	-	-	-	-	10,975,000	-	10,975,000
Payments on debt obligations	-	-	(5,615,000)	(30,000)	-	-	-	-	-	(5,645,000)	-	(5,645,000)
Change in restricted cash	-	-	603,700	-	(838,700)	-	-	-	-	(235,000)	-	(235,000)
Controlling interest distributions	(42,120,200)	(15,365,000)	(2,269,700)	(1,044,000)	(19,020,200)	-	-	-	-	(80,619,100)	(3,796,900)	(84,416,000)
Noncontrolling interest distributions	(2,543,400)	-	-	-	-	-	-	-	-	(2,543,400)	-	(2,543,400)
Controlling interest contributions	33,780,900	15,398,400	562,600	1,047,800	16,266,600	1,339,000	737,300	36,000	3,000	69,171,600	3,810,000	72,981,600
Deferred financing related costs	(21,400)	-	(486,100)	-	-	-	-	-	-	(507,500)	-	(507,500)
Net cash from financing activities	(8,694,100)	33,400	1,560,500	(26,200)	(11,968,000)	112,100	(1,578,600)	(3,000)	(487,300)	(21,051,200)	13,100	(21,038,100)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(802,800)	(500)	(538,900)	1,700	(2,672,800)	721,300	300,200	4,700	(700)	(2,987,800)	-	(2,987,800)
CASH INCLUDED IN DISTRIBUTION OF OSL MANAGEMENT LLC	(319,200)	-	-	-	-	-	-	-	-	(319,200)	-	(319,200)
CASH AND CASH EQUIVALENTS, beginning of year	17,718,600	1,500	906,000	4,100	14,149,800	3,971,300	50,500	500	2,500	36,884,800	-	36,884,800
CASH AND CASH EQUIVALENTS, end of year	$ 16,596,600	$ 1,000	$ 447,100	$ 5,800	$ 11,477,000	$ 4,692,600	$ 350,700	$ 5,200	$ 1,800	$ 33,577,800	$ -	$ 33,577,800

OAKMONT SENIOR LIVING LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
Year ended December 31, 2012

	All Other Entities	Varenna at Fountaingrove LLC	Varenna Assisted Living LLC and Subsidiary	Varenna Apartments LLC	Varenna LLC	Segovia Operations LLC	Cardinal Point at Mariner Square LLC	Capriana Operations LLC	Fountaingrove Lodge LLC	Total	Eliminating Entries	Consolidated Total
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES												
Net income (loss)	$ 23,594,500	$ (47,000)	$ 129,600	$ (156,700)	$ (455,000)	$ (3,457,400)	$ (80,700)	$ (57,700)	$ (4,700)	$ 19,464,900	$ -	$ 19,464,900
Adjustments to reconcile net income (loss) to net cash from operating activities:												
Depreciation	2,760,600	-	612,600	183,500	3,493,900	42,900	52,400	2,400	1,000	7,149,300	-	7,149,300
Amortization of deferred financing related costs	243,900	-	240,200	2,200	202,400	-	-	-	-	688,700	-	688,700
Amortization of deferred revenue from entrance fees	-	-	-	-	(3,963,300)	(1,785,300)	(568,000)	-	-	(6,316,600)	-	(6,316,600)
Loss on investments in tenant-in-common interests	123,500	-	-	-	-	-	-	-	-	123,500	-	123,500
Gain on sales of real estate	(22,288,900)	-	-	-	-	-	-	-	-	(22,288,900)	-	(22,288,900)
Changes in:												
Restricted cash	813,300	-	(18,200)	-	(62,400)	2,997,100	(60,700)	(1,402,400)	(194,400)	2,072,300	-	2,072,300
Accounts receivable and other current assets	783,600	-	(17,600)	900	(76,400)	21,000	17,200	-	-	728,700	-	728,700
Due from related parties	(7,894,900)	-	(5,747,800)	-	(4,691,200)	556,300	(893,800)	-	-	(18,671,400)	2,959,000	(15,712,400)
Accounts payable and accrued liabilities	(64,200)	-	69,300	(5,000)	85,200	(65,600)	31,100	24,000	-	74,800	-	74,800
Accrued interest	16,600	-	(2,300)	3,900	-	-	-	-	-	18,200	-	18,200
Deferred revenue	(78,900)	-	2,600	200	35,700	(77,400)	(47,400)	-	-	(165,200)	-	(165,200)
Due to related parties	12,461,900	-	2,660,300	(1,100)	4,943,300	(573,200)	897,000	-	-	20,388,200	(2,959,000)	17,429,200
Deferred revenue from entrance fees	-	-	-	-	9,844,200	3,022,700	2,680,500	1,441,400	684,700	17,673,500	-	17,673,500
Deferred rent	-	-	-	-	-	(43,300)	-	-	-	(43,300)	-	(43,300)
Net cash from operating activities	$ 10,471,000	$ (47,000)	$ (2,071,300)	$ 27,900	$ 9,356,400	$ 637,800	$ 2,027,600	$ 7,700	$ 486,600	$ 20,896,700	$ -	$ 20,896,700
SUPPLEMENTAL CASH-FLOW INFORMATION												
Noncash investing and financing activities:												
Distribution of members' deficit in Villa Capri Property												
Deferred financing costs	$ -	$ -	$ 646,100	$ -	$ -	$ -	$ -	$ -	$ -	$ 646,100	$ -	$ 646,100
Investment in real estate, net	$ -	$ -	$ 14,260,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,260,000	$ -	$ 14,260,000
Debt obligations	$ -	$ -	$ (20,150,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20,150,000)	$ -	$ (20,150,000)
Owners' deficit	$ -	$ 5,243,900	$ 3,796,900	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,040,800	$ (3,796,900)	$ 5,243,900
Distributions payable to members included in accounts payable and accrued liabilities	$ -	$ 437,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 437,800	$ -	$ 437,800
Distribution of OSL Management LLC and Subsidiary												
Restricted cash	$ 146,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 146,100	$ -	$ 146,100
Accounts receivable and other assets	$ 514,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 514,300	$ -	$ 514,300
Due from related parties	$ 3,672,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,672,100	$ -	$ 3,672,100
Investment in tenant-in-common interests	$ 825,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 825,000	$ -	$ 825,000
Investment in real estate, net	$ 2,588,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,588,700	$ -	$ 2,588,700
Accounts payable and accrued liabilities	$ (733,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (733,000)	$ -	$ (733,000)
Due to related parties	$ (14,795,200)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (14,795,200)	$ -	$ (14,795,200)
Deferred income	$ (324,300)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (324,300)	$ -	$ (324,300)
Deferred rent	$ (5,503,300)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,503,300)	$ -	$ (5,503,300)
Owners' equity	$ 13,282,900	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,282,900	$ -	$ 13,282,900
Transfer from Alameda TIC to OakmontSL of Alameda LP												
Restricted cash	$ (334,500)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (334,500)	$ -	$ (334,500)
Accounts receivable and other assets	$ (9,100)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (9,100)	$ -	$ (9,100)
Investments in TICs	$ 854,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 854,400	$ -	$ 854,400
Investment in real estate, net	$ (17,230,300)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (17,230,300)	$ -	$ (17,230,300)
Deferred financing costs	$ (351,700)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (351,700)	$ -	$ (351,700)
Accounts payable and accrued liabilities	$ 83,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 83,700	$ -	$ 83,700
Accrued interest payable	$ 700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 700	$ -	$ 700
Debt obligations	$ 16,320,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,320,000	$ -	$ 16,320,000
Owners' equity	$ 674,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 674,300	$ -	$ 674,300

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Segovia Operations LLC

As of and for the year ended December 31, 2012

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

RECEIVED
CONTINUING CARE CONTRACTS BRANCH

REPORT OF INDEPENDENT AUDITORS

To the Members
Segovia Operations LLC

We have audited the accompanying financial statements of Segovia Operations LLC (the Company), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Segovia Operations LLC as of and for the year ended December 31, 2012, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

MOSS-ADAMS LLP

Restriction on Use

Our report is intended solely for the information and use of the members, management of the Company and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Santa Rosa, California
April 26, 2013

CONTINUING CARE LIQUID RESERVE SCHEDULES

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	05/31/07	$0	$288,300	$556,900	$845,200
2	04/10/06	$0	$184,000	$0	$184,000
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$472,300	$556,900	$1,029,200

(Transfer this amount to Form 5-3, Line 1)

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

PROVIDER: Oakmont Senior Living LLC

Long-Term Debt Maturing within 24 months

1. First Community Bank loan of $605,000. This loan matures April 2013. This loan was extended through March 2014.
2. Exchange Bank (ROTH IRA) of $2,300,000. This loan matures January 2013. This was extended through January 2015.

Note to Form 5-1 regarding total debt expense

Per the DSS, total debt payments reflected in Oakmont Senior Living LLC CCRC report is to exclude Debt from Consolidated Varenna at Fountaingrove LLC audited report and CCRC report.

	Principal	Interest	Credit Enhancements	TOTAL	Loan per Audit
1)	-	288,300	556,900	845,200	Fannie Mae
2)	-	184,000	-	184,000	Exchange Bank (ROTH IRA)
Total This Report	-	472,300	556,900	1,029,200	
Varenna	30,000	266,900	1,512,100	1,809,000	
Total OSL Audit	30,000	739,200	2,069,000	2,838,200	

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) x (d))
1	12/20/12	$0	$0	1	$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$0	$0	1	$0

(Transfer this amount to Form 5-3, Line 2)

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

PROVIDER: Oakmont Senior Living LLC

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,029,200
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$4,264,100
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$5,293,300

PROVIDER: Oakmont Senior Living LLC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$5,985,800
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$0	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c.	Depreciation	$42,900	
	d.	Amortization	$0	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$1,361,900	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$1,404,800
4		Net Operating Expenses		$4,581,000
5		Divide Line 4 by 365 and enter the result.		$12,551
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$941,301

PROVIDER: Oakmont Senior Living LLC
COMMUNITY: Segovia of Palm Desert

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Oakmont Senior Living LLC
Fiscal Year Ended: December 31, 2012

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2012 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$5,293,300
[2]	Operating Expense Reserve Amount	$941,301
[3]	**Total Liquid Reserve Amount:**	$6,234,601

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

		Amount (market value at end of quarter)		
	Qualifying Asset Description	**Debt Service Reserve**		**Operating Reserve**
[4]	Cash and Cash Equivalents	$18,000,000		$2,746,900
[5]	Investment Securities			
[6]	Equity Securities			
[7]	Unused/Available Lines of Credit			
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other: (describe qualifying asset)			
[11]	**Total Amount of Qualifying Assets Listed for Reserve Obligation:**	$18,000,000	[12]	$2,746,900
[13]	**Reserve Obligation Amount:**	$5,293,300	[14]	$941,301
[15]	**Surplus/(Deficiency):**	$12,706,700	[16]	$1,805,599

Signature:

(Authorized Representative)

Date:

William P Gallaher, Manager
(Title)

DSS - Reserve Report - Part of Form 5-5
Description of Reserves under SB 1212

Audited Cash and Cash Equivalents	$ 33,577,800	All Cash and Equivalents. No Investments or equities or lines of credit listed
Less: Qualifying assets with Varenna at Fountaingrove LLC	(11,930,900)	
Less: Qualifying assets for Cardinal Point Operating Reserve	(900,000)	
Total Qualifying Assets Listed on Line 4	$ 20,746,900	

Please note that there is no restricted cash or equivalents included in the $33,577,800- listed for the liquid reserve requirement.

Per Capita Cost of Operations (Cardinal Point)			Per Capita Cost of Operations (Segovia)		
Operating Expenses per form 5-4 #1	$	3,620,800	Operating Expenses per form 5-4 #1	$	5,985,800
Mean # of all Residents from form 1-1 #10		99	Mean # of all Residents from form 1-1 #10		133.5
Per Capita Costs of Operations	$	36,574	Per Capita Costs of Operations	$	44,837

Project	Name	Sex	Birthdate	Move-in	Contract	To be Due	Age	Life Exp	Refund Exp	PVM	PV	x 20%			Summit Bank	Difference
Segovia	[redacted]			07/31/12	100%	$ 354,000		6.719	16.719	0.371	$ 131,334	$ 26,267				
Segovia				08/16/12	0%	$ 45,086		13.761	23.761	0.247	$ 11,136	$ 2,227				
Segovia				08/24/12	0%	$ 41,943		15.553	25.553	0.22	$ 9,227	$ 1,845				
Segovia				10/19/12	100%	$ 300,000		5.613	15.613	0.394	$ 118,200	$ 23,640				
Segovia				10/18/12	0%	$ 79,929		9.06	19.06	0.331	$ 26,456	$ 5,291				
Segovia				02/07/13	50%	$ 20,543		7.672	17.672	0.35	$ 7,190	$ 1,438				
Segovia				02/26/13	100%	$ 349,500		4.236	14.236	0.442	$ 154,479	$ 30,896				
Segovia				01/24/13	50%	$ 171,100		5.2	15.2	0.417	$ 71,349	$ 14,270				
Segovia				04/30/13	0%	$ 52,786		12.607	22.607	0.262	$ 13,830	$ 2,766				
Segovia				05/21/13	100%	$ 349,500		6.956	16.956	0.371	$ 129,665	$ 25,933				
Balance @ 5/31/13														$ 134,573	134,561.58	11.62