FISCAL YEAR ENDED: 12 / 31 / 13

ANNUAL REPORT CHECKLIST

PROVIDER(S): FOUNTAINS SENIOR LIVING HOLDINGS, LLC

RECEIVED JUN 30 2014 CONTINUING CARE CONTRACTS BRANCH

CCRC(S): THE FOUNTAINS AT THE CARLOTTA
41-505 CARLOTTA DRIVE, PALM DESERT, CA 92211

CONTACT PERSON: GLAD GAMMIE, REGIONAL ACCOUNTANT

TELEPHONE NO.: (520) 797-4000, EXT. 30 EMAIL: ggammie@watermarkcommunit

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

- ☑ Annual Report Checklist.
- ☑ Annual Provider Fee in the amount of: $ 8,923.50
  - ☐ If applicable, late fee in the amount of: $__________
- ☑ Certification by the provider's ***Chief Executive Officer*** that:
  - ☑ The reports are correct to the best of his/her knowledge.
  - ☑ Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - ☑ The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.
- ☑ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- ☑ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ☑ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ☑ Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for ***each*** community.
- ☑ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

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

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES
744 P Street • Sacramento, CA 95814 • *www.cdss.ca.gov*

WILL LIGHTBOURNE
DIRECTOR

EDMUND G. BROWN JR.
GOVERNOR

April 30, 2014

RECEIVED
JUN 30 2014
CONTINUING CARE
CONTRACTS BRANCH

Mr. David Barnes, President/CEO
Watermark Retirement Communities, Inc.
2020 West Rudasill Road
Tucson, Arizona 85704

SUBJECT: FOUNTAINS GENERAL PARTNER, LLC (AS GENERAL PARTNER OF FOUNTAINS CARLOTTA SL, LP) AND FOUNTAINS SENIOR LIVING HOLDINGS, LLC – ANNUAL REPORT

Dear Mr. Barnes:

This is in response to your April 30, 2014, request for an extension for filing Fountains General Partner, LLC (as General Partner Of Fountains Carlotta SL, LP) and Fountains Senior Living Holdings, LLC's (Fountains) 2013 annual report. The Department will allow an additional 30 days for filing the report. If the complete report is not received by May 31, 2014, a $1,000 late fee will be imposed as of the original due date of April 30, 2014. If the report is filed beyond the first 30 days, the penalty will continue to accrue $33 per day for each additional day thereafter until the complete report is received.

This extension and the late fees also apply to the Key Indicator Report (KIR), i.e., the KIR is now due by June 30, 2014; if it is not received by that date, a $1,000 late fee will be imposed as of the original due date of May 31, 2014; and if the KIR is filed beyond the first 30 days, the penalty will continue to accrue $33 per day for each additional day thereafter until the KIR is received.

If you have any questions, you may contact me at (916) 657-2592 or by email at allison.nakatomi@dss.ca.gov.

Sincerely,

Allison Nakatomi

Allison Nakatomi, Manager
Continuing Care Contracts Branch

FORM 1-1
RESIDENT POPULATIONS

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	163
[2]	Number at end of fiscal year	172
[3]	Total Lines 1 & 2	335
[4]	Multiply line 3 by ".50" and enter result on line 5	0.5
[5]	Mean number of cotinuing care residents	167.5
	All Residents	
[6]	Number at beginning of fiscal year	237
[7]	Number at end of fiscal year	245
[8]	Total Lines 6 & 7	482
[9]	Multiply line 8 by ".50" and enter result on line 5	0.5
[10]	Mean number of all residents	241
[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 the nearest two decimal places)	0.70

FORM 1-2
ANNUAL PROVIDER FEE

LINE				TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)			$ 14,839,092
	(a)	Depreciation	$ 1,009,973	
	(b)	Debt Service (interest only)	$ 989,940	
[2]	Subtotal (add Line 1a and 1b)			$ 1,999,914
[3]	Subtract Line 2 from Line 1 and enter result			$ 12,839,179
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)			0.70
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)			$ 8,923,496
				0.001
[6]	**Total Amount Due** (multiply Line 5 by .001)			**$ 8,923.50**

PROVIDER: Fountains Senior Living Holdings, LLC
COMMUNITY: The Fountains at The Carlotta

Fountains Senior Living Holdings, LLC

RECEIVED
JUN 30 2014
CONTINUING CARE
CONTRACTS BRANCH

April 30, 2014

California Department of Social Services
Continuing Care Contracts Branch
744 P Street, MS 10-90
Sacramento, CA 95814
ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as certification on behalf of Fountains General Partner, LLC and Fountains Senior Living Holdings, LLC to the California Department of Social Services of the following matters regarding the enclosed annual report for 2013 that Fountains Senior Living Holdings, LLC is submitting as the holder of a certificate of authority for Fountains at The Carlotta:

1. The accompanying annual report is correct to the best of my knowledge.

2. Each continuing care contract form in use or offered to new residents at The Fountains at the Carlotta has been approved by the Department.

3. As of December 31, 2013, Fountains Senior Living Holdings, LLC did maintain the liquid reserves required by California law, which are reflected on the Fountains Senior Living Holdings, LLC consolidated audited financials for the year ended December 31, 2013.

Please feel free to contact us if you have any questions about our submissions.

Sincerely,

Michael K. Casey
Vice President
Fountains Senior Living Holdings, LLC
(Sole member of Fountains Senior Living Holdings, LLC,
the parent of Fountains Carlotta SL, LP)

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 02/03/2014

RECEIVED

CONTINUING CARE CONTRACTS BRANCH

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 MCGRIFF, SEIBELS & WILLIAMS, INC. P.O. Box 10265 Birmingham, AL 35202	**CONTACT NAME:** **PHONE (A/C, No, Ext):** 800-476-2211 **FAX (A/C, No):** **E-MAIL ADDRESS:**
INSURED Watermark Services, IV, LLC 2020 W. Rudasill Road Tuscon, AZ 85704	

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Atlantic Specialty Insurance Company	27154
INSURER B : American Zurich Insurance Company	40142
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

COVERAGES **CERTIFICATE NUMBER:** 27XNUL54 **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	
	GENERAL LIABILITY COMMERCIAL GENERAL LIABILITY CLAIMS-MADE / OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: POLICY / PRO-JECT / LOC						EACH OCCURRENCE	$
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$
							MED EXP (Any one person)	$
							PERSONAL & ADV INJURY	$
							GENERAL AGGREGATE	$
							PRODUCTS - COMP/OP AGG	$
								$
	AUTOMOBILE LIABILITY ANY AUTO ALL OWNED AUTOS / SCHEDULED AUTOS HIRED AUTOS / NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident)	$
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
	UMBRELLA LIAB / OCCUR **EXCESS LIAB** / CLAIMS-MADE DED / RETENTION $						EACH OCCURRENCE	$
							AGGREGATE	$
								$
B	**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		WC593317100	02/01/2014	02/01/2015	X WC STATU-TORY LIMITS / OTH-ER	
							E.L. EACH ACCIDENT	$ 1,000,000
							E.L. DISEASE - EA EMPLOYEE	$ 1,000,000
							E.L. DISEASE - POLICY LIMIT	$ 1,000,000
A	Employment Practices Liability Ins and Crime Insurance			MML0323714	02/01/2014	04/01/2015	EPL Limit	$ 10,000,000
							Crime Limit	$ 5,000,000

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

Evidence of Coverage

Employment Practices: $250,000 Retention for California, $150,000 for other locations
Crime: $25,000 deductible

Workers' Compensation is Guaranteed Cost

CERTIFICATE HOLDER	CANCELLATION
HSH Nordbank AG New York Branch 230 Park Avenue New York, NY 10169-0005	**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**

- Fountains Sea Bluffs SL, LP f/k/a Sunrise IV Sea Bluffs SL, LP d/b/a The
- Fountains at Sea Bluffs
- Fountains Sea Bluffs CH, LLC
- Fountains Washington House SL, LLC f/k/a Sunrise IV Washington House SL,
- LLC d/b/a The Fountains at Washington House
- Fountains Carlotta SL, LP f/k/a Sunrise IV Carlotta SL, LP d/b/a The Fountains at
- the Carlotta
- Fountains (Pool I), LLC
- Fountains (Pool II), LLC
- Fountains (Pool III), LLC
- Fountains (Pool IV), LLC
- Fountains (Pool V), LLC
- Fountains General Partner, LLC
- Watermark Home Care of North Carolina, LLC d/b/a Watermark at Home
- Watermark Retirement Communities of California, LLC
- Pacific Regent Food Services of California, LLC
- Fountains Senior Properties of California, Inc

MPE-14003-03-09	Amend Consent to Settle Endorsement • 80%/20%	EPL
MPE-06003-03-09	Clients Property Endorsement	Crime
MPE-06017-03-09	Investigative Costs Coverage Endorsement	Crime
MPE-06020-01-10	Schedule of Employee Benefit Plan(s) Endorsement	Crime
MPE-04018-02-11	Wage and Hour Exclusion Endorsement	EPL
BMP-00001-03-11	Risk Management Services Endorsement	GT&C

Fountains Senior Living Holdings, LLC

July 30, 2014

California Department of Social Services
Continuing Care Contracts Branch
744 P Street, MS 10-90
Sacramento, CA 95814
ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as certification on behalf of Fountains General Partner, LLC and Fountains Senior Living Holdings, LLC to the California Department of Social Services of the following matters regarding the enclosed annual report for 2013 that Fountains Senior Living Holdings, LLC is submitting as the holder of a certificate of authority for Fountains at The Carlotta:

1. The accompanying annual report is correct to the best of my knowledge.

2. Each continuing care contract form in use or offered to new residents at The Fountains at the Carlotta has been approved by the Department.

3. As of December 31, 2013, Fountains Senior Living Holdings, LLC did maintain the liquid reserves required by California law, which are reflected on the Fountains Senior Living Holdings, LLC consolidated audited financials for the year ended December 31, 2013.

Please feel free to contact us if you have any questions about our submissions.

Sincerely,

Michael K. Casey

Michael K. Casey
Vice President
Fountains Senior Living Holdings, LLC
(Sole member of Fountains Senior Living Holdings, LLC,
the parent of Fountains Carlotta SL, LP)

Bond # ONL000100972

RECEIVED
JUN 30 2014
CALIFORNIA DEPARTMENT OF SOCIAL SERVICES
COMMUNITY CARE LICENSING
CONTINUING CARE
CONTRACTS BRANCH

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY

SURETY BOND

(Original sent to Regional Office)

Applicant/Licensee Name: Sunrise IV Carlotta SL, LP and Watermark Retirement Communities, Inc.

Address: 41-505 Carlotta Drive, Palm Desert, CA 92211

Bonding Company: Berkley Surety Group, Inc.

Address: 412 Mt. Kemble Ave., Suite 310N, Morristown, NJ 07960 Telephone #: (973) 775-5021

Local Agent Name: Marsh USA Telephone #: 202-263-7600

The addresses shown above for licensee and bonding company will be used for service of notices, papers, and other documents.

BE IT KNOWN THAT:

Licensee, as Principal, and Bonding Company, as Surety, are held and firmly bound to the State of California, as beneficiary, in the amount of $ $8,500.00 (Eight Thousand Five Hundred and 00/100) for the payment of which the principal and surety bind themselves, their respective heirs, successors and assigns, jointly and severally.

WHEREAS Health and Safety Code sections 1560, 1568.021, and 1569.60 each require certain applicants for licenses to file with the State Department of Social Services a surety bond; and

WHEREAS the licensee has applied to operate an *(check all that apply)*:

☐ Adult Residential, Adult Day Programs or Social Rehabilitation Facility, and the licensee handles client/resident funds in any amount; or

☑ Foster Family Home, Foster Family Agency, Group Home, Small Family Home, Residential Care Facility for Persons with Chronic, Life-Threatening Illness, or Residential Care Facility for the Elderly, and the licensee handles funds of $50 or more per client/resident or $500 or more for all clients/ residents in any month;

NOW, THEREFORE, the surety is liable on this bond in the event that the principal fails to handle faithfully and honestly the money of facility clients/residents.

The facility covered by this bond is:

Facility Name: The Fountains at the Carlotta

Facility Address: 41-505 Carlotta Drive, Palm Desert, CA 92211

Facility License Number (if facility is currently licensed): 336410693
(If other facilities are covered by this bond, specify on a separate, attached page the name, address, facility license number, and bond amount for each facility.)

Every person injured as a result of any unfaithful or dishonest handling of client money may bring an action in a proper court on the bond for the amount of damage suffered thereby to the extent covered by the bond.

The aggregate liability of the Surety for all claims against this bond shall not exceed the amount of the bond, shown above.

This bond may be canceled by the Surety in accordance with Code of Civil Procedure section 996.030, and notice of cancellation must be sent in accordance with Code of Civil Procedure section 996.320. This bond is effective 08/01/2010 and remains in effect as long as the license is valid.

I certify under penalty of perjury under the laws of the State of California that the information provided on this page and on any attachments is true and correct.

BONDING COMPANY SIGNATURE:	BOND NUMBER:	DATE:
Kellie A. McKinney Kellie A. McKinney, Attorney-In-Fact	ONL000100972	June 14, 2010

LIC 402 (6/04) (PUBLIC)

RECEIVED
JUN 30 2014
CONTINUING CARE
CONTRACTS BRANCH

NOTARY ACKNOWLEDGMENT

State of Tennessee)

County of Knox)

I certify that I know or have satisfactory evidence that Kellie A. McKinney signed this document; on oath stated that he/she was authorized to sign the document and acknowledged it as the agent or representative of the named surety company which is authorized to do business in the State of California the purposes mentioned in this document.

Dated on June 14, 2010

NOVETTA M. ANDERSON STATE OF TENNESSEE NOTARY PUBLIC KNOX COUNTY

Novetta M Anderson
Signature of Notary

My commission expires August 10, 2010

POWER OF ATTORNEY
BERKLEY REGIONAL INSURANCE COMPANY
WILMINGTON, DELAWARE

Agency No: 481
Bond Number: ONL000100972

KNOW ALL MEN BY THESE PRESENTS, that BERKLEY REGIONAL INSURANCE COMPANY (the "Company"), a corporation duly organized and existing under the laws of the State of Delaware, having its principal office in Urbandale, Iowa, has made, constituted and appointed, and does by these presents make, constitute and appoint:

Kellie A. McKinney

its true and lawful Attorney-in-Fact, to sign its name as surety only as delineated below and to execute, seal, acknowledge and deliver any and all bonds and undertakings, with the exception of Financial Guaranty Insurance, providing that no single obligation shall exceed One Million and 00/100 Dollars ($1,000,000.00), to the same extent as if such bonds had been duly executed and acknowledged by the regularly elected officers of the Company at its principal office in their own proper persons.

This Power of Attorney shall be construed and enforced in accordance with, and governed by, the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. This Power of Attorney is granted pursuant to the following resolutions which were duly and validly adopted at a meeting of the Board of Directors of the Company held on August 21, 2000:

"RESOLVED, that the proper officers of the Company are hereby authorized to execute powers of attorney authorizing and qualifying the attorney-in-fact named therein to execute bonds, undertakings, recognizances, or other suretyship obligations on behalf of the Company, and to affix the corporate seal of the Company to powers of attorney executed pursuant hereto; and further

RESOLVED, that such power of attorney limits the acts of those named therein to the bonds, undertakings, recognizances, or other suretyship obligations specifically named therein, and they have no authority to bind the Company except in the manner and to the extent therein stated; and further

RESOLVED, that such power of attorney revokes all previous powers issued on behalf of the attorney-in-fact named; and further

RESOLVED, that the signature of any authorized officer and the seal of the Company may be affixed by facsimile to any power of attorney or certification thereof authorizing the execution and delivery of any bond, undertaking, recognizance, or other suretyship obligation of the Company; and such signature and seal when so used shall have the same force and effect as though manually affixed. The Company may continue to use for the purposes herein stated the facsimile signature of any person or persons who shall have been such officer or officers of the Company, notwithstanding the fact that they may have ceased to be such at the time when such instruments shall be issued."

IN WITNESS WHEREOF, the Company has caused these presents to be signed and attested by its appropriate officers and its corporate seal hereunto affixed this 28 day of April, 2009.

Attest:

(Seal)

By Ira S. Lederman
Senior Vice President & Secretary

Berkley Regional Insurance Company

By Robert P. Cole
Senior Vice President

STATE OF CONNECTICUT)
) ss:
COUNTY OF FAIRFIELD)

Sworn to before me, a Notary Public in the State of Connecticut, this 28 day of April, 2009, by Robert P. Cole and Ira S. Lederman who are sworn to me to be the Senior Vice President, and the Senior Vice President and Secretary, respectively, of Berkley Regional Insurance Company.

EILEEN KILLEEN
NOTARY PUBLIC
MY COMMISSION EXPIRES JUNE 30, 2012

Eileen Killeen
Notary Public, State of Connecticut

CERTIFICATE

I, the undersigned, Assistant Secretary of BERKLEY REGIONAL INSURANCE COMPANY, DO HEREBY CERTIFY that the foregoing is a true, correct and complete copy of the original Power of Attorney; that said Power of Attorney has not been revoked or rescinded and that the authority of the Attorney-in-Fact set forth therein, who executed the bond or undertaking to which this Power of Attorney is attached, is in full force and effect as of this date.

Given under my hand and seal of the Company, this 14 day of June, 2010.

(Seal)

Steven Coward
Steven Coward

SURETY RIDER

RECEIVED
JUN 30 2014
CONTINUING CARE
CONTRACTS BRANCH

To be attached to and form a part of

Bond No. ONL000100972

Type of Bond: Resident Trust Fund Bond

dated effective August 1, 2010
(MONTH-DAY-YEAR)

executed by Sunrise IV Carlotta SL, LP and Watermark Retirement Communities, Inc. , as Principal,
(PRINCIPAL)

and by Berkley Regional Insurance Company , as Surety,

in favor of State of California, Department of Social Services
(OBLIGEE)

in consideration of the mutual agreements herein contained the Principal and the Surety hereby consent to changing

Principal name from Sunrise IV Carlotta SL, LP and Watermark Retirement Communities, Inc. to CAR-Fountains Carlotta SL, LP and Watermark Retirement Communities, Inc.

Nothing herein contained shall vary, alter or extend any provision or condition of this bond except as herein expressly stated.

This rider is effective August 1, 2010
(MONTH-DAY-YEAR)

Signed and Sealed July 16, 2010
(MONTH-DAY-YEAR)

CAR-Fountains Carlotta SL, LP and Watermark Retirement Communities, Inc.
(PRINCIPAL)

By: ______________________
(PRINCIPAL)

Berkley Regional Insurance Companies

By: Kellie A McKinney
Kellie A. McKinney, Attorney-In-Fact

S-0443/GE 8/08

XDP

(Acknowledgement by principal, if an individual)

STATE OF .... ss:

COUNTY OF ....

(Notary's seal to be attached)

On this .... day of .... before me personally came .... to me known, who being by described in and who executed the foregoing instrument, and he acknowledged that he executed the same.

Sworn before me this .... day of ...., ...

....

Notary Public

(Acknowledgment by principal, if a partnership)

STATE OF .... ss:

COUNTY OF ....

(Notary's seal to be attached)

On this .... day of .... personally appeared before me .... member or the firm of .... to me known and known to me to be the individual described in and who executed the foregoing instrument and he acknowledged to me that he executed the same for and on behalf of said firm.

Sworn before me this .... day of ...., ...

....

Notary Public

(Acknowledgment by principal, if a corporation)

STATE OF ..Arizona.............. ss:

COUNTY OF ..Pima..............

(Notary's seal to be attached)

On this ..19th.......... day of ..July................ 2010.. before me personally came ..David Barnes.. to me known to be the person duly sworn, did depose and say, that he resides in ..Pima County.................. that he is the President/CEO........... of the Watermark Retirement Communities the corporation described in and which executed the foregoing instrument; that he knew the seal of said corporation; that the seal affixed to said instrument was such corporate seal; that it was affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

Sworn before me this ....19th.......................... day of ....July.................., ..2010.......

Official Seal
NOTARY PUBLIC
STATE OF ARIZONA
County of Pima
ALISSA BLANCHARD
My Commission Expires May 19, 2014

....Alissa Blanchard..........

Notary Public

RECEIVED
JUN 30 2014
CONTINUING CARE
CONTRACTS BRANCH

NOTARY ACKNOWLEDGMENT

State of Tennessee)

County of Knox)

I certify that I know or have satisfactory evidence that Kellie A. McKinney signed this document; on oath stated that he/she was authorized to sign the document and acknowledged it as the agent or representative of the named surety company which is authorized to do business in the State of California the purposes mentioned in this document.

Dated on July 16, 2010

Novetta M Anderson
Signature of Notary

NOVETTA M. ANDERSON STATE OF TENNESSEE NOTARY PUBLIC KNOX COUNTY

My commission expires August 10, 2010.

No. 481b

RECEIVED
JUN 3 0 2014
CONTINUING CARE
CONTRACTS BRANCH

POWER OF ATTORNEY
BERKLEY REGIONAL INSURANCE COMPANY
WILMINGTON, DELAWARE

NOTICE: The warning found elsewhere in this Power of Attorney affects the validity thereof. Please review carefully.

KNOW ALL MEN BY THESE PRESENTS, that BERKLEY REGIONAL INSURANCE COMPANY (the "Company"), a corporation duly organized and existing under the laws of the State of Delaware, having its principal office in Urbandale, Iowa, has made, constituted and appointed, and does by these presents make, constitute and appoint: ***Leslie M. Patterson, Barbara A. Thompson, Kellie A. McKinney, Carolyn E. Wheeler, Novetta M. Anderson or Loretta M. Jones of National Surety Center, a Division of Marsh USA Inc. of Knoxville, TN*** its true and lawful Attorney-in-Fact, to sign its name as surety only as delineated below and to execute, seal, acknowledge and deliver any and all bonds and undertakings, with the exception of Financial Guaranty Insurance, providing that no single obligation shall exceed **Fifty Million and 00/100 Dollars ($50,000,000.00)**, to the same extent as if such bonds had been duly executed and acknowledged by the regularly elected officers of the Company at its principal office in their own proper persons.

This Power of Attorney shall be construed and enforced in accordance with, and governed by, the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. This Power of Attorney is granted pursuant to the following resolutions which were duly and validly adopted at a meeting of the Board of Directors of the Company held on August 21, 2000:

"**RESOLVED**, that the proper officers of the Company are hereby authorized to execute powers of attorney authorizing and qualifying the attorney-in-fact named therein to execute bonds, undertakings, recognizances, or other suretyship obligations on behalf of the Company, and to affix the corporate seal of the Company to powers of attorney executed pursuant hereto; and further

RESOLVED, that such power of attorney limits the acts of those named therein to the bonds, undertakings, recognizances, or other suretyship obligations specifically named therein, and they have no authority to bind the Company except in the manner and to the extent therein stated; and further

RESOLVED, that such power of attorney revokes all previous powers issued on behalf of the attorney-in-fact named; and further

RESOLVED, that the signature of any authorized officer and the seal of the Company may be affixed by facsimile to any power of attorney or certification thereof authorizing the execution and delivery of any bond, undertaking, recognizance, or other suretyship obligation of the Company; and such signature and seal when so used shall have the same force and effect as though manually affixed. The Company may continue to use for the purposes herein stated the facsimile signature of any person or persons who shall have been such officer or officers of the Company, notwithstanding the fact that they may have ceased to be such at the time when such instruments shall be issued."

IN WITNESS WHEREOF, the Company has caused these presents to be signed and attested by its appropriate officers and its corporate seal hereunto affixed this 1 day of April, 2010.

Attest:

(Seal) By ___ Ira S. Lederman
Senior Vice President & Secretary

Berkley Regional Insurance Company

By ___ Robert P. Cole
Senior Vice President

WARNING: THIS POWER INVALID IF NOT PRINTED ON BLUE "BERKLEY" SECURITY PAPER.

STATE OF CONNECTICUT)
) ss:
COUNTY OF FAIRFIELD)

Sworn to before me, a Notary Public in the State of Connecticut, this 1 day of April, 2010, by Robert P. Cole and Ira S. Lederman who are sworn to me to be the Senior Vice President, and the Senior Vice President and Secretary, respectively, of Berkley Regional Insurance Company.

EILEEN KILLEEN
NOTARY PUBLIC
MY COMMISSION EXPIRES JUNE 30, 2012

Eileen Killeen
Notary Public, State of Connecticut

CERTIFICATE

I, the undersigned, Assistant Secretary of BERKLEY REGIONAL INSURANCE COMPANY, DO HEREBY CERTIFY that the foregoing is a true, correct and complete copy of the original Power of Attorney; that said Power of Attorney has not been revoked or rescinded and that the authority of the Attorney-in-Fact set forth therein, who executed the bond or undertaking to which this Power of Attorney is attached, is in full force and effect as of this date.

Given under my hand and seal of the Company, this 16 day of July, 2010.

(Seal)

Steven Coward

Inquiry and Notification Rider

Berkley Surety Group, LLC is the affiliated underwriting manager for all of the surety business of the following affiliated companies: Acadia Insurance Company, Berkley Regional Insurance Company, Carolina Casualty Insurance Company, Union Standard Insurance Company, Union Insurance Company and Continental Western Group Insurance Company.

To verify the authenticity of this bond please call:
(973) 775-5021 or Telefax (973) 775-5024

Any written notices, inquiries, claims or demands to the surety on the bond to which this Rider is attached should be directed to:

Berkley Surety Group, LLC
412 Mt. Kemble Ave.
Suite 310N
Morristown, NJ 07960
Attention: Surety Claims Department

Or

Telefax: (866) 408-2421

Please include with all notices the bond number and the name of the principal on the bond. Where a claim is being asserted please set forth generally the basis of the claim. In the case of a payment or performance bond please identify the project to which the bond pertains.

BERKLEY SURETY GROUP

KPMG

FOUNTAINS CARLOTTA SL, L.P.

(d/b/a The Fountains at The Carlotta)

(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

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KPMG

KPMG LLP
Suite 800
60 East Rio Salado Parkway
Tempe, AZ 85281-9125

Independent Auditors' Report

The Partners
Fountains Carlotta SL, L.P.:

We have audited the accompanying financial statements of Fountains Carlotta SL, L.P. (a wholly owned subsidiary of Fountains Senior Living Holdings, LLC), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in partners' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fountains Carlotta SL, L.P. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Phoenix, Arizona
April 30, 2014

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Balance Sheets

December 31, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash	$	793,438	702,429
Accounts receivable – less allowance for doubtful accounts of $668,000 and $416,000 at December 31, 2013 and 2012, respectively		844,855	2,114,025
Prepaid expenses and other current assets		257,484	215,152
Total current assets		1,895,777	3,031,606
Property and equipment:			
Land and land improvements		5,887,626	5,813,977
Buildings and improvements		14,239,391	12,073,536
Furniture, fixtures, and equipment		4,385,788	4,622,192
Construction in progress		44,601	811,119
Total property and equipment		24,557,406	23,320,824
Less accumulated depreciation and amortization		(5,279,423)	(4,269,450)
Property and equipment – net		19,277,983	19,051,374
Restricted cash		10,779	5,814
Other assets		167,608	36,763
Deferred financing costs – less accumulated amortization of $103,397 and $20,679 at December 31, 2013 and 2012, respectively		82,717	165,435
Total – pledged for parent company debt (notes 5 and 7)	$	21,434,864	22,290,992

(Continued)

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Balance Sheets

December 31, 2013 and 2012

Liabilities and Partners' Deficit		**2013**	**2012**
Current liabilities:			
Accounts payable and accrued expenses	$	996,719	1,353,997
Security and reservation deposits		93,955	55,153
Accrued interest		2,706	2,941
Refundable entrance fees		1,880,011	1,301,418
Insurance liability reserves		269,495	78,487
Derivative liability		31,954	29,190
Current maturities of note payable		1,051,291	501,074
Capital lease obligation		9,130	—
Total current liabilities		4,335,261	3,322,260
Long-term liabilities:			
Note payable – less current maturities		21,638,678	23,031,989
Capital lease obligation – less current maturities		35,713	—
Deferred revenue		55,007	—
Insurance liability reserves – less current portion		329,245	80,633
Derivative liability – less current portion		—	13,256
Refundable entrance fees – less current portion		9,870,058	9,543,736
Unearned nonrefundable entrance fees		4,786,672	4,426,259
Total long-term liabilities		36,715,373	37,095,873
Total liabilities		41,050,634	40,418,133
Commitments and contingencies (note 7)			
Partners' deficit		(19,615,770)	(18,127,141)
Total	$	21,434,864	22,290,992

See accompanying notes to financial statements.

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Statements of Operations

Years ended December 31, 2013 and 2012

		2013	2012
Operating revenue:			
Resident fees	$	6,143,758	6,090,879
Healthcare revenue		6,378,005	6,183,592
Amortization of entrance fees		1,159,808	1,224,595
Other operating income		112,379	187,106
Total operating revenue		13,793,950	13,686,172
Operating expenses:			
Wages and benefits		5,542,848	5,505,006
Depreciation		1,009,973	813,961
Ancillary/therapy expenses		1,893,555	1,684,465
General and administrative		679,853	613,752
Food		587,610	619,042
Supplies		203,214	163,365
Utilities		661,057	654,036
Insurance		499,159	202,772
Taxes and license fees		376,635	361,843
Repairs and maintenance		754,769	755,256
Lease expense		44,165	38,924
Management fees		689,697	684,313
Occupancy costs		253,622	287,811
Professional services		652,995	560,161
Total operating expenses		13,849,152	12,944,707
(Loss) income from operations		(55,202)	741,465
Other (expense) income:			
Interest expense		(989,940)	(876,373)
Change in fair value of interest rate swap agreements		10,492	279,057
Interest income		67	193
Other expense		(7,585)	(13,592)
Total other expense		(986,966)	(610,715)
Net (loss) income	$	(1,042,168)	130,750

See accompanying notes to financial statements.

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Statements of Changes in Partners' Deficit

Years ended December 31, 2013 and 2012

Partners' deficit – December 31, 2011	$	(22,477,176)
Contributions – net		4,219,285
Net income		130,750
Partners' deficit – December 31, 2012		(18,127,141)
Distributions – net		(446,461)
Net loss		(1,042,168)
Partners' deficit – December 31, 2013	$	(19,615,770)

See accompanying notes to financial statements.

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Cash received from residents and third-party payors	$	13,155,896	11,353,323
Entrance fees received		4,557,511	1,226,271
Interest received		67	193
Cash paid to suppliers and employees		(11,946,115)	(9,529,727)
Interest paid		(971,741)	(1,103,454)
Net cash provided by operating activities		4,795,618	1,946,606
Cash flows used in investing activities:			
Increase in restricted cash		(4,965)	2,184
Purchases of property and equipment		(1,220,810)	(1,290,572)
Net cash used in investing activities		(1,225,775)	(1,288,388)
Cash flows used in financing activities:			
Refunds of entrance fees		(1,720,867)	(1,541,189)
Principal payments on note payable		(459,459)	(519,845)
Principal payments on installment loan		(41,616)	(41,418)
Principal payments on capital lease obligation		(5,328)	—
(Distributions)/contributions – net		(1,251,564)	2,010,904
Net cash used in financing activities		(3,478,834)	(91,548)
Net increase in cash		91,009	566,670
Cash – beginning of year		702,429	135,759
Cash – end of year	$	793,438	702,429

(Continued)

FOUNTAINS CARLOTTA SL, L.P.
(d/b/a The Fountains at The Carlotta)
(A Wholly Owned Subsidiary of Fountains Senior Living Holdings, LLC)

Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013	2012
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net (loss) income	$	(1,042,168)	130,750
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation		1,009,973	813,961
Amortization of entrance fees		(1,159,808)	(1,224,595)
Entrance fees received		4,557,511	1,226,271
Amortization of financing costs		82,718	29,586
Amortization of waived interest on troubled debt restructuring		(55,733)	(128,492)
Provision for bad debts		429,717	331,265
Change in fair value of interest rate swap agreements		(10,492)	(279,057)
Operating expenses charged to intercompany		518,817	1,606,544
Changes in operating assets and liabilities:			
Accounts receivable		378,645	(1,155,782)
Prepaid expenses and other current assets		59,076	(37,242)
Accounts payable and accrued expenses		(106,961)	714,044
Accrued interest		(8,786)	(128,175)
Deferred revenue		55,007	—
Security and reservation deposits		88,102	47,528
Net cash provided by operating activities	$	4,795,618	1,946,606
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	971,741	1,103,454
Supplemental disclosures of noncash investing and financing activities:			
Entrance fee draw downs applied to accounts receivable	$	291,998	198,764
Accrued capital expenditures		47,703	90,653
Assets acquired by capital lease		50,171	—
Reduction of notes payable charged to intercompany		286,287	415,723
Financing costs charged to intercompany		—	186,114

See accompanying notes to financial statements.

(1) Organization

Fountains Carlotta SL, L.P., d/b/a The Fountains at The Carlotta (the Partnership) (a wholly owned subsidiary of Fountains Senior Living Holdings, LLC), a Delaware limited partnership, operates a continuing care retirement community (CCRC) located in the state of California, and is owned by Fountains General Partner, LLC (GP) as general partner with a 1% interest and Fountains Pool V, LLC (Pool V), as limited partner with a 99% interest. Both the GP and Pool V are wholly owned by Fountains Senior Living Holdings, LLC (the Parent Company). The Partnership was created pursuant to a transaction in which the Parent Company acquired certain assets and assumed certain liabilities of 16 senior living facilities (the Facilities) in June 2005, including the facility known as The Fountains at The Carlotta.

The Partnership services the varying lifestyle needs of seniors and elderly residents by combining the services for independent living, assisted living, and skilled nursing facilities in a campus setting (the Facility). The Facility consists of 174 independent living apartments/casitas, 36 assisted living units, and 45 available licensed nursing beds, as well as a common area.

The Partnership's independent living resident contracts offer its CCRC residents preferential access to assisted living or the skilled nursing facility. Once a resident permanently transfers to assisted living or the skilled nursing facility, their independent living contract is terminated and the refundable portion of the entrance fee is refunded to the resident when triggered per the terms of the residency agreement. Assisted living and skilled nursing facility contracts are month to month. Preferential access is offered from the assisted living to the skilled nursing facility. A CCRC resident receives up to 10 free days in the skilled nursing facility per year until they permanently transfer. The skilled nursing facility is not considered to be a continued care unit.

Watermark Retirement Communities (Watermark) was retained to manage the Partnership effective January 1, 2012. The management agreement with Watermark has an initial term of five years, and shall automatically continue thereafter for successive one-year terms, unless terminated sooner as provided for in the agreement. The agreement provides for the management fee to be paid monthly. The fee is equal to 5% of the gross income accrued for each month. Management fees earned by Watermark totaled $689,697 and $684,313 in 2013 and 2012, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Partnership's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash

Cash consists of demand deposit accounts at financial institutions. Throughout the year, the Partnership may have cash balances in excess of federally insured amounts on deposit with various financial institutions.

(d) Accounts Receivable

Accounts receivable are stated net of an allowance for doubtful accounts. The Partnership provides an allowance for doubtful accounts on its outstanding receivables balance, based on its collection history and an estimate of uncollectible accounts. Generally, accounts receivable are considered to be past due after 30 days. Accounts receivable are written off when deemed uncollectible on a specific-identification basis.

(e) Inventories

Inventories are valued at the lower of cost or market and are included in prepaid expenses and other current assets in the accompanying balance sheets. Inventories mainly consist of food, glassware, dishware, utensils, linens and chemicals.

(f) Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. The Partnership capitalizes interest during construction to the extent such assets qualify for capitalization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, as follows:

Land improvements	10–15 years
Buildings and improvements	5–40 years
Furniture, fixtures, and equipment	3–10 years

Depreciation expense was $1,009,973 and $813,961 in 2013 and 2012, respectively. Depreciation includes amortization of assets recorded under capital leases.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's expected undiscounted cash flows are not sufficient to recover its carrying amount. The Partnership measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. As of December 31, 2013 and 2012, management estimates that the future undiscounted cash flows for its investments in property and equipment are in excess of the carrying amount recorded in the balance sheets and no impairment adjustment is required.

Construction in progress includes project costs related to the construction of capital improvements and renovations at the Facility. These costs are allocated to the appropriate fixed asset accounts upon the completion of construction.

(Continued)

(g) Restricted Cash

Restricted cash reflects funds held in trust on behalf of certain healthcare residents; a corresponding liability is carried by the Partnership in refundable deposits.

The California Department of Social Services requires funds to be set aside to meet both a debt service reserve and an operating reserve which is based on the current year debt service paid and net operating expenses incurred related to continuing care residents for 75 days. The Partnership has designated $500,000 held in cash and the Parent Company has designated an additional $2,000,000 million held in cash and cash equivalents to meet this reserve requirement as of December 31, 2013 and 2012.

(h) Deferred Financing Costs

During 2012, the Parent Company paid fees to the lender to modify the loan agreement terms as discussed in note 5. The portion of the fees allocated to the Partnership was $186,114. The allocation of fees was made in proportion to the debt allocation to the Partnership from the Parent Company. Amortization expense for the years ended December 31, 2013 and 2012 was $82,718 and $29,586, respectively, and is included in interest expense in the accompanying statements of operations.

(i) Unearned and Refundable Entrance Fees

The Partnership provides housing to senior residents under an entrance fee agreement whereby 50% of the fee is refundable to the resident or the resident's estate upon termination of the contract and/or upon reoccupancy of the unit by the next resident. The Partnership classified the entire amount of the unamortized nonrefundable portion as unearned entrance fees as of December 31, 2012 because the Partnership had been unable to reasonably estimate the portion of these fees that would be refundable due to early termination of contracts. During the year ended December 2013, with an additional year of data, the Partnership has been able to estimate the portion of the nonrefundable fees expected to be refunded to residents due to early termination. Accordingly, the estimated refundable portion has been classified as refundable entrance fees with a portion recorded as a current liability for those expected to be refunded during the subsequent fiscal year.

The remainder of the entrance fee becomes nonrefundable over time and is recorded by the Partnership as a long-term liability. The nonrefundable portion of the entrance fee is amortized into income using the straight-line method over the estimated remaining life expectancy of the resident, based upon an annually adjusted actuarial projection. The Partnership records a receivable for entrance fees when an agreement is entered into with a resident. Such receivables, totaling $0 and $168,810 at December 31, 2013 and 2012, respectively, are included in accounts receivable on the balance sheets.

In conjunction with the acquisition of The Fountains at The Carlotta in 2005, the Partnership assumed refundable entrance fee liabilities. Due to the uncertainty of timing of settlement of the liability, the fair value could not be reasonably estimated. As a result, the Partnership has recorded the liability at its face value as refundable entrance fees in the accompanying balance sheet. At

December 31, 2013 and 2012, the remaining liability totaled $2,949,668 and $3,958,870, respectively. The Partnership expects the source of repayment of refundable entrance fees to come from entrance fees received from the re-occupancy of the unit.

(j) Revenue Recognition and Deferred Revenue

Resident fee revenue, including resident community fees, is recognized when services are rendered. The Partnership invoices the residents one month in advance of the services being rendered, and therefore, cash payments received for services are recorded as liabilities until the services are rendered and the revenue is earned.

Typically, nonrefundable resident community fees approximating 30 times the daily residence fee are collected for assisted living residents upon move-in. These fees relate to apartment make-ready services performed by the Partnership. The rental agreements are cancelable by residents with 30 days' notice. Resident community fees are recognized as income upon move-in along with the related direct incremental costs incurred.

Healthcare services revenue is derived primarily from providing long-term healthcare services to residents. For residents under reimbursement arrangements with third-party payors, including Medicaid, Medicare, and private insurers, revenue is recorded based on contractually agreed-upon amounts on a per patient, daily basis. The Partnership records revenue from private-pay patients at the agreed-upon rate as services are performed.

Healthcare services rendered to Medicare beneficiaries are billed and collected based on the Prospective Payment System (PPS). Fee amounts are determined annually and are based on the care needs of the resident. As a result, PPS does not have estimated annual settlements. California Medicaid determines fee amounts annually based on information provided in submitted cost reports. The California Medicaid office performs a desk review of all submitted cost reports and they audit only selected providers. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that estimates may change. There were no receivables or payables recorded for estimated Medicaid settlements at December 31, 2013 and 2012.

(k) Marketing and Advertising Costs

Costs for advertising and marketing are expensed at the time the advertising takes place. Total costs expensed during 2013 and 2012 were $189,973 and $141,681, respectively, and are included in professional services expense.

(l) Insurance

The Partnership is insured for professional and general liability, and automobile liability, subject to deductibles per occurrence of $100,000 and $1,000, respectively. Losses subject to these deductibles are accrued based upon the aggregate liability for reported claims and an estimated liability for claims incurred but not reported. These liabilities are not discounted. The policies, however, do not extinguish or provide legal release from the Partnership's obligation prior to payment to the harmed party. Therefore, at December 31, 2013 and 2012, the Partnership estimated the total unlimited unpaid claims and recorded insurance liability reserves of $598,740 and $159,120, respectively. These insurance liability reserves are classified as current or long-term based on the period claims are expected to be paid. The Partnership also recorded related assets of $304,800 and $72,547 as of December 31, 2013 and 2012, respectively, for the amount in excess of the Partnership's deductible thresholds that are estimated to be received from insurance carriers. These insurance receivables are recorded in prepaid and other current assets or other assets based on the period claims are expected to be paid.

In prior years, the Partnership had offset the estimated total unlimited unpaid claims reserve with the related insurance receivable. The 2012 amounts have been reclassified to conform to current year presentation.

The Partnership also has a guaranteed cost program for workers compensation and employee health insurance.

(m) Income Taxes

No provision has been made for federal and state income taxes, as the liability for such taxes, if any, is that of the partners and not the Partnership. The Partnership is subject to franchise taxes in the state of California where the facility is located. These taxes are expensed as incurred and are included in taxes and license fees in the accompanying statements of operations.

(n) Derivatives

The Partnership accounts for its derivative instruments in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheets at fair value. ASC 815 requires that changes in the derivative instrument's fair value be recognized currently in earnings, unless specific hedge accounting criteria are met.

As of December 31, 2013, the Parent Company's derivative instruments consist of one interest rate swap agreement that it entered into to manage its exposure to interest rate risk. The Parent Company's interest rate swap instrument was not designated as a hedge in accordance with ASC 815, and as a result, changes in the fair value of the derivative instrument are recorded in other (expense) income. Such amounts have been allocated to the Partnership by the Parent Company as described in note 5.

(o) Fair Value Measurements

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities

Level 2 – Observable prices that are based on inputs not quoted on active markets, but corroborated by market data

Level 3 – Unobservable inputs developed using estimates and assumptions developed by the Partnership, which reflect those that a market participant would use

As of December 31, 2013 and 2012, the carrying amounts of certain financial instruments, including cash, restricted cash, accounts receivable, accounts payable and accrued expenses were representative of their fair values because of the short-term maturity of these instruments.

(3) Transactions with Parent Company

The Parent Company has a furniture, fixtures, and equipment (FF&E) escrow account that is used to replace fixtures, equipment, structural elements, and other components of the Facility as required in the management agreement. Under the operating agreement, all amounts in the capital expenditure reserves for the Partnership are considered to be pooled into one account at the Parent Company level, and may be used for any of the other Facilities. The reserve is funded by each of the Facilities monthly based on the number of resident units in each facility. The balance of the Parent Company's FF&E escrow account was $237,258 and $60,981 as of December 31, 2013 and 2012, respectively.

The Partnership and Parent Company do not settle intercompany balances in cash. The intercompany activity between the Parent Company and the Partnership for 2013 and 2012 has been presented as a net contribution (distribution) in the statements of changes in partners' deficit for the years ended December 31, 2013 and 2012, respectively.

(4) Concentrations of Credit Risk

The Partnership grants credit without collateral to its residents, most of whom are insured under third-party agreements. The Medicare program is a large source of healthcare revenue for the Partnership. Revenue from the Medicare program totaled approximately $4.8 million or 35% of total revenue during 2013. Revenue from the Medicare program totaled approximately $4.4 million or 32% of total revenue during 2012. The mix of receivables from residents and third-party payers at December 31, 2013 and 2012 was as follows:

	2013	2012
Medicare	33.80%	52.05%
Medicaid	32.20	21.55
Private	34.00	26.40
Total	100.00%	100.00%

(5) Note Payable

At the time of the acquisition in 2005, the Parent Company obtained a loan from Nordbank with a commitment amount of $405,750,000 of which $330,750,000 was drawn on the date of acquisition. The loan is collateralized by the assets of each Facility and the total loan amount was allocated by the Parent Company to each Facility based upon the lender-appraised values at the date of acquisition. The loan was initially scheduled to mature on June 30, 2010; however, if the Parent Company met certain criteria at applicable milestone dates, it could be extended three times. The Parent Company exercised both the first and second extension options and the loan is currently due December 31, 2014. The Parent Company intends to either exercise the third extension option to mature December 31, 2015 or to refinance the entire principal balance during 2014. As of December 31, 2013 and 2012, the Parent Company had outstanding borrowings of $284,392,275 and $293,787,845, respectively, of which $22,572,799 and $23,318,545 was allocated to the Partnership, respectively.

The loan bears interest at the London InterBank Offered Rate (LIBOR) plus the stated spread. LIBOR was 0.25% and 0.31% as of December 31, 2013 and 2012, respectively. The initial spread was 2.25%, but this increased to 3.75% effective September 28, 2012. The loan currently requires monthly payments of principal and quarterly payments of interest.

The Parent Company is subject to certain debt service and other financial covenants pursuant to its long-term debt agreement described above. The Parent Company failed to meet its liquidity and Debt Service Coverage Ratio (DSCR) requirements under the original loan agreement with Nordbank at each quarter-end in 2008 and for the quarter ended March 31, 2009. This precipitated the Second Amended and Restated Loan Agreement (the Loan Agreement) that was executed October 27, 2009 (the Closing Date). As a result of successfully amending its credit agreement, the Parent Company's loan was modified in that default interest was waived, ongoing principal amortization was postponed for 13 months, and swap arrangements were modified.

The Parent Company determined the modification to be a troubled debt restructuring in accordance with ASC 470, *Debt*, which requires that the effects of a restructuring involving only modification of terms of a payable, and not a transfer of assets or grant of equity interest, be accounted for prospectively from the time of the restructuring, and shall not change the carrying amount of the long-term debt unless the carrying amount exceeds the total future cash payments specified by the new terms.

As the future cash payments required by the terms of the Loan Agreement exceeded the carrying value of the loan at the Closing Date, which includes principal and accrued interest less unamortized financing costs, interest expense is being accounted for prospectively using the effective interest rate, which is determined to be 3.85% annually. The default interest, which was waived as part of the 2009 loan modification, is being amortized as a credit to interest expense. The amortization during 2013 and 2012 was $55,733 and $128,492, respectively. As of December 31, 2013, the remaining unamortized default interest was $117,170.

Under the amended agreement, the Parent Company was not required to meet a DSCR threshold until the quarter ended March 31, 2012. DSCR is calculated as the ratio of earnings – before the deduction of interest, taxes, depreciation and amortization, plus the net cash received and refunded for entrance fees – to principal and interest, including interest related to interest rate swap agreements, for the period. A failure to achieve a DSCR of at least 1.00:1 will constitute an event of default. In addition, beginning June 30, 2012, and semiannually thereafter on each December 31st and June 30th, the Parent Company must deliver computations of Excess Cash Flow (ECF), noting any prior prepayments from ECF, and at Nordbank's option, prepay a portion of the loan not to exceed 50% of ECF. ECF is a measure of the cumulative increase in cash from the Closing Date through the quarter preceding the measurement date, less certain adjustments.

On September 28, 2012, the Second Amendment to the Loan Agreement was executed. This agreement extended the maturity date of the second extension option to December 31, 2014 and the maturity date of the third extension option to December 31, 2015. Additionally, the margin with respect to LIBOR was increased to 3.75% effective September 28, 2012. Under the new Loan Agreement, the maximum percentage of ECF was increased to 90% and the DSCR was increased to 1.15:1.0 as a condition for the third extension. Effective with this amendment, the second extension option was exercised.

The Parent Company determined this amendment to be a modification in accordance with ASC 470, which requires the calculation of a new effective interest rate. As noted above, this was determined to be 3.85%.

The DSCR was met for all quarters of 2013 and 2012. The June 30, 2013 ECF calculation resulted in a prepayment on the loan made by the Parent Company in 2013 in the amount of $1,731,821. The December 31, 2013 ECF calculation resulted in a prepayment on the loan made by the Parent Company in March 2014 of $6,440,175 of which $511,170 was allocated to the Partnership.

Under the Loan Agreement, the Parent Company is subject to certain nonfinancial covenants. Management believes the Parent Company is in compliance with all debt covenants as of December 31, 2013 and 2012.

The fair value of the Parent Company's long-term debt, including amounts allocated to the Partnership, has been estimated based on current rates offered for debt with the same remaining maturities and comparable

(Continued)

collateralizing assets. Changes in assumptions or methodologies used to make estimates may have a material effect on the estimated fair value. In accordance with ASC 820, the Partnership has applied Level 2 type inputs to determine that the estimated fair value of the Parent Company's long-term debt was $283,009,770 and $291,733,358, of which $22,463,067 and $23,155,476 was allocated to the Partnership, at December 31, 2013 and 2012, respectively.

Scheduled annual principal maturities of the note payable until maturity, assuming the third extension option is exercised, are as follows:

		Amount
Year ending December 31:		
2014	$	1,051,291
2015		21,521,508
Total scheduled principal maturities		22,572,799
Unamortized waived interest		117,170
Total note payable		22,689,969
Less current maturities		(1,051,291)
Note payable – less current maturities	$	21,638,678

The Parent Company had two separate interest rate swap agreements with Nordbank, which expired July 1, 2012. The Parent Company executed a new interest rate swap agreement effective September 28, 2012. None of the swap agreements are designated as a hedge in accordance with ASC 815. These interest rate swaps are held to reduce to the risk of changes in LIBOR on the interest payments on the note payable. As of December 31, 2013, the swap agreement had the following characteristics:

Notional amount	Fixed pay rate	Receive variable rate	Expiration date
$ 200,000,000	0.51%	Three-month LIBOR	December 29, 2014

The fair value of the interest rate swap at December 31, 2013 and 2012, at the Parent Company level was a liability of $402,586 and $534,776, respectively. As the interest rate swap agreement is not traded on a market exchange, the fair value is determined through a discounted cash flow approach using market-based interest rate yield curves, which are considered Level 2 inputs in accordance with ASC 820. The fair value of the interest rate swap agreement allocated to the Partnership was $31,954 and $42,466 at December 31, 2013 and 2012, respectively, and is included in the derivative liability in the accompanying balance sheets. Changes in fair value of the interest rate swap agreement are included in other (expense) income in the accompanying statements of operations. The allocation of the derivative liability is consistent with the allocation of the loan amount to each Facility.

The Parent Company utilizes these interest-rate related derivative instruments (interest rate swap agreements) to manage its exposure on its debt instruments. The Parent Company does not enter into derivative instruments for any purpose other than to mitigate the impact of changes in interest rates on its cash flows. That is, the Parent Company does not speculate using derivative instruments.

ASC 820 requires that nonperformance risk be considered in measuring the fair value of assets and liabilities. For derivatives, nonperformance risk refers to the risk that one of the parties to a derivative transaction will be unable to perform under the contractual terms of that derivative, such as the risk that one party will be unable to make cash payments at periodic net settlement dates or upon termination. The Parent Company has considered the counterparty's credit risk as well as the effect of its own credit standing in determining the fair value of its interest rate swap agreements. The Parent Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

(6) Capital lease

The Partnership leased a vehicle under a capital lease in 2013. The following is a schedule of future minimum lease payments under this capital lease together with the present value of net minimum lease payments as of December 31, 2013:

Year ending December 31:		
2014	$	11,600
2015		11,600
2016		11,600
2017		11,600
2018		4,833
Total minimum lease payments		51,233
Less amount representing interest		(6,390)
Present value of net minimum lease payments	$	44,843

(7) Commitments and Contingencies

The Partnership entered into an Amended and Restated Guaranty and Pledge Agreement (Guaranty) on the Closing Date, whereby, it has unconditionally guaranteed payment of the principal and interest on the Parent Company loan described in note 5 and the related performance obligations of the Parent Company's subsidiaries under the Guaranty, as defined. The occurrence and continuance of an event of default by the Parent Company under the Loan Agreement beyond the cure period constitutes an event of default under the Guaranty. As a remedy for default, the lender may take possession, sell, lease, license, or otherwise dispose of the Partnership's facility and all other assets of the Partnership.

From time to time, the Partnership is involved in claims and lawsuits incidental to the ordinary course of business. While the outcome of these claims and lawsuits cannot be predicted with certainty, management of the Partnership does not believe the ultimate resolution of these matters will have a material adverse effect on the Partnership's financial statements.

(Continued)

In December 2013, legal claims were filed against the Partnership by two former employees alleging wrongful wage and hour claims. One of the claims also alleges wrongful termination. Both cases are in the early phase of litigation. Management believes there is a reasonable possibility of an unfavorable outcome. However, due to the lack of information provided by the claimants, management has determined that an amount is not reasonably estimable. Therefore, there was no contingent loss accrual recorded as of December 31, 2013.

The Partnership acquired the Facility subject to a potential contingent liability of $3,188,295 to refund certain entrance fees collected prior to the acquisition date. Since these fees were collected by the prior owner of the Facility and did not represent a legal obligation to the Partnership unless the residents vacated their units prior to certain contractually determined dates, no liability was recorded at the time of the acquisition. As of December 31, 2013 and 2012, the remaining amount of this contingent liability was $475,255 and $699,223, respectively. As it is not probable the Partnership will have to pay this amount, no liability has been recorded as of December 31, 2013 and 2012. The Partnership did not refund any entrance fees related to the contingent liability during the years ended December 31, 2013 and 2012.

At December 31, 2013 and 2012, the Partnership had entered into $76,000 and $77,000, respectively, in firm commitments for the completion of construction projects.

(8) Employee Benefit Plan

Effective January 1, 2012, the Parent Company offers a 401(k) retirement plan (the 401(k) Plan) under Watermark Services IV, LLC for the benefit of the employees. Employees that complete six months of service and are 21 years of age or older may participate in the 401(k) Plan. Employees may make pre-tax salary deferrals of 1% to 75% of their compensation, subject to annual dollar limits determined by the Internal Revenue Service. Employer matching contributions for the 401(k) Plan are on a discretionary year-end match. To receive the match, employees must be actively employed as of the last day of the year. The Partnership contributed a total of approximately $4,300 and $8,000 during the years ended December 31, 2013 and 2012, to the 401(k) Plan, respectively.

(9) Subsequent Events

In preparing the financial statements, the Partnership evaluated subsequent events occurring through April 30, 2014, the date the financial statements were available to be issued, in accordance with the Partnership procedures related to disclosure of subsequent events.

KPMG

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

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KPMG

KPMG LLP
Suite 800
60 East Rio Salado Parkway
Tempe, AZ 85281-9125

Independent Auditors' Report

The Member
Fountains Senior Living Holdings, LLC:

We have audited the accompanying consolidated financial statements of Fountains Senior Living Holdings, LLC and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in member's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fountains Senior Living Holdings, LLC and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Phoenix, Arizona
April 30, 2014

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	23,777,786	12,775,895
Accounts receivable – less allowance for doubtful accounts of $1,206,000 and $1,126,000 at December 31, 2013 and 2012, respectively		5,149,194	7,273,633
Prepaid expenses and other current assets		2,583,859	2,776,206
Total current assets		31,510,839	22,825,734
Property and equipment:			
Land and land improvements		71,163,804	71,195,735
Buildings and improvements		329,644,178	321,415,588
Furniture, fixtures, and equipment		41,209,688	36,422,779
Construction in progress		1,557,637	3,637,509
Total property and equipment		443,575,307	432,671,611
Less accumulated depreciation		(92,860,837)	(77,584,554)
Property and equipment – net		350,714,470	355,087,057
Restricted cash		1,504,750	1,319,260
Other assets		1,901,882	1,116,386
Deferred financing costs – less accumulated amortization of $1,269,000 and $254,000 at December 31, 2013 and 2012, respectively		1,015,410	2,030,820
Total	$	386,647,351	382,379,257

(Continued)

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012

Liabilities and Member's Deficit		**2013**	**2012**
Current liabilities:			
Accounts payable and accrued expenses	$	12,929,647	13,117,968
Payable to affiliates – net		136,672	—
Security and reservation deposits		1,260,069	760,958
Accrued interest		43,304	45,260
Refundable entrance fees		10,306,543	7,156,611
Resident refund liabilities		559,205	661,522
Insurance liability reserves		2,466,448	1,575,358
Derivative liability		402,586	367,749
Current portion capital lease obligations		60,583	—
Current maturities of notes payable		13,263,688	6,336,811
Total current liabilities		41,428,745	30,022,237
Long-term liabilities:			
Notes payable – less current maturities		272,720,576	290,243,757
Capital lease obligation – less current portion		245,125	—
Deferred revenue		744,823	421,321
Insurance liability reserves – less current portion		3,013,297	1,618,439
Derivative liability – less current portion		—	167,027
Refundable entrance fees – less current portion		54,109,350	52,481,813
Unearned nonrefundable entrance fees		33,010,628	31,492,450
Total long-term liabilities		363,843,799	376,424,807
Total liabilities		405,272,544	406,447,044
Commitments and contingencies (notes 4, 8, and 9)			
Member's deficit		(18,625,193)	(24,067,787)
Total	$	386,647,351	382,379,257

See accompanying notes to consolidated financial statements.

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2013 and 2012

	2013	2012
Operating revenue:		
Resident fees	$ 100,575,631	96,913,355
Healthcare revenue	36,708,812	36,502,287
Amortization of entrance fees	6,312,218	6,542,993
Lease income	5,422,470	5,349,770
Other operating income	4,168,781	3,288,363
Total operating revenue	153,187,912	148,596,768
Operating expenses:		
Wages and benefits	56,474,879	55,508,902
Depreciation	15,615,396	14,324,131
Ancillary/therapy expenses	8,987,603	8,653,055
General and administrative	3,258,457	3,750,886
Food	9,721,498	9,758,396
Supplies	2,296,037	2,471,321
Utilities	6,854,713	6,831,385
Insurance	3,399,828	3,650,272
Taxes and license fees	4,523,831	4,407,989
Repairs and maintenance	5,228,021	5,127,502
(Gain) loss on assets disposed of	(456,898)	2,988
Lease expense	3,654,607	3,650,333
Management fees	7,879,101	7,571,224
Professional services	5,378,244	6,344,296
Total operating expenses	135,348,441	134,923,251
Income from operations	17,839,471	13,673,517
Other (expense) income:		
Interest expense	(12,376,731)	(11,074,202)
Change in fair value of interest rate swap agreements	132,190	3,529,065
Interest income	19,507	54,327
Other expense	(171,843)	(157,173)
Total other expense	(12,396,877)	(7,647,983)
Net income	$ 5,442,594	6,025,534

See accompanying notes to consolidated financial statements.

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Changes in Member's Deficit

Years ended December 31, 2013 and 2012

Balance – December 31, 2011	$ (32,093,321)
Contributions	2,000,000
Net income	6,025,534
Balance – December 31, 2012	(24,067,787)
Net income	5,442,594
Balance – December 31, 2013	$ (18,625,193)

See accompanying notes to consolidated financial statements.

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income	$ 5,442,594	6,025,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,615,396	14,324,131
Amortization of entrance fees	(6,312,218)	(6,542,993)
Entrance fees received	23,819,889	19,630,660
Amortization of financing and loan modification costs	1,015,410	396,369
Amortization of waived interest on troubled debt restructuring	(723,506)	(1,668,056)
(Gain) loss on sale/disposition of fixed assets	(456,898)	2,988
Provision for bad debts	965,653	1,268,120
Change in fair value of interest rate swap agreements	(132,190)	(3,529,065)
Changes in operating assets and liabilities:		
Accounts receivable	564,291	(2,384,682)
Prepaid expenses and other current assets	729,693	410,365
Straight-line lease receivable	10,589	(9,688)
Payment of financing costs	—	(259,726)
Payable to Sunrise – net	—	(347,400)
Accounts payable and accrued expenses	788,952	1,558,221
Payable to affiliates – net	136,672	—
Deferred revenue	323,502	125,457
Security and reservation deposits	593,311	107,182
Net cash provided by operating activities	42,241,719	27,870,905
Cash flows from investing activities:		
Decrease in restricted cash	(185,490)	6,636,571
Proceeds from insurance settlements	—	1,086,859
Proceeds from sale of fixed assets	1,480,476	132,846
Purchases of property and equipment	(11,688,330)	(11,505,821)
Net cash used in investing activities	(10,393,344)	(3,649,545)
Cash flows from financing activities:		
Payment of financing costs	—	(2,024,947)
Payment on notes payable	(9,424,586)	(12,787,014)
Payment on short-term installment loan	(548,141)	(543,386)
Payment on capital lease obligations	(21,508)	—
Payment of resident refund liabilities	(102,317)	(15,896)
Refunds of entrance fees	(10,749,932)	(8,297,777)
Contributions	—	2,000,000
Net cash used in financing activities	(20,846,484)	(21,669,020)
Net increase in cash and cash equivalents	11,001,891	2,552,340
Cash and cash equivalents – beginning of year	12,775,895	10,223,555
Cash and cash equivalents – end of year	$ 23,777,786	12,775,895

(Continued)

FOUNTAINS SENIOR LIVING HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013	2012
Supplemental disclosure of cash flow information			
Cash paid for interest	$	12,224,248	13,734,454
Supplemental disclosures of noncash investing and financing activities:			
Accrued capital expenditures	$	720,373	706,926
Security deposits applied against entrance fees		94,200	325,318
Entrance fee draw-downs applied to accounts receivable		358,860	266,140
Assets acquired by capital lease		327,216	—

See accompanying notes to consolidated financial statements.

(1) Organization

Fountains Senior Living Holdings, LLC (the Company) fka as Sunrise IV Senior Living Holdings, LLC, a Delaware limited liability company, was formed on June 30, 2005, to acquire 16 senior living facilities (the acquisition). The Company began operations on July 1, 2005 to provide for the varying lifestyle needs of seniors and elderly residents by combining the services for independent living, assisted living, Alzheimer's and related dementia care, and skilled nursing facilities in a campus setting. Several of the Company's Facilities are considered continuing care retirement communities.

The Company owns the following 13 single-purpose limited liability companies and 3 single-purpose limited partnerships (collectively, the Operator Entities), which operate 16 senior living facilities (the Facilities) as follows:

Operator entity	Facility	Location
Fountains La Cholla SL, LLC	Fountains at La Cholla	Tucson, Arizona
Fountains Canterbury SL, LLC	Fountains at Canterbury	Oklahoma, Oklahoma
Fountains Albemarle SL, LLC	Fountains at Albemarle	Tarboro, North Carolina
Fountains Crystal Lake SL, LLC	Fountains at Crystal Lake	Crystal Lake, Illinois
Fountains La Jolla SL, L.P.	Fountains at La Jolla	San Diego, California
Fountains Bellevue SL, LLC	Fountains at Bellevue	Bellevue, Washington
Fountains Sea Bluffs SL, L.P.	Fountains at Sea Bluffs	Dana Point, California
Fountains Franklin SL, LLC	Fountains at Franklin	Southfield, Michigan
Fountains Millbrook SL, LLC	Fountains at Millbrook	Millbrook, New York
Fountains Lake Pointe Woods SL, LLC	Fountains at Lake Pointe Woods	Sarasota, Florida
Fountains Boca Ciega SL, LLC	Fountains at Boca Ciega Bay	St. Petersburg, Florida
Fountains Carlotta SL, L.P.	Fountains at Carlotta	Palm Desert, California
Fountains Bronson Place SL, LLC	Fountains at Bronson Place	Kalamazoo, Michigan
Fountains Washington House SL, LLC	Fountains at The Washington House	Alexandria, Virginia
Fountains Greenbriar SL, LLC	Fountains at Greenbriar	Independence, Missouri
Fountains RiverVue SL, LLC	Fountains at RiverVue	Tuckahoe, New York

During various dates in 2010, Watermark Retirement Communities, Inc. (Watermark) was retained to manage the Facilities with the exception of Fountains at Carlotta, which transitioned January 1, 2012. The agreements have an initial term of five years from the final closing date as defined in the master management agreement, and shall thereafter automatically continue for successive one-year terms, unless sooner terminated as provided for in the agreements. The agreements provide for management fees to be paid monthly. The fee is equal to 5% of the gross income accrued for each month. Total management fees incurred under these agreements in 2013 and 2012 were $7,430,070 and $7,245,251, respectively.

These management agreements also entitle Watermark to be compensated for early termination in an amount equal to the management fee earned in the preceding 12 months for the discontinued operations if termination is effective during the second or third year of the initial term. If the effective termination is in the fourth year, the fee is 50% of the management fees earned in the preceding 12 months. There were no early termination fees incurred in 2013 and 2012.

In addition to the individual facility management agreements, the Company entered into a master portfolio management agreement with Watermark. This agreement entitles the manager to receive an incentive management fee as additional compensation equal to 10% of the amount by which current cash flow for a current measurement period exceeds base cash flow for a base measurement period as defined in the agreement. The total incentive management fee incurred was $375,141 and $255,930 in 2013 and 2012, respectively.

The Company leases property to Fountains Operating Company of (NY), Inc. (FOC). FOC is the licensed operator for the Fountains at Millbrook and Fountains at RiverVue senior living facilities, which are also managed by Watermark. The lease income for 2013 and 2012 was $3,487,092 and $3,385,524, respectively. The Company had a payable to FOC of $123,233 and a receivable from FOC of $46,127 as of December 31, 2013 and 2012, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The accompanying consolidated financial statements include the consolidated accounts of Fountains and the Operator Entities after elimination of intercompany accounts and transactions.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. Throughout the year, the Company may have cash balances in excess of federally insured amounts on deposit with various financial institutions.

(d) Accounts Receivable

Accounts receivable are stated net of an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts on its outstanding receivables balance based on its collection history and an estimate of uncollectible accounts. Generally, accounts receivable are considered to be past due after 30 days. Accounts receivable are written off when deemed uncollectible on a specific-identification basis.

(e) Inventories

Inventories are valued at the lower of cost or market and are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. Inventories mainly consist of food, glassware, dishware, utensils, linens and chemicals.

(f) Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. The Company capitalizes interest during construction to the extent such assets qualify for capitalization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	10–15 years
Buildings and improvements	5–40 years
Furniture, fixtures, and equipment	3–10 years

Depreciation expense was $15,615,396 and $14,324,131 in 2013 and 2012, respectively. Depreciation includes amortization of assets recorded under capital leases.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's expected undiscounted cash flows are not sufficient to recover its carrying amount. The Company measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. As of December 31, 2013 and 2012, management believes that the future estimated undiscounted cash flows for its investments in property and equipment are in excess of the carrying amount recorded in the consolidated balance sheets, and no impairment adjustment is required.

Construction in progress includes project costs related to the construction of capital improvements and renovations at the Facilities. These costs are allocated to the appropriate fixed asset accounts upon the completion of the construction.

(g) Restricted Cash

Restricted cash includes a cash escrow reserve for working capital, which is required by the State of Florida for Fountains at Lake Pointe Woods. This restricted cash amount, which is held by state authorities, totaled $696,800 as of December 31, 2013 and 2012. The reserve requirement under state statutes is calculated by applying a mandated percentage to the Facility's net operating expenses, plus a debt service reserve, as defined.

Restricted cash also includes a furniture, fixtures and equipment (FF&E) escrow account to be used to replace fixtures, equipment, structural elements and other components of the Facilities as required in the management agreements. The balance of the FF&E escrow account was $237,258 and $60,981 as of December 31, 2013 and 2012, respectively, and is included in restricted cash in the accompanying consolidated balance sheets.

The California Department of Social Services, related to Fountains Carlotta SL, LLC, requires funds to be set aside to meet both a debt service reserve and an operating reserve that is based on the current year debt service paid and net operating expenses incurred related to continuing care residents for 75 days. The Company designated $2,500,000 held in cash and cash equivalents to meet this reserve requirement as of December 31, 2013 and 2012.

(h) Deferred Financing Costs

During 2012, the Company paid fees totaling $2,024,947 to the lender to modify the loan agreement terms as discussed in note 5. In addition to the fee paid in 2012, $259,726 was paid to reimburse for legal and other closing costs related to the loan amendment. Amortization expense for the years ended December 31, 2013 and 2012 was $1,015,410 and $396,369, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

(i) Unearned and Refundable Entrance Fees

The Company provides housing to senior residents under an entrance fee agreement at certain facilities whereby an agreed upon percentage of the fee is refundable to the resident or the resident's estate upon termination of the contract and/or upon reoccupancy of the unit by the next resident. The contracts vary and can range from 0% to 90% refundable. The Company classified the entire amount of the unamortized nonrefundable portion as unearned entrance fees as of December 31, 2012 because the Company had been unable to reasonably estimate the portion of these fees that would be refundable due to early termination of contracts. During the year ended December 2013, with an additional year of data, the Company has been able to estimate the portion of the non-refundable fees expected to be refunded to residents due to early termination. Accordingly, the estimated refundable portion has been classified as refundable entrance fees with a portion recorded as a current liability for those expected to be refunded during the subsequent fiscal year.

The remainder of the entrance fee becomes nonrefundable over time and is recorded by the Company as a long term liability. The nonrefundable portion of the entrance fee is amortized into income using the straight line method over the estimated remaining life expectancy of the resident, based upon an annually adjusted actuarial projection. The Company records a receivable for entrance fees when an agreement is entered into with a resident. Such receivables, totaling $0 and $235,635 at December 31, 2013 and 2012, respectively, are included in accounts receivable on the consolidated balance sheets.

In conjunction with the acquisition in 2005, the Company assumed refundable entrance fee liabilities at certain Facilities. Due to the uncertainty of timing of settlement of the liability, the fair value could not be reasonably estimated. As a result, the Company has recorded the liability at its face value as refundable entrance fees in the accompanying consolidated balance sheets. At December 31, 2013 and 2012, the remaining liability totaled $12,143,483 and $18,823,246, respectively. The Company expects the source of repayment of refundable entrance fees to come from entrance fees received from the reoccupancy of the unit.

(j) Future Service Obligation

The Company owns a Facility where life care contracts were previously offered and is, therefore, obligated to provide services and the use of facilities to the residents of this community over their remaining lives based on the terms of the life care contract agreements (Care Agreements). The facility is the Fountains at The Washington House. When the present value of estimated costs to be incurred under the Care Agreements exceeds the present value of the estimated related revenues, such excess is accrued. The obligation is discounted at 6% for both 2013 and 2012, respectively, based on a rate that reasonably reflects the Company's risk premium as determined by management. Management has determined that there is no future service obligation as of December 31, 2013 and 2012.

(k) Revenue Recognition and Deferred Revenue

Resident fee revenue, including resident community fees, is recognized when services are rendered. The Company invoices the residents one month in advance of the services being rendered, and therefore, cash payments received for services are recorded as liabilities until the services are rendered and the revenue is earned.

Typically, nonrefundable resident community fees approximating 30 to 60 times the daily residence fee are collected in rental communities upon move-in. These fees relate to apartment make-ready services performed by the Company. The rental agreements are cancelable by residents with 30 days' notice. Resident community fees are recognized as income upon move-in along with the related direct incremental costs incurred.

Healthcare services revenue is derived primarily from providing long-term healthcare services to residents. For residents under reimbursement arrangements with third-party payors, including Medicaid, Medicare, and private insurers, revenue is recorded based on contractually agreed-upon amounts on a per-patient, daily basis. The Company records revenue from private pay patients at the agreed upon rate as services are performed.

Healthcare services rendered to Medicare beneficiaries are billed and collected on a Prospective Payment System (PPS). Fee amounts are determined annually and are based on the care needs of the resident. As a result, PPS does not have estimated annual settlements. Medicaid payment methodologies vary by state. Most state Medicaid programs will perform desk reviews of all submitted cost reports and audit only selected providers. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change. There were no receivables or payables recorded for estimated Medicaid settlements at December 31, 2013 and 2012.

Lease income is recognized on a straight-line basis over the terms of the respective leases.

(l) Marketing and Advertising Costs

Costs for advertising and marketing are expensed at the time the advertising takes place. Total costs expensed during 2013 and 2012 were $1,696,314 and $1,629,303, respectively, and are included in professional services expense.

(m) Insurance

The Company is insured for professional and general liability, and automobile liability, subject to deductibles per occurrence of $100,000 and $1,000, respectively. Losses subject to these deductibles are accrued based upon the aggregate liability for reported claims and an estimated liability for claims incurred but not reported. These liabilities are not discounted. The policies, however, do not extinguish or provide legal release from the Company's obligation prior to payment to the harmed party. Therefore, at December 31, 2013 and 2012, the Company estimated the total unlimited unpaid claims and recorded insurance liability reserves of $5,479,745 and $3,193,797, respectively. These insurance liability reserves are classified as current or long-term based on the period claims are expected to be paid. The Company also recorded related assets of $2,789,570 and $1,456,139 as of December 31, 2013 and 2012, respectively, for the amount in excess of the Company's deductible thresholds that are estimated to be received from insurance carriers. These insurance receivables are recorded in prepaid and other current assets or other assets based on the period claims are expected to be paid.

In prior years, the Company had offset the estimated total unlimited unpaid claims reserve with the related insurance receivable. The 2012 amounts have been reclassified to conform to current year presentation.

The Company also has a guaranteed cost program for workers compensation and employee health insurance.

(n) December Income Taxes

The Company is treated as a partnership for income tax purposes. Accordingly, no provision has been made for federal and state income taxes, as the liability for such taxes, if any, is that of the member and not the Company. The Company is subject to franchise taxes in the state of California, where certain of the Facilities are located. These taxes are expensed as incurred and are included in taxes and license fees in the accompanying consolidated statements of operations.

(o) Derivatives

The Company accounts for its derivative instruments in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated balance sheets at fair value. ASC 815 requires that changes in the derivative instrument's fair value be recognized currently in earnings, unless specific hedge accounting criteria are met.

The Company's current derivative instruments consist of one interest rate swap agreement that it entered into to manage its exposure to interest rate risk. These derivative instruments were not designated as hedges in accordance with ASC 815, and as a result, changes in the fair value of the derivative instruments are recorded in other expense.

(Continued)

(p) Fair Value Measurements

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities

Level 2 – Observable prices that are based on inputs not quoted on active markets, but corroborated by market data

Level 3 – Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use

As of December 31, 2013 and 2012, the carrying amounts of certain financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, which meet the definition of a financial instrument, and other liabilities were representative of their fair values because of the short-term maturity of these instruments.

(3) Concentrations of Credit Risk

The Company grants credit without collateral to its residents for amounts due under resident agreements, many of whom are insured under third-party agreements. The Medicare program is a large source of healthcare revenue for the Company. Revenue from the Medicare program totaled approximately $22.9 million and $22.2 million or 14.9% and 15.0% of total revenue during 2013 and 2012, respectively. The mix of receivables from residents and third-party payers as of December 31, 2013 and 2012 was as follows:

	2013	2012
Medicare	39.63%	48.16%
Medicaid	14.18	10.15
Private	46.19	41.69
Total	100.00%	100.00%

(4) Notes Payable

At the time of the acquisition in 2005, the Company obtained a loan from Nordbank with a commitment amount of $405,750,000, of which $330,750,000 was drawn on the date of acquisition. The loan is collateralized by the assets of each facility. The loan was initially scheduled to mature on June 30, 2010; however, if the Company met certain criteria at applicable milestone dates, it could be extended three times. The Company exercised both the first and second extension options and the loan is currently due December 31, 2014. The Company intends to either exercise the third extension option to mature

December 31, 2015 or to refinance the entire principal balance during 2014. At December 31, 2013 and 2012, the Company had outstanding borrowings of $284,392,275 and $293,787,845, respectively.

The loan bears interest at London InterBank Offered Rate (LIBOR), plus the stated spread. LIBOR was 0.25% and 0.31% as of December 31, 2013 and 2012, respectively. The initial spread was 2.25%, but this increased to 3.75% effective September 28, 2012. The loan currently requires monthly payments of principal and quarterly payments of interest.

The Company failed to meet its liquidity and Debt Service Coverage Ratio (DSCR) requirements under the original loan agreement with Nordbank at each quarter end in 2008 and for the quarter ended March 31, 2009. This precipitated the Second Amended and Restated Loan Agreement (the Loan Agreement) that was executed on October 27, 2009 (the Closing Date). The modification resulted in the waiver of default interest, the waiver of principal amortization due July 1, 2009, the postponement of ongoing principal amortization for 13 months, modification of the covenant requirements, and the modification of the swap arrangements.

The Company determined the modification to be a troubled debt restructuring in accordance with ASC 470, *Debt*, that required the effects of a restructuring involving only modification of terms of a payable, and not a transfer of assets or grant of equity interest, be accounted for prospectively from the time of the restructuring, and shall not change the carrying amount of the long-term debt unless the carrying amount exceeds the total future cash payments specified by the new terms.

As the future cash payments required by the terms of the Loan Agreement exceeded the carrying value of the loan at the Closing Date, which includes principal and accrued interest less unamortized financing costs, interest expense is being accounted for prospectively using the effective interest rate, which is determined to be 3.85% annually. The default interest, which was waived as part of the 2009 loan modification, is being amortized as a credit to interest expense. The amortization during 2013 and 2012 was $723,506 and $1,668,056, respectively. As of December 31, 2013, the remaining unamortized default interest was $1,521,077.

Under the Loan Agreement, the Company was not required to meet a DSCR threshold until the quarter ended March 31, 2012. The DSCR is calculated as the ratio of earnings – before the deduction of interest, taxes, depreciation and amortization, plus the net cash received and refunded for entrance fees – to principal and interest, including interest related to interest rate swap agreements, for the period. A failure to achieve a DSCR of at least 1.00:1 will constitute an event of default. In addition, beginning June 30, 2012, and semiannually thereafter on each December 31st and June 30th, the Company must deliver computations of Excess Cash Flow (ECF), noting any prior prepayments from ECF, and at Nordbank's option, prepay a portion of the loan not to exceed 50% of ECF. ECF is a measure of the cumulative increase in cash from the Closing Date through the quarter preceding the measurement date, less certain adjustments.

On September 28, 2012, the Second Amendment to the Loan Agreement was executed. This agreement extended the maturity date of the second extension option to December 31, 2014 and the maturity date of the third extension option to December 31, 2015. Additionally, the margin with respect to LIBOR was increased to 3.75% effective September 28, 2012. Under the new Loan Agreement, the maximum percentage of ECF was increased to 90% and the DSCR was increased to 1.15:1.0 as a condition for the third extension. Effective with this amendment, the second extension option was exercised.

The Company determined this amendment to be a modification in accordance with ASC 470, which requires the calculation of a new effective interest rate. As noted above, this was determined to be 3.85%.

The DSCR was met for all quarters of 2013 and 2012. The June 30, 2013 ECF calculation resulted in a prepayment on the loan in 2013 in the amount of $1,731,821. The December 31, 2013 ECF calculation resulted in a prepayment on the loan made in March 2014 of $6,440,175.

Under the Loan Agreement, the Company is subject to certain nonfinancial covenants. The Company is in compliance with all debt covenants as of December 31, 2013 and 2012.

The fair value of the Company's note payable is estimated based on current rates offered for debt with the same remaining maturities and comparable collateralizing assets. Changes in assumptions or methodologies used to make estimates may have a material effect on the estimated fair value. In accordance with ASC 820, management has applied Level 2 inputs to determine that the estimated fair value of the Company's long-term debt was $283,009,770 and $291,733,358 at December 31, 2013 and 2012, respectively.

The Company executed a five-year installment loan agreement with Wells Fargo Equipment Finance, Inc. in April 2012 in the amount of $99,929 of which $70,912 remained outstanding as of December 31, 2013. The proceeds were used to purchase a new bus at Fountains at Bronson Place. The loan bears an interest rate of 4.95% and is secured by the bus. Payments of interest and principal are due monthly.

Scheduled annual principal maturities of the note payable until maturity, assuming the third extension option to the Second Amendment to the Loan Agreement is exercised, and the installment loan are as follows:

	Amount
Year ending December 31:	
2014	$ 13,263,688
2015	271,199,499
Total scheduled principal maturities	284,463,187
Unamortized waived interest	1,521,077
Total note payable	285,984,264
Less current maturities	13,263,688
Note payable – less current maturities	$ 272,720,576

The Company had two separate interest rate swap agreements with Nordbank, which expired July 1, 2012. The Company executed a new interest rate swap agreement effective September 28, 2012. None of the swap agreements are designated as a hedge in accordance with ASC 815. These interest rate swaps are held to reduce to the risk of changes in LIBOR on the interest payments on the note payable. As of December 31, 2013, the swap had the following characteristics:

Notional amount	Fixed pay rate	Receive variable rate	Expiration date
$ 200,000,000	0.51%	Three-month LIBOR	December 29, 2014

The fair value of the interest rate swap at December 31, 2013 and 2012 was a liability of $402,586 and $534,776, respectively. As the Company's interest rate swap agreement is not traded on a market exchange, the fair value is obtained from quoted prices that are determined through a discounted cash flow approach using market-based interest rate yield curves, which are considered Level 2 inputs in accordance with ASC 820. The fair value of the interest rate swap agreement is recorded in the derivative liability in the accompanying consolidated balance sheets. Changes in fair value of the interest rate swap agreement are included in other (expense) income in the accompanying consolidated statements of operations.

The Company utilizes these interest-rate related derivative instruments (interest rate swap agreements) to manage its exposure on its debt instruments. The Company does not enter into derivative instruments for any purpose other than to mitigate the impact of changes in interest rates on its cash flows. That is, the Company does not speculate using derivative instruments.

ASC 820 requires that nonperformance risk be considered in measuring the fair value of assets and liabilities. For derivatives, nonperformance risk refers to the risk that one of the parties to a derivative transaction will be unable to perform under the contractual terms of that derivative, such as the risk that one party will be unable to make cash payments at periodic net settlement dates or upon termination. The Company has considered the counterparty's credit risk as well as the effect of its own credit standing in determining the fair value of its interest rate swap agreements. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

(5) Capital Lease Obligation

The Company leased several vehicles under capital leases in 2013. The following is a schedule of future minimum lease payments under these capital leases together with the present value of net minimum lease payments as of December 31, 2013:

Year ending December 31:		
2014	$	73,745
2015		73,745
2016		73,745
2017		73,745
2018		46,630
Total minimum lease payments		341,610
Less amount representing interest		(35,902)
Present value of net minimum lease payments	$	305,708

(6) Member's Deficit

The operating agreement details the commitments of the member and provides the procedures for the return of capital to the member with defined priorities. All profits and losses, net cash flow from operations and capital proceeds, if any, are to be distributed according to the priorities specified in the operating agreement. As of December 31, 2013 and 2012, US SLI is the sole member.

The loan amendment, discussed in note 5, eliminated the requirement to replenish the operating deficit reserve (ODR) which was originally required by the Loan Agreement and funded by a $5 million contribution from US SLI in 2009. At the closing of the Second Amendment to the Loan Agreement, all the funds on deposit in the ODR account, totaling approximately $5.3 million, were applied as a repayment of the note payable. Subsequent to this closing, US SLI reimbursed the Company for fees and expenses associated with the loan amendment as an equity contribution totaling $2 million.

(7) Lease Income

The Company receives lease income from nonresidential tenants under operating leases. Future minimum lease receipts as of December 31, 2013 are as follows:

Year ending December 31:		
2014	$	5,306,943
2015		4,849,806
2016		2,669,843
2017		1,456,263
2018		1,478,107
Total	$	15,760,962

No single tenant accounts for more than 2.3% of the Company's total revenue in 2013 and 2012. The tenant base includes nursing homes, assisted living providers, and homeowners' associations. Future minimum lease payments do not include amounts received for reimbursement of the facility operating expenses. Additionally, future minimum lease payments do not include revenues earned from temporary tenants with lease commitments that span less than one year.

(8) Lease Expense

The Company entered into a contingent lease agreement for the use of a health center. The rent expense is based on the actual costs allocable to the premises for a lease year. There is not a fixed minimum lease payment. The lease is for a term of 99 years or the useful life of the building, whichever is shorter. The lease expense for the years ended December 31, 2013 and 2012 was $732,408 in both years and is included in lease expense in the accompanying consolidated statements of operations.

In addition to the health center lease, the Company is obligated to reimburse the related homeowner's association (HOA) for fees charged for independent living residents. These fees include dues, basic food service fee, second person fees and parking. The fees paid to the HOA for the years ended December 31, 2013 and 2012 were $2,503,786 and $2,510,971, respectively, and are included in lease expense in the accompanying consolidated statements of operations.

(9) Commitments and Contingencies

The Company is involved in claims and lawsuits incidental to the ordinary course of business. While the outcome of these claims and lawsuits cannot be predicted with certainty, management of the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's consolidated financial statements.

In December 2013, legal claims were filed against Fountains at Carlotta by two former employees alleging wrongful wage and hour claims. One of the claims also alleges wrongful termination. Both cases are in the early phase of litigation. Management believes there is a reasonable possibility of an unfavorable outcome. However, due to the lack of information provided by the claimants, management has determined that an amount is not reasonably estimable. Therefore, there was no contingent loss accrual recorded as of December 31, 2013.

The Company acquired the Facilities subject to a potential contingent liability of $23,032,890 to refund certain entrance fees collected prior to the acquisition date. Since these fees were collected by the prior owner of the Facilities and did not represent a legal obligation to the Company unless the residents vacated their units prior to certain contractually determined dates, no liability was recorded at the time of the acquisition. As of December 31, 2013 and 2012, the remaining amount of this contingent liability was $3,530,155 and $5,152,484, respectively. As it is not probable the Company will have to pay this amount, no liability has been recorded as of December 31, 2013 and 2012.

At December 31, 2013 and 2012, the Company had entered into approximately $1,340,000 and $535,000, respectively, in firm commitments for the completion of construction projects.

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	07/01/05	$459,459	$966,838		$1,426,297
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$966,838	$0	$1,426,297

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

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

PROVIDER: Fountains Senior Living Holdings, LLC

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					$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$0	$0	0	$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: Fountains Senior Living Holdings, LLC

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,426,297
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	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$1,426,297

PROVIDER: Fountains Senior Living Holdings, LLC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		$14,839,092
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	$966,838	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c. Depreciation	$1,009,973	
	d. Amortization	$0	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$8,012,428	
	f. Extraordinary expenses approved by the Department	$0	
3	Total Deductions		$9,989,239
4	Net Operating Expenses		$4,849,853
5	Divide Line 4 by 365 and enter the result.		$13,287
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$996,545

PROVIDER: Fountains Senior Living Holdings, LLC
COMMUNITY: The Fountains at The Carlotta

FOUNTAINS CARLOTTA SL, L.P.

Attachment A to Form 5-4

Year ended December 31, 2013

Line 1:		
Total operating expenses	$	13,849,152
Long term debt Interest paid		989,940
Total operating expenses line 1	$	14,839,092
Line 2a:		
Interest paid	$	971,741
Less nondebt interest		(4,903)
Interest paid on long-term debt line 2a	$	966,838

Line 2e		Revenues per audited financial	Received from residents with continuing care contracts		Received from persons without continuing care contracts
Resident fees	$	6,143,758	4,564,095		1,579,663
Health care revenue		6,378,005	816		6,377,189
Amortization of entrance fees		1,159,808	1,159,808		—
Other income		112,379	56,803		55,576
Total operating revenue	$	13,793,950	5,781,522		8,012,428
Assisted living resident service fees				$	1,587,496
Guest food service revenue					34,084
Guest apartment					15,412
Health center (skilled nursing facility revenue)					6,375,436
Total line 2e				$	8,012,428

Form 5-5
Annual Reserve Certification

Provider Name: Fountains Senior Living Holdings, LLC
Fiscal Year Ended: December 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for for the period ended December 31, 2013 and are in compliance with those requirements.

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

		Amount
[1]	Debt Service Reserve Amount	$ 1,426,297
[2]	Operating Expense Reserve Amount	$ 996,545
[3]	**Total Liquid Reserve Amount**	**$ 2,422,842**

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

	Qualifying Asset Description	Amount: Debt Service Reserve	Amount: Operating Reserve
[4]	Cash and Cash Equivalents*	$ 1,500,000	$ 1,000,000
[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)		

Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] $ 1,500,000	[12] $ 1,000,000
Total Amount Required	[13] $ 1,426,297	[14] $ 996,545
Surplus/(Deficiency)	[15] $ 73,703	[16] $ 3,455

*** Limited cash reported at community level - Cash is reflected in consolidated financials.**

Signature:

[signature]
(Authorized Representative)

7/30/2014
(Date)

Vice President
(Title)

FOUNTAINS CARLOTTA SL, L.P.

Attachment B to Form 5-5

Designated Cash Reserves

December 31, 2013

	Balance at December 31, 2013	Designated funds	Not designated	Designated use
Fountains Senior Living, Holdings, LLC:				
Wells Fargo operating account	$ 12,856,544	8,440,000	4,416,544	Carlotta required reserves and excess cash debt prepayment
US Bank Insurance Escrow	323,123	323,123	—	Potential insurance settlements
Wells Fargo Capex account	237,258	237,258	—	Capital expenditures
	13,416,925	9,000,381	4,416,544	
Fountains at Carlotta SL, LP:				
Wells Fargo operating account	789,938	500,000	289,938	Operating reserve
Total	$ 14,206,863	9,500,381	4,706,482	

Provider: Fountains Senior Living Holdings, LLC

Community: The fountains at The Carlotta

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)	$2175 -$3085	$2900 - $4050	$8250 - $8700.
[2] Indicate percentage of increase in fees imposed during reporting period: (Indicate range, if applicable)	Rate adjustments ranged from -1.5% to an increase of 12% for 1 bedrooms.	0.00%	0% for existing residents; Street rates higher for new admits

☐ 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 the community.)

[3] Indicate the date the fee increase was implemented: IL 2/1/13; SNF no increase for existing residents, however street rates higher for new admits

[4] Check each of the appropriate boxes:

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

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

[X] 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.

[X] 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.

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

[X] The governing body of the provider, or the designated representative of the provider posted 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: Fountains Senior Living Holdings, Inc.

COMMUNITY: The Carlotta

The Carlotta

FORM 7-1a

REPORT ON CCRC MONTHLY SERVICE FEES

Monthly Service Fee Increase Explanation

IL Fees were increased for some, but not all, existing residents in 2013.
Greatest increase was in the 1 bedroom, model most in demand.
AL Fees were not increased for existing residents; however, street rates increased for new move-ins
SNF Fees were not increased for existing residents. However, street rates were increased
for new admits.

KPMG

KPMG LLP
Suite 800
60 East Rio Salado Parkway
Tempe, AZ 85281-9125

RECEIVED
JUN 30 2014
CONTINUING CARE
CONTRACTS BRANCH

Independent Auditors' Report on Supplementary Information

The Partners
Fountains Carlotta SL, L.P.:

We have audited the financial statements of Fountains Carlotta SL, L.P. (wholly owned subsidiary of Fountains Senior Living Holdings, LLC) as of and for the year ended December 31, 2013, and have issued our report thereon dated April 30, 2014 which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Forms 5-1 through 5-5 (the Forms) are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Forms are fairly stated in all material respects in relation to the financial statements as a whole.

Restriction of Use

Our report is intended solely for the information and use of Fountains Carlotta SL, L.P. 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.

KPMG LLP

Phoenix, Arizona
April 30, 2014

Date Prepared: 4/28/14

Continuing Care Retirement Community
Disclosure Statement
General Information

RECEIVED JUN 3 0 2014 CONTINUING CARE CONTRACTS BRANCH

FACILITY NAME: The Fountains at The Carlotta

ADDRESS: 41505 Carlotta Drive, Palm Desert, CA ZIP CODE: 92211 PHONE: 706-346-5420

PROVIDER NAME: Fountains Senior Living Holdings, LLC FACILITY OPERATOR: Fountains Senior Living Holdings, LLC

RELATED FACILITIES: ______ RELIGIOUS AFFILIATION: none

YEAR OPENED: 19[illegible] # OF ACRES: 20 ☐ SINGLE STORY ☐ MULTI-STORY ☑ OTHER: Both MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 5

NUMBER OF UNITS:

RESIDENTIAL LIVING		HEALTH CARE	
APARTMENTS – STUDIO:	0	ASSISTED LIVING:	36
APARTMENTS – 1 BDRM:	23	SKILLED NURSING:	45
APARTMENTS – 2 BDRM:	88	SPECIAL CARE:	N/A
COTTAGES/HOUSES:	63	DESCRIBE SPECIAL CARE:	N/A
RLU OCCUPANCY (%) AT YEAR END:	82.50		

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

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

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

RANGE OF ENTRANCE FEES: $ 115,000 TO $ 245,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ YES ☑ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 10 Lifecare Days

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): ______

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	☐	☑	HOUSEKEEPING (2 TIMES/MONTH)	☑	☐
BILLIARD ROOM	☑	☐	MEALS (____/DAY) 15/MTH	☑	☐
BOWLING GREEN	☐	☐	SPECIAL DIETS AVAILABLE	☑	☐
CARD ROOMS	☑	☐			
CHAPEL	☑	☐	24-HOUR EMERGENCY RESPONSE	☑	☐
COFFEE SHOP	☑	☐	ACTIVITIES PROGRAM	☑	☐
CRAFT ROOMS	☑	☐	ALL UTILITIES EXCEPT PHONE	☑	☐
EXERCISE ROOM	☑	☐	APARTMENT MAINTENANCE	☑	☐
GOLF COURSE ACCESS	☑	☐	CABLE TV	☑	☐
LIBRARY	☑	☐	LINENS FURNISHED	☐	☐
PUTTING GREEN	☑	☐	LINENS LAUNDERED	☐	☐
SHUFFLEBOARD	☑	☐	MEDICATION MANAGEMENT	☐	☑
SPA	☑	☐	NURSING/WELLNESS CLINIC	☑	☑
SWIMMING POOL-INDOOR	☐	☐	PERSONAL HOME CARE	☐	☑
SWIMMING POOL-OUTDOOR	☑	☐	TRANSPORTATION-PERSONAL	☑	☑
TENNIS COURT	☐	☐	TRANSPORTATION-PREARRANGED	☑	☑
WORKSHOP	☐	☐	OTHER ______	☐	☐
OTHER ______	☐	☐			

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: FOUNTAINS SENIOR LIVING HOLDINGS, LLC

CCRC	Location (City)	State	Phone with Area Code
The Fountains at Bronson Place	Kalamazoo	MI	269-382-3546
The Fountains at Canterbury	Oklahoma City	OK	405-751-3600
The Fountains at The Carlotta	Palm Desert	CA	760-346-5420
The Fountains at Lake Pointe Woods	Sarasota	FL	941-929-2400
The Fountains at Washington House	Alexandria	VA	703-845-5000

MLRC (MULTI-LEVEL RETIREMENT COMMUNITIES)	City	State	Phone with Area Code
The Fountains at The Albemarle	Tarboro	NC	252-823-2799
The Fountains at Boca Ciega Bay	St. Petersburg	FL	727-381-5411
The Fountains at Crystal Lake	Crystal Lake	IL	815-455-8400
The Fountains at Franklin	Southfield	MI	248-353-2810
The Fountains at Greenbriar	Independence	MO	816-257-5100
The Fountains at La Cholla	Tucson	AZ	816-797-2001
The Fountains at Pacific Regent-Bellevue	Bellevue	WA	425-646-9808
The Fountains at Millbrook	Millbrook	NY	845-677-8550
The Fountains at Rivervue	Tuckahoe	NY	914-768-6000
The Fountains at Sea Bluffs	Dana Point	CA	949-234-3000

PROVIDER NAME: Fountains Senior Living Holdings, LLC

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$11,850,070	$12,389,101	$12,461,577	$12,634,142
LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest)	$11,868,896	$12,801,910	$12,130,746	$12,839,179
NET INCOME FROM OPERATIONS	-$18,826	-$412,809	$330,831	-$205,037
LESS INTEREST EXPENSE	$1,132,903	$1,048,148	$876,373	$989,940
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$16,946	$492,696	$265,658	$2,974
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-$1,134,783	-$968,259	-$279,884	-$1,192,003
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$1,868,070	$2,177,004	-$314,918	$2,836,644

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Nordbank	$22,572,799	3.75	07/01/05	12/31/14	24 months

FINANCIAL RATIOS
(see next page for ratio formulas)

	2012 CCAC Medians 50th Percentile *(optional)*	2011	2012	2013
DEBT TO ASSET RATIO		117.9	102.9	102.8
OPERATING RATIO		103.3	97.4	101.6
DEBT SERVICE COVERAGE RATIO		232.25	105.47	324.72
DAYS CASH-ON-HAND RATIO		4	21	23

HISTORICAL MONTHLY SERVICE FEES
(AVERAGE FEE AND PERCENT CHANGE)

	2010	%	2011	%	2012	%	2013
STUDIO	$2,733	5.0	$2,871	-1.[illegible]	$2,817	1.0	$2,900
ONE BEDROOM	$1,754	2,0[illegible]	$1,782	0.2	$1,785	12[illegible]	2,000.0
TWO BEDROOM	$2,437	1.8	$2,481	-0.[illegible]	$2,462	-1.5	$2,425
COTTAGE/HOUSE	$2,592	-0.[illegible]	$2,587	3.0	$2,664	5.7	$2,815
ASSISTED LIVING	$3,908	-2.[illegible]	$3,808	6.9	$4,070	-0.5	$4,050
SKILLED NURSING	$7,056	0.0	$7,057	22[illegible]	$8,669	0.4	$8,700
SPECIAL CARE		0.0		0.0		0.0	

COMMENTS FROM PROVIDER:

PROVIDER NAME: Fountains Senior Living Holdings, LLC

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

KEY INDICATORS REPORT

Date Prepared: 7/30/2014

Chief Executive Officer Signature

Fountains Senior Living Holdings, LLC (Carlotta)

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

	2009	2010	2011	2012	2013	Projected 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018	Preferred Trend Indicator
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	80.00%	82.00%	82.00%	82.00%	82.00%	83.00%	84.00%	84.00%	85.00%	86.00%	N/A
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)	17.07%	12.93%	3.20%	5.42%	1.25%	3.15%	3.15%	3.15%	3.15%	3.15%	↑
3. Net Operating Margin - Adjusted (%)	23.94%	24.29%	16.88%	3.19%	19.35%	20.34%	19.93%	19.52%	19.12%	18.73%	↓
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments ($000)	$0	$0	$135,759	$701,929	$793,438	$793,438	$793,438	$793,438	$793,438	$793,438	↑
5. Days Cash on Hand (Unrestricted)	0	0	4.12	21.12	22.56	21.9	21.26	20.64	20.04	19.46	↑
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees ($000)	$588,301	$509,210	$856,443	$1,224,595	$1,159,808	$1,159,808	$1,159,808	$1,159,808	$1,159,808	$1,159,808	N/A
7. Net Annual E/F proceeds ($000)	$959,971	$1,868,070	$2,177,004	-$314,918	$2,836,644	$2,836,644	$2,836,644	$2,836,644	$2,836,644	$2,836,644	N/A
8. Unrestricted Net Assets ($000)	$19,087,672	$19,760,180	$20,177,665	$22,212,630	$21,424,085	$21,424,085	$21,424,085	$21,424,085	$21,424,085	$21,424,085	N/A
9. Annual Capital Asset Expenditure ($000)	$904,183	$1,158,842	$1,273,512	$1,290,572	$1,220,810	$1,257,434	$1,295,157	$1,334,012	$1,374,032	$1,415,253	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	2.02	1.50	0.87	0.76	-0.26	-0.18	-0.18	-0.18	-0.18	-0.19	↑
11. Annual Debt Service Coverage (x)	2.62	3.07	2.23	0.56	1.73	1.81	1.81	1.81	1.8	1.8	↑
12. Annual Debt Service/Revenue (%)	14.00%	10.00%	12.00%	11.00%	11.00%	10.00%	10.00%	10.00%	9.00%	9.00%	↓
13. Average Annual Effective Interest Rate (%)	8.05%	4.64%	4.40%	3.83%	4.49%	4.49%	4.49%	4.49%	4.49%	4.49%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	0.00%	0.00%	0.57%	3.07%	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%	↑
15. Average Age of Facility (years)	23	24	25	26	27	28	29	30	31	32	↓