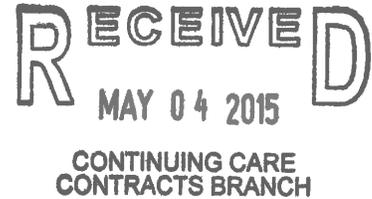


ANNUAL REPORT
CHECKLIST
for
FISCAL YEAR ENDED:
December 31, 2014



PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

FACILITY(IES): Varenna at Fountaingrove

CONTACT PERSON: Keith Fitzsimons

TELEPHONE NO.: (707) 535.3200

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

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

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 10,291.00
 - ✓ If applicable, late fee in the amount of: \$ _____
- ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (4 copies)



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CONTRACTS BRANCH

April 29, 2015

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

Re: Varena at Fountaingrove LLC / Varena LLC

Enclosed, please find the following, along with the annual Continuing Care Providers Fee Fund payment:

- 3 copies of:
 - Annual Report Checklist
 - Form 1-1 / Form 1-2
 - Certification of Managing Member
 - Evidence of Insurance
 - Annual Audited Financial Statement
 - Audited Reserve Reports
 - Form 7-1 as well as copies of renewal increase letters
 - Refund reserve Calculations (account balance confirmed is Audited Reserve Reports)
- 4 copies of:
 - Disclosure Statement

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

Sincerely,

A handwritten signature in black ink, appearing to be "KF", written over a faint background watermark of the state of California.

Keith Fitzsimons
Chief Financial Officer

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	217
[2]	Number at end of fiscal year	221
[3]	Total Lines 1 and 2	438
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	219
All Residents		
[6]	Number at beginning of fiscal year	285
[7]	Number at end of fiscal year	284
[8]	Total Lines 6 and 7	569
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	284.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	0.77

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FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$17,404,600
[a] Depreciation	\$3,871,000
[b] Debt Service (Interest Only)	\$164,900
[2] Subtotal (add Line 1a and 1b)	\$4,035,900
[3] Subtract Line 2 from Line 1 and enter result.	\$13,368,700
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	77%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$10,290,845
[6] Total Amount Due (multiply Line 5 by .001)	x .001 \$10,291

PROVIDER Varena at Fountaingrove LLC / Varena LLC
COMMUN Varena at Fountaingrove

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CONTRACTS BRANCH

April 25, 2014

Continuing Care Contracts Branch
California Department of Social Services

To Whom It May Concern:

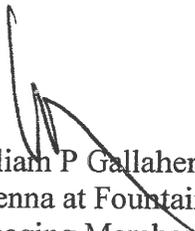
I, William P Gallaher, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2014 for Varena at Fountaingrove LLC / Varena LLC are true and correct to the best of my knowledge.

Varena at Fountaingrove continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

Varena at Fountaingrove is maintaining the required liquid reserve.

Varena at Fountaingrove does not offer refundable Contracts.

Sincerely,



William P Gallaher
Varena at Fountaingrove LLC / Varena LLC
Managing Member

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
4/23/2015

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 INSURERS, 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).

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MAY 8 2015

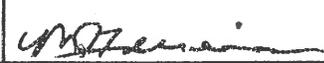
PRODUCER Propel Insurance Tacoma Commercial Insurance 1201 Pacific Ave, Suite 1000 Tacoma, WA 98402	CONTACT NAME: Beth Westenhofer	CONTINUING CARE CONTRACTS BRANCH (A/C, No, Ext): 253.310.4090	(A/C, No): 866.577.1326
	E-MAIL ADDRESS: beth.westenhofer@propelinsurance.com		
INSURED Oakmont Management Group LLC Oakmont Senior Living, LLC 220 Concourse Blvd. Santa Rosa, CA 95403	INSURER(S) AFFORDING COVERAGE		NAIC #
	INSURER A : Columbia Casualty Company		31127
	INSURER B : American Casualty Co of Reading		
	INSURER C :		
	INSURER D :		
	INSURER E :		

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

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

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC			4022802553	05/01/2014	05/01/2015	EACH OCCURRENCE \$1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$100,000 MED EXP (Any one person) \$5,000 PERSONAL & ADV INJURY \$1,000,000 GENERAL AGGREGATE \$3,000,000 PRODUCTS - COMPI/OP AGG \$3,000,000 Prof. Liab. \$1mm / \$3mm
B	AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input checked="" type="checkbox"/> ALL OWNED AUTOS <input checked="" type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS <input checked="" type="checkbox"/> \$1,000 Comp <input checked="" type="checkbox"/> \$1,000 Coll			4022802522	05/01/2014	05/01/2015	COMBINED SINGLE LIMIT (Ea accident) \$1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
A	UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED <input type="checkbox"/> RETENTION \$10,000			4022802536	05/01/2014	05/01/2015	EACH OCCURRENCE \$10,000,000 AGGREGATE \$10,000,000 \$ WC STATU-TORY LIMITS OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? <input type="checkbox"/> Y / N (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below						

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
RE Named Insureds and locations:
Segovia Operations, LLC
Segovia of Palm Desert, LLC
 39905 Via Scena, Palm Desert, CA 92260
 (See Attached Descriptions)

CERTIFICATE HOLDER Evidence of Insurance Santa Rosa, CA 95403	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE 
---	---

DESCRIPTIONS (Continued from Page 1)

Varena, LLC
Varena at Fountaingrove, LLC
1401 Fountaingrove Pkwy., Santa Rosa, CA 95403

Varena Assisted Living, LLC
Varena at Fountaingrove, LLC
Varena Care Center, LP
dba: Villa Capri at Fountaingrove
1397 Fountaingrove Pkwy., Santa Rosa, CA 95403

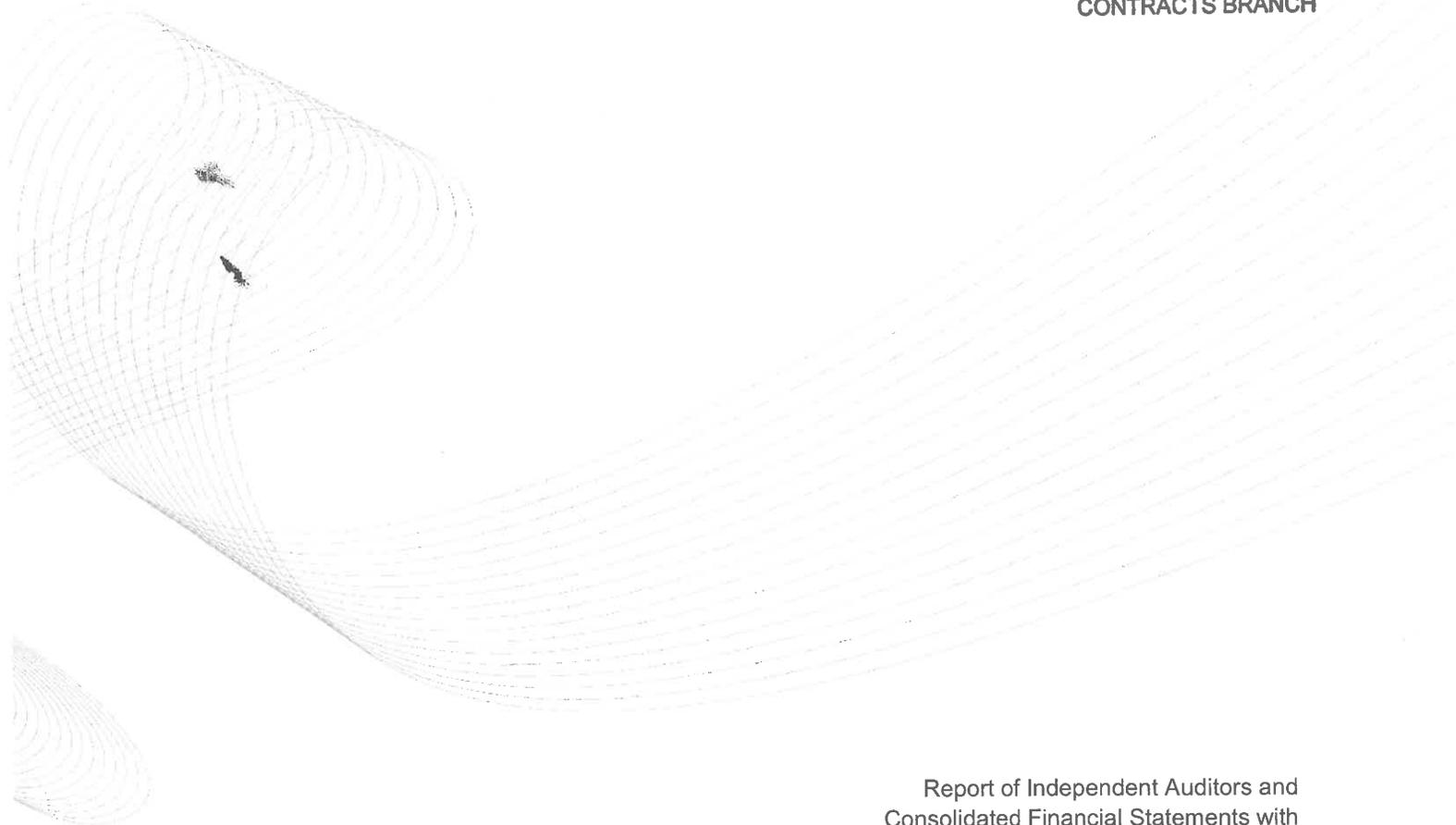
La Floresta, LLC
Capriana at La Floresta Village, LLC
Capriana Operatins, LLC
460 S. La Floresta Drive, Brea, CA 92823

OSL Santa Rosa Fountaingrove, LLC
Fountaingrove Lodge, LLC
4178-4210 Thomas Lake Harris Dr., Santa Rosa, CA 95403

Cardinal Point at Mariner Square, LLC
OakmontSL of Alameda, LP
2431 Mariner Square Dr., Alameda, CA 94501

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CONTINUING CARE
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Report of Independent Auditors and
Consolidated Financial Statements with
Consolidating Information

Varena at Fountaingrove LLC and
Subsidiaries

December 31, 2014 and 2013

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants



COMMUNITY CARE
1000 1/2 1/2 1/2 1/2

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 CONTRACTS BRANCH

REPORT OF INDEPENDENT AUDITORS

To the Members
 Varenna at Fountaingrove LLC and Subsidiaries

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in members' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Varenna at Fountaingrove LLC and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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MAY 1 2015
COMMERCIAL BANK
SANTA ROSA, CALIFORNIA

Report on 2014 Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2014 consolidating information presented on pages 13 through 16 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mose Adams LLP

Santa Rosa, California
April 28, 2015

CONSOLIDATED FINANCIAL STATEMENTS

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 9,026,000	\$ 10,373,100
Restricted cash	5,929,200	2,407,500
Accounts receivable and other assets	663,600	416,100
Due from related parties	-	2,279,600
Deferred financing related costs, net	1,099,000	1,311,800
Investment in real estate		
Buildings and improvements	91,444,700	91,103,200
Land	3,836,000	3,836,000
Furniture, fixtures, and equipment	5,718,300	5,837,500
Accumulated depreciation	<u>(25,802,000)</u>	<u>(21,930,900)</u>
Total investment in real estate, net	<u>75,197,000</u>	<u>78,845,800</u>
Total assets	<u>\$ 91,914,800</u>	<u>\$ 95,633,900</u>
LIABILITIES AND MEMBERS' DEFICIT		
Accounts payable and accrued liabilities	\$ 2,393,500	\$ 1,303,300
Accrued interest	-	3,000
Deferred revenue	20,300	185,100
Due to related parties	-	2,060,200
Deferred rent	545,100	315,100
Entrance fees subject to refund	84,894,900	84,243,300
Entrance fees non-refundable, net	12,543,500	12,776,300
Debt obligations	<u>57,941,400</u>	<u>57,899,400</u>
Total liabilities	158,338,700	158,785,700
Members' deficit	<u>(66,423,900)</u>	<u>(63,151,800)</u>
Total liabilities and members' deficit	<u>\$ 91,914,800</u>	<u>\$ 95,633,900</u>

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN MEMBERS' DEFICIT
Years Ended December 31, 2014 and 2013

	2014	2013
REVENUE		
Continuing care contracts	\$ 11,142,200	\$ 10,524,000
Non-continuing care contracts	5,236,600	5,031,600
Total revenue	16,378,800	15,555,600
OPERATING EXPENSES		
Continuing care contracts operating expenses	7,278,400	7,517,900
Non-continuing care contracts operating expenses	3,311,200	2,745,500
Management fees	702,700	958,800
General and administrative	630,300	466,700
Letter of credit fees	1,219,400	1,634,000
Depreciation	3,871,000	3,861,900
Facility lease	2,075,300	2,075,200
Total operating expenses	19,088,300	19,260,000
LOSS FROM CONTINUING OPERATIONS	(2,709,500)	(3,704,400)
OTHER INCOME (EXPENSE)		
Interest income	14,700	11,200
Miscellaneous	464,700	12,300
Amortization of deferred financing related costs	(226,700)	(208,800)
Interest expense	(164,900)	(228,200)
NET LOSS	(2,621,700)	(4,117,900)
MEMBERS' DEFICIT, beginning of year	(63,151,800)	(54,594,100)
CONTRIBUTIONS	19,000,200	32,487,500
DISTRIBUTIONS	(19,650,600)	(36,927,300)
MEMBERS' DEFICIT, end of year	\$ (66,423,900)	\$ (63,151,800)

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from continuing care contracts	\$ 9,229,700	\$ 8,643,900
Cash received from entrance fees	7,656,900	11,291,900
Cash received from non-continuing care contracts	5,204,100	5,036,900
Cash received from (paid to) affiliates, net	2,259,100	2,573,800
Cash paid to employees and suppliers	(9,697,900)	(10,588,500)
Cash paid for management fees	(702,700)	(958,800)
Cash paid for letter of credit fees	(1,219,400)	(1,634,000)
Cash paid for facility lease	(1,845,300)	(1,760,100)
Interest received	14,700	11,200
Interest paid	(167,900)	(229,100)
Miscellaneous receipts	464,700	12,300
Net cash from operating activities	<u>11,196,000</u>	<u>12,399,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	<u>(222,200)</u>	<u>(145,400)</u>
Net cash from investing activities	<u>(222,200)</u>	<u>(145,400)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of entrance fees	(8,392,600)	(8,085,000)
Proceeds from debt obligations	1,950,000	-
Payments made on debt obligations	(1,908,000)	(33,000)
Change in restricted cash	(1,246,700)	(1,246,700)
Member contributions	19,000,200	32,487,500
Member distributions	(20,266,700)	(36,927,300)
Deferred financing related costs	<u>(13,900)</u>	<u>(7,400)</u>
Net cash from financing activities	<u>(10,877,700)</u>	<u>(13,811,900)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	96,100	(1,557,800)
CASH INCLUDED IN DISTRIBUTION OF DECONSOLIDATED ENTITIES	(1,443,200)	-
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,373,100</u>	<u>11,930,900</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,026,000</u>	<u>\$ 10,373,100</u>

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2014 and 2013

	2014	2013
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES		
Net loss	\$ (2,621,700)	\$ (4,117,900)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	3,871,000	3,861,900
Amortization of deferred financing related costs	226,700	208,800
Amortization of entrance fees non-refundable	(1,867,400)	(1,670,900)
Changes in:		
Restricted cash	(2,275,000)	(120,500)
Accounts receivable and other assets	(265,100)	(176,700)
Due from related parties	39,512,400	840,400
Accounts payable and accrued liabilities	1,127,400	182,800
Accrued interest	(3,000)	(900)
Deferred revenue	(164,800)	(71,300)
Due to related parties	(37,253,300)	1,733,400
Deferred rent	230,000	315,100
Entrance fees	10,678,800	11,415,300
Net cash from operating activities	\$ 11,196,000	\$ 12,399,500
SUPPLEMENTAL CASH-FLOW INFORMATION		
Noncash investing and financing activities:		
Distribution of Varenna Care Center, LLC		
Accounts receivable and other assets	\$ 17,600	\$ -
Accounts payable and accrued liabilities	(37,200)	-
Due to related parties	(2,039,700)	-
Members' deficit	616,100	-

See accompanying notes.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of operations – Varena at Fountaingrove LLC (the Company) was formed on April 12, 2004, as a California limited liability company. The Company's purpose is to develop, operate, lease, and own apartments and a continuing care retirement community, located in Santa Rosa, California (Varena).

Basis of accounting and principles of consolidation – The consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company, Varena LLC, Varena Apartments LLC, and Varena Assisted Living LLC and Subsidiary. All significant transactions between these entities have been eliminated.

On December 31, 2014, the Company distributed its partnership interest in Varena Care Center LP proportionately to the majority member of the Company. In conjunction with the change to the ownership structure, the Company determined that it no longer controlled this entity and it was deconsolidated effective December 31, 2014.

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

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

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

Restricted cash – Restricted cash consists of accounts used as collateral as required by the Company's lenders.

Accounts receivable and other assets – Accounts receivable and other assets consist of receivables from tenants, deposits, and prepaid expenses. Management regularly monitors and adjusts its reserves and allowances related to these receivables. Accounts deemed to be uncollectible are written-off only after all reasonable collection efforts are exhausted. There was no allowance recorded for accounts receivable at December 31, 2014 and 2013.

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

Investment in real estate – Investment in real estate is recorded at cost and includes interest and property taxes capitalized on long-term construction projects during the construction period, as well as other costs directly related to the development and construction of facilities. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

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

The Company reviews its investments in real estate whenever events or changes in circumstances indicate that the cost basis of such assets may not be recoverable. If the cost basis of an investment in real estate is greater than the projected future undiscounted net cash flows (before interest) from that property, an impairment loss is recognized. Impairment losses are calculated as the difference between the property's cost basis and its estimated fair value. No such impairment losses have been recognized to date. An investment in real estate held for sale is carried at the lower of its carrying amount or estimated fair value, less costs to sell. The Company considers investment in real estate held for sale when the property is being actively marketed for sale, and expects it to sell within one year. This property was not held for sale at December 31, 2014 or 2013.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest rate cap – The Company entered into an interest rate cap agreement associated with its borrowings as disclosed in Note 3. An interest rate cap is considered a derivative financial instrument in accordance with accounting standards that require each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its estimated fair value. The accounting standards also require that changes in the derivative's fair value be recognized currently in consolidated earnings unless specific hedge accounting criteria are met. The only derivative used by the Company is the interest rate cap with changes in its fair-market value recorded as a component of interest expense. As of December 31, 2014 and 2013, management has determined the difference between the carrying value and the fair-market value of the derivative to be immaterial.

Revenue recognition – Resident fee revenue, presented as continuing care and non-continuing care contracts, is recorded when services are rendered and consists of fees for basic housing, support services, and fees associated with additional services, such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenues for certain care services provided are also charged in advance. Additional ancillary charges are billed monthly in arrears. As of December 31, 2014 and 2013, \$20,300 and \$185,100, respectively, has been recorded in deferred revenue related to fees paid by applicants prior to occupancy.

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

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

Entrance fees non-refundable, amortized over the estimated stay of the resident, was \$12,543,500 and \$12,776,300 at December 31, 2014 and 2013, respectively. Entrance fees subject to refund at December 31, 2014 and 2013, were \$84,894,900 and \$84,243,300, respectively. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Revenue recognized from amortization of entrance fees non-refundable totaled \$1,867,400 and \$1,670,900 for the years ended December 31, 2014 and 2013, respectively.

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

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

The Company follows the accounting standard related to accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters, such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the State of California. The Company is subject to examination by U.S. federal income tax authorities for the tax years back to 2011, and by the State of California for the tax years back to 2010. The Company recognizes interest and penalties related to income tax matters in operating expenses.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Company has determined that no accrual for the obligation to provide future services and use of facilities to current residents was required at December 31, 2014 and 2013. The discount rate used to calculate the obligation to provide future services is 5%.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statutory cash reserve requirements – The Company is subject to statutory cash reserve requirements. At December 31, 2014 and 2013, the Company's reserves were in excess of such requirements by \$4,118,300 and \$4,608,700, respectively, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code.

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

The Company has evaluated subsequent events through April 28, 2015, which is the date the consolidated financial statements were available to be issued, in accordance with the Company's policy related to disclosures of subsequent events, and has not identified any material events that should be disclosed.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

Level 1: Quoted prices for identical instruments in active markets

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

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

As of December 31, 2014 and 2013, the Company had no material balances recorded at fair value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

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

Debt obligations – The fair value of the Company's debt obligations is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The estimated fair values of the Company's debt obligations approximate the carrying values at December 31, 2014 and 2013.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - DEBT OBLIGATIONS

The following is a listing of debt obligations that were outstanding at December 31:

	2014	2013
Varenda LLC Taxable Variable Rate Demand Senior Living Facility Revenue Bonds (Varenda at Fountaingrove Project); 2011 Series A; bearing interest at a variable rate (0.13% and 0.21% at December 31, 2014 and 2013, respectively) payable monthly; maturing December 2051; these bonds are secured by letters of credit maturing on December 2021; guaranteed by a member and spouse of Oakmont Senior Living LLC.	\$ 56,000,000	\$ 56,000,000
Loan payable to a financial institution; monthly payments for the first 60 months of \$8,500 bearing interest at 4.24%; monthly payments of \$9,000 for the following 59 months bearing interest at the weekly average yield of U.S. Treasury Securities adjusted to a constant maturity of 5 years, as made available by the federal reserve board, (currently 1.69%) plus a margin of 3%; one final payment of outstanding principal and interest at maturity in July 2024; guaranteed by a member of Oakmont Senior Living LLC; subject to certain to financial covenants.	1,941,400	-
Amortizing income property note payable to a financial institution; commitment of \$1,425,000; bearing interest at a variable interest rate not to exceed 10.75% or go below 5.2% (5.2% at December 31, 2013); the note was paid in full during 2014.	-	1,325,100
Loan payable to a financial institution; commitment of \$605,000; bearing interest at 8% payable monthly; matured and paid in full June 2014.	-	574,300
	\$ 57,941,400	\$ 57,899,400

The bonds are payable from, and secured solely by, the revenues pledged under the bond indenture agreements, including amounts drawn under bank letters of credit to pay the principal, purchase price, and interest on the bonds.

All debt obligations are secured by deeds of trust on the investment in real estate. Interest costs incurred, including amortization of deferred financing related costs, totaled \$391,600 and \$437,000 in 2014 and 2013, respectively.

The loan agreements contain general affirmative and negative covenants that include provisions for the upkeep of Varenda, maintenance, insurance, compliance with laws, and financial reporting requirements. Many agreements include restrictions on certain transactions and changes in capital structure. Management believes the Company is in compliance with these covenants.

Future minimum principal payments due under the debt obligations subsequent to December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 20,400
2016	21,300
2017	22,200
2018	23,200
2019	23,500
Thereafter	57,830,800
	\$ 57,941,400

NOTE 4 - RELATED-PARTY TRANSACTIONS

As of December 31, 2014 and 2013, the Company had amounts due from related parties of \$0 and \$2,279,600, respectively. As of December 31, 2014 and 2013, the Company had amounts due to related parties of \$0 and \$2,060,200, respectively. These balances are noninterest bearing and due on demand.

VARENNA AT FOUNTAINGROVE LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to asset and property management agreements between the Company and affiliated entities, the Company is obligated to pay monthly management fees. For the years ended December 31, 2014 and 2013, management fees in the amount of \$702,700 and \$130,500 were incurred, respectively, and are included in management fees in the accompanying consolidated statements of operations.

The Company's majority member has a controlling financial interest in a financial institution. As of December 31, 2014 and 2013, the Company had cash deposits with this financial institution of \$7,577,900 and \$6,665,300, respectively, and had outstanding debt obligations due to this financial institution of \$0 and \$574,300, respectively, (see Note 3). For the years ended December 31, 2014 and 2013, the Company paid interest of \$21,100 and \$34,700, respectively, to this financial institution.

NOTE 5 – MEMBERS' DEFICIT

The liability of each member of the Company is limited to the amount of such member's contributed capital. The Company will cease to exist on January 30, 2051, unless it is dissolved at an earlier date in accordance with the operating agreement.

NOTE 6 – COMMITMENTS

The Company entered into a long-term noncancelable operating lease to operate assisted living facility with an initial lease term of 15 years, with renewal options of three successive extension terms of four years each, and expiration date through October 2032. Operating lease rent expense is recorded on the straight-line basis and amounted to \$2,075,300 for the years ended December 31, 2014 and 2013, respectively. Deferred rent liability was \$545,100 and \$315,100 at December 31, 2014 and 2013, respectively.

Future minimum lease payments under these operating lease agreements in effect as of December 31, 2014, are as follows:

Year Ending December 31,

2015	\$	1,879,000
2016		1,916,500
2017		1,954,900
2018		1,994,000
2019		2,033,800
Thereafter		17,401,800
		<u>27,180,000</u>

NOTE 7 – CONTINGENCIES

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

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

CONSOLIDATING INFORMATION

VARENA AT FOUNTAIN GROVE LLC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
December 31, 2014

	Varena at Fountaingrove LLC	Varena Assisted Living LLC and Subsidiary	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
ASSETS							
Cash and cash equivalents	\$ 5,100	\$ 265,400	\$ 71,800	\$ 8,683,700	\$ 9,026,000	\$ -	\$ 9,026,000
Restricted cash	-	-	-	5,929,200	5,929,200	-	5,929,200
Accounts receivable and other assets	-	67,300	5,800	590,500	663,600	-	663,600
Deferred financing related costs, net	-	-	12,500	1,086,500	1,099,000	-	1,099,000
Investment in subsidiaries	(25,597,000)	-	-	-	(25,597,000)	25,597,000	-
Investment in real estate	-	-	-	-	-	-	-
Buildings and improvements	-	108,400	5,288,900	86,047,400	91,444,700	-	91,444,700
Land	-	-	71,000	3,765,000	3,836,000	-	3,836,000
Furniture, fixtures, and equipment	-	1,096,500	53,500	4,568,300	5,718,300	-	5,718,300
Accumulated depreciation	-	(1,094,500)	(1,381,100)	(23,326,400)	(25,802,000)	-	(25,802,000)
Total investment in real estate, net	-	110,400	4,032,300	71,054,300	75,197,000	-	75,197,000
Total assets	\$ (25,591,900)	\$ 443,100	\$ 4,122,400	\$ 87,344,200	\$ 66,317,800	\$ 25,597,000	\$ 91,914,800
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)							
Accounts payable and accrued liabilities	\$ 2,200	\$ 233,100	\$ 5,900	\$ 2,152,300	\$ 2,393,500	\$ -	\$ 2,393,500
Deferred revenue	-	-	18,800	1,500	20,300	-	20,300
Deferred rent	-	545,100	-	-	545,100	-	545,100
Entrance fees subject to refund	-	-	-	84,894,900	84,894,900	-	84,894,900
Entrance fees non-refundable, net	-	-	-	12,543,500	12,543,500	-	12,543,500
Debt obligations	-	-	1,941,400	56,000,000	57,941,400	-	57,941,400
Total liabilities	2,200	778,200	1,966,100	155,592,200	158,338,700	-	158,338,700
Members' equity (deficit)	(25,594,100)	(335,100)	2,156,300	(68,248,000)	(92,020,900)	25,597,000	(66,423,900)
Total liabilities and members' equity (deficit)	\$ (25,591,900)	\$ 443,100	\$ 4,122,400	\$ 87,344,200	\$ 66,317,800	\$ 25,597,000	\$ 91,914,800

VARENNA AT FOUNTAIN GROVE LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2014

	Varena at Fountaingrove LLC	Varena Assisted Living LLC and Subsidiary	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
REVENUE							
Continuing care contracts	\$ -	\$ -	\$ -	\$ 11,142,200	\$ 11,142,200	\$ -	\$ 11,142,200
Non-continuing care contracts	-	4,996,800	239,800	-	5,236,600	-	5,236,600
Total revenue	-	4,996,800	239,800	11,142,200	16,378,800	-	16,378,800
OPERATING EXPENSES							
Continuing care contracts operating expenses	-	-	-	7,278,400	7,278,400	-	7,278,400
Non-continuing care contracts operating expenses	-	3,311,200	-	-	3,311,200	-	3,311,200
Management fees	30,000	215,100	4,800	452,800	702,700	-	702,700
General and administrative	9,900	148,400	77,000	395,000	630,300	-	630,300
Letter of credit fees	-	-	-	1,219,400	1,219,400	-	1,219,400
Depreciation	-	77,800	180,300	3,612,900	3,871,000	-	3,871,000
Facility Lease	-	2,075,300	-	-	2,075,300	-	2,075,300
Total operating expenses	39,900	5,827,800	262,100	12,958,500	19,088,300	-	19,088,300
LOSS FROM CONTINUING OPERATIONS	(39,900)	(831,000)	(22,300)	(1,816,300)	(2,709,500)	-	(2,709,500)
OTHER INCOME (EXPENSE)							
Interest income	-	2,800	-	11,900	14,700	-	14,700
Miscellaneous	-	460,300	4,400	-	464,700	-	464,700
Amortization of deferred financing related costs	-	-	(24,300)	(202,400)	(226,700)	-	(226,700)
Interest expense	-	-	(93,400)	(71,500)	(164,900)	-	(164,900)
NET LOSS	\$ (39,900)	\$ (367,900)	\$ (135,600)	\$ (2,078,300)	\$ (2,621,700)	\$ -	\$ (2,621,700)

VARENNA AT FOUNTAIN GROVE LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2014

	Varena at Fountaingrove LLC	Varena Assisted Living LLC and Subsidiary	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from continuing care contracts	\$ -	\$ -	\$ -	\$ 9,229,700	\$ 9,229,700	\$ -	\$ 9,229,700
Cash received from entrance fees	83,400	4,880,100	-	7,656,900	7,656,900	-	7,656,900
Cash received from non-continuing care contracts	-	2,919,500	240,600	-	5,204,100	-	5,204,100
Cash received from (paid to) affiliates, net	-	(2,692,900)	-	(660,400)	2,259,100	-	2,259,100
Cash paid to employees and suppliers	(10,200)	(2,692,900)	(80,600)	(6,914,200)	(9,697,900)	-	(9,697,900)
Cash paid for management fees	(30,000)	(215,100)	(4,800)	(452,800)	(702,700)	-	(702,700)
Cash paid for letter of credit fees	-	-	-	(1,219,400)	(1,219,400)	-	(1,219,400)
Cash paid for facility lease	-	(1,845,300)	-	11,900	(1,845,300)	-	(1,845,300)
Interest received	-	2,800	-	(96,400)	14,700	-	14,700
Interest paid	-	-	(4,400)	(71,500)	(167,900)	-	(167,900)
Miscellaneous receipts	-	460,300	-	-	464,700	-	464,700
Net cash from operating activities	43,200	3,509,400	63,200	7,580,200	11,196,000	-	11,196,000
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment in real estate	-	(52,300)	(3,000)	(166,900)	(222,200)	-	(222,200)
Receipts from investment in subsidiary	611,700	(52,300)	(3,000)	(166,900)	611,700	(611,700)	-
Net cash from investing activities	611,700	(52,300)	(3,000)	(166,900)	389,500	(611,700)	(222,200)
CASH FLOWS FROM FINANCING ACTIVITIES							
Refunds of entrance fees	-	-	-	(8,392,600)	(8,392,600)	-	(8,392,600)
Proceeds from debt obligations	-	-	1,950,000	-	1,950,000	-	1,950,000
Payments on debt obligations	-	-	(1,908,000)	-	(1,908,000)	-	(1,908,000)
Change in restricted cash	19,000,200	(329,600)	10,900	(917,100)	18,463,300	-	18,463,300
Member contributions	(19,650,600)	538,800	(32,000)	(17,534,300)	(39,891,400)	(19,013,000)	(58,904,400)
Member distributions	-	(2,674,500)	-	100	(2,674,400)	19,624,700	(3,049,700)
Deferred financing related costs	(650,400)	(2,465,300)	-	(9,380,600)	(11,489,400)	-	(11,489,400)
Net cash from financing activities	4,500	991,800	67,100	(967,300)	96,100	-	96,100
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,500	(1,443,200)	-	(1,443,200)	96,100	-	96,100
CASH INCLUDED IN DISTRIBUTION OF DECONSOLIDATED ENTITIES							
CASH AND CASH EQUIVALENTS, beginning of year	600	716,800	4,700	9,651,000	10,373,100	-	10,373,100
CASH AND CASH EQUIVALENTS, end of year	\$ 5,100	\$ 265,400	\$ 71,800	\$ 8,683,700	\$ 9,026,000	\$ -	\$ 9,026,000

VARENNA AT FOUNTAIN GROVE LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2014

	Varena at Fountaingrove LLC	Varena Assisted Living LLC and Subsidiary	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES							
Net loss	\$ (39,900)	\$ (367,900)	\$ (135,600)	\$ (2,078,300)	\$ (2,621,700)	\$ -	\$ (2,621,700)
Adjustments to reconcile net loss to net cash from operating activities:							
Depreciation	-	77,800	180,300	3,612,900	3,871,000	-	3,871,000
Amortization of deferred financing related costs	-	-	24,300	202,400	226,700	-	226,700
Amortization of entrance fees non-refundable	-	-	-	(1,867,400)	(1,867,400)	-	(1,867,400)
Changes in:							
Restricted cash	-	746,900	-	(3,021,900)	(2,275,000)	-	(2,275,000)
Accounts receivable and other current assets	83,400	(46,800)	(2,600)	(299,100)	(265,100)	-	(265,100)
Due from related parties	-	11,480,900	-	24,288,900	35,769,800	3,742,600	39,512,400
Accounts payable and accrued liabilities	(300)	16,500	(5,000)	1,116,200	1,127,400	-	1,127,400
Accrued interest	-	-	(3,000)	-	(3,000)	-	(3,000)
Deferred revenue	-	(66,600)	4,800	(103,000)	(164,800)	-	(164,800)
Due to related parties	-	(8,561,400)	-	(24,949,300)	(33,510,700)	(3,742,600)	(37,253,300)
Deferred rent	-	230,000	-	-	230,000	-	230,000
Entrance fees	-	-	-	10,678,800	10,678,800	-	10,678,800
Net cash from operating activities	\$ 43,200	\$ 3,509,400	\$ 63,200	\$ 7,580,200	\$ 11,196,000	\$ -	\$ 11,196,000

SUPPLEMENTAL CASH-FLOW INFORMATION

Noncash investing and financing activities:							
Distribution of Varena Care Center, LLC	\$ -	\$ 17,600	\$ -	\$ -	\$ -	\$ -	\$ 17,600
Accounts receivable and other assets	\$ -	\$ (37,200)	\$ -	\$ -	\$ -	\$ -	\$ (37,200)
Accounts payable and accrued liabilities	\$ -	\$ (2,039,700)	\$ -	\$ -	\$ -	\$ -	\$ (2,039,700)
Due to related parties	\$ -	\$ 616,100	\$ -	\$ -	\$ -	\$ -	\$ 616,100
Members' deficit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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CONTINUING CARE
CONTRACTS BRANCH

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

**Varena at Fountaingrove LLC and
Subsidiaries**

As of and for the Year Ended December 31, 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTINUING CARE
 CONTRACTS BRANCH

REPORT OF INDEPENDENT AUDITORS

To the Members
 Varenna at Fountaingrove LLC and Subsidiaries

Report on Financial Statements

We have audited the accompanying financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended December 31, 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Varenna at Fountaingrove LLC and Subsidiaries as of and for the year ended December 31, 2014, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

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

Restriction on Use

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

Mose Adams LLP

Santa Rosa, California
April 28, 2015

CONTINUING CARE LIQUID RESERVE SCHEDULES

**FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	12/01/11	\$0	\$71,500	\$1,219,400	\$1,290,900
2	06/05/09	\$10,500	\$33,700	\$0	\$44,200
3	06/18/09	\$4,000	\$17,000	\$0	\$21,000
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$122,200	\$1,219,400	\$1,356,100

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

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

PROVIDER: Varenna at Fountaingrove LLC / Varenna LLC

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

	(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))
Long-Term Debt Obligation	06/23/14	\$42,700	\$8,540	12	\$102,480
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$42,700	\$8,540	12	\$102,480

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

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

PROVIDER: Varena at Fountaingrove LLC / Varena LLC

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$1,356,100
2	Total from Form 5-2 bottom of Column (e)	\$102,480
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$2,075,300
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$3,533,880

PROVIDER: Varena at Fountaingrove LLC / Varena LLC

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$17,404,600
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$164,900
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$1,219,400
	c. Depreciation	\$3,871,000
	d. Amortization	\$226,700
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$5,236,600
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$10,718,600
4	Net Operating Expenses	\$6,686,000
5	Divide Line 4 by 365 and enter the result.	\$18,318
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$1,373,836

PROVIDER: Varena at Fountaingrove LLC / Varena LLC
COMMUNITY: Varena at Fountaingrove

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Varena at Fountaingrove LLC / Varena LLC
 Fiscal Year Ended: December 31, 2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2014 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2014 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$3,533,880</u>
[2] Operating Expense Reserve Amount	<u>\$1,373,836</u>
[3] Total Liquid Reserve Amount:	<u>\$4,907,716</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$4,513,000</u>	<u>\$4,513,000</u>
[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:		
<u>(describe qualifying asset)</u>		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$4,513,000 [12]</u>	<u>\$4,513,000</u>
Reserve Obligation Amount: [13]	<u>\$3,533,880 [14]</u>	<u>\$1,373,836</u>
Surplus/(Deficiency): [15]	<u>\$979,120 [16]</u>	<u>\$3,139,164</u>

Signature:

(Authorized Representative)

William P Gallaher, Manager

(Title)

Date:

**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	12/01/11	\$0	\$71,500	\$1,219,400	\$1,290,900
2	06/05/09	\$10,500	\$33,700	\$0	\$44,200
3	06/18/09	\$4,000	\$17,000	\$0	\$21,000
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$122,200	\$1,219,400	\$1,356,100

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

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

PROVIDER: Varena at Fountaingrove LLC / Varena LLC

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1	06/23/14	\$42,700	\$8,540	12	\$102,480
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$42,700	\$8,540	12	\$102,480

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

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

PROVIDER: Varena at Fountaingrove LLC / Varena LLC

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$1,356,100
2	Total from Form 5-2 bottom of Column (e)	\$102,480
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$2,075,300
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$3,533,880

PROVIDER: Varena at Fountaingrove LLC / Varena LLC

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$17,404,600
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$164,900
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$1,219,400
	c. Depreciation	\$3,871,000
	d. Amortization	\$226,700
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$5,236,600
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$10,718,600
4	Net Operating Expenses	\$6,686,000
5	Divide Line 4 by 365 and enter the result.	\$18,318
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$1,373,836

PROVIDER: Varena at Fountaingrove LLC / Varena LLC
COMMUNITY: Varena at Fountaingrove

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

Total Qualifying Assets Listed on Line 4 \$ 9,026,000 All Cash and Equivalents. No Investments or equities or lines of credit listed.

Please note that there is no restricted cash or equivalents included in the \$9,026,000 - listed for the liquid reserve requirement.

Per Capita Cost of Operations	
Operating Expenses per form 5-4 #1	\$ 17,404,600
Mean # of all Residents from form 1-1 #10	284.5
Per Capita Costs of Operations	\$ 61,176

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	\$1,355 - \$6,480	\$2,265– \$7,825	
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.9%	4.0%	

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

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

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

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

PROVIDER: Varenna at Fountgrove LLC – Varenna LLC
COMMUNITY: Varenna at Fountaingrove

September 31, 2014

Fountaingrove Pkwy
Santa Rosa, Ca 95403

Dear

We sincerely hope that thus far, you are enjoying all the services, amenities, activities, and feeling of community and security that Varena offers. Please accept our sincerest gratitude for choosing Varena as your home.

Due to our increased year-over-year projected costs, we are implementing a monthly fee increase of 3.9%, as previously announced in our budget notice from March 2014.

Effective December 16, 2014, your new monthly rent will be \$5,786.15 and your second occupant will be \$1,039.00.

Warmest Regards,

Brent Thatcher
Executive Director
RCFE#496803049

Date

Resident Name
1401 Fountaingrove Pkwy
Santa Rosa, Ca 95403

Dear _____,

We sincerely hope that thus far, you are enjoying all the services, amenities, activities, and feeling of community and security that Varena offers. Please accept our sincerest gratitude for choosing Varena as your home.

Due to our increased year-over-year projected costs, we are implementing a monthly fee increase of 3.9%, as previously announced in our budget notice from March 2014:

Effective _____, your new monthly rent will be \$_____.

Warmest Regards,

Brent Thatcher
Executive Director
RCFE#496803049

March 1, 2015

265 1st Street, Apt 103
Petaluma, Ca. 94952

Dear

It is our pleasure to announce that Marilyn will soon celebrate an anniversary with us here at Villa Capri at Varenna. It has been our pleasure serving her during her residence at our community, and we look forward to providing you with the high level of quality that you have already come to expect of us.

Villa Capri at Varenna is committed to continuing the highest standards of living for our residents while balancing the cost associated with products and services. It has become necessary to increase Marilyn's service package from \$4,368.00 per month to \$4,542.72 per month, effective 4/25/2015. The increase has been determined by several factors including increased operational expenses due to changes in regulations and improvements in our programs, higher utility costs, and increased health insurance premiums for our employees.

Our goal here at Villa Capri at Varenna is to provide you with the best possible service at the most competitive price. Should you have any questions regarding this notice please feel free to call me at your convenience.

Thank you,

Tammy Moratto
Executive Director

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED
MAY 04 2015
Continuing Care Contracts Branch

FACILITY NAME: Varena at Fountaingrove
 ADDRESS: 1401 Fountaingrove Pkwy, Santa Rosa, CA ZIP CODE: 95403 PHONE: 707-526-2226
 PROVIDER NAME: Varena at Fountaingrove FACILITY OPERATOR: Varena at Fountaingrove
 RELATED FACILITIES: n/a RELIGIOUS AFFILIATION: n/a
 YEAR OPENED: 2007 # OF ACRES: 29 SINGLE MULTI-
 STORY STORY OTHER: both MILES TO SHOPPING CTR: <1
 MILES TO HOSPITAL: 1.5

NUMBER OF UNITS:

RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS — STUDIO: _____	ASSISTED LIVING: <u>60</u>
APARTMENTS — 1 BDRM: <u>6</u>	SKILLED NURSING: _____
APARTMENTS — 2 BDRM: <u>126</u>	SPECIAL CARE: _____
COTTAGES/HOUSES: <u>27</u>	DESCRIPTION: > _____
RLU OCCUPANCY (%) AT YEAR END: <u>97.5%</u>	> _____

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

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

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% FULLY AMORTIZED OTHER: 0% / 100%

RANGE OF ENTRANCE FEES: \$ 160,000 - \$ 1,295,000 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: n/a

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: n/a OTHER: Physician's Report

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > Glenn Harding. Each rep is invited to scheduled Board Mtgs. > and can convey any concerns at any time to the sole managing member or through the management team at the community.

FACILITY SERVICES AND AMENITIES

<u>COMMON AREA AMENITIES</u>	<u>AVAILABLE</u>	<u>FEE FOR SERVICE</u>	<u>SERVICES AVAILABLE</u>	<u>INCLUDED IN FEE</u>	<u>FOR EXTRA CHARGE</u>
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (<u>4-5</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>1-3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER <u>Theater / Ballroom</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			

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: Varena at Fountaingrove

OTHER CCRCs

Varena at Fountaingrove

LOCATION (City, State)

Santa Rosa, CA

PHONE (with area code)

707.526.1226

MULTI-LEVEL RETIREMENT COMMUNITIES

LOCATION (City, State)

PHONE (with area code)

FREE-STANDING SKILLED NURSING

LOCATION (City, State)

PHONE (with area code)

SUBSIDIZED SENIOR HOUSING

LOCATION (City, State)

PHONE (with area code)

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

PROVIDER NAME: Varenna at Fountaingrove

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(Excluding amortization of entrance fee income)	\$12,955,700	\$13,318,000	\$13,884,700	\$14,511,400
LESS OPERATING EXPENSES				
(Excluding depreciation, amortization, and interest)	12,193,100	12,832,000	15,398,100	15,217,300
NET INCOME FROM OPERATIONS	<u>762,600</u>	<u>486,000</u>	<u>(1,513,400)</u>	<u>(705,900)</u>
LESS INTEREST EXPENSE	(2,752,000)	(266,900)	(228,200)	(164,900)
PLUS CONTRIBUTIONS	43,795,800	15,398,400	32,487,500	19,000,200
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	32,900	23,300	23,500	479,400
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	<u>\$41,839,300</u>	<u>\$15,640,800</u>	<u>\$30,769,400</u>	<u>\$18,608,800</u>
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	<u>\$1,809,400</u>	<u>\$2,206,100</u>	<u>\$3,206,900</u>	<u>(\$735,700)</u>

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

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGINATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
See Attached					

FINANCIAL RATIOS (see next page for ratio formulas)

	<u>2013 CCAC Medians 50th Percentile (optional)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
DEBT TO ASSET RATIO		0.6	0.6	0.6
OPERATING RATIO		1.0	1.1	1.05
DEBT SERVICE COVERAGE RATIO		1.33	1.36	0.28
DAYS CASH ON HAND RATIO		339	283	250

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2011</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>
STUDIO	\$3,041	3.9	\$3,161	3.0	\$3,256	3.9	\$3,383
ONE BEDROOM	\$4,327	3.9	\$4,496	3.0	\$4,631	3.9	\$4,812
TWO BEDROOM	\$5,459	3.9	\$5,672	3.0	\$5,842	3.9	\$6,070
COTTAGE/HOUSE	\$4,754	4.0	\$4,944	3.0	\$5,092	4.0	\$5,295
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER: >

> _____
 > _____
 > _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

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

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGINATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
East West Bank	\$ 56,000,000	0.13	Dec-12	Dec-21	10 Years
Luther Burbank Savings	\$ 1,941,400	4.24	Jun-14	Jun-24	10 Years



RECEIVED
MAY 21 2015
CCLD / ADULT AND SENIOR CARE PROGRAM
CENTRALIZED APPLICATIONS UNIT

May 19, 2015

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

Re: Varena at Fountaingrove
Varena

Dear Allison:

Enclosed, please find the original and five (5) copies of the Key Indicators Report for Varena at Fountaingrove / Varena @ 12/31/14.

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

Sincerely,

A handwritten signature in black ink that reads "Ma. Elena Feliciano". The signature is written in a cursive style.

Ma. Elena Feliciano
Controller

KEY INDICATORS REPORT

Date Prepared: 5/18/2015

Varenda at Fountaingrove

Joseph G. Lin
Joseph G. Lin, Chief Financial Officer

RECEIVED
MAY 21 2015
CONTINUING CARE
CONTRACTS BRANCH 18

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Preferred Trend Indicator
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)	75%	90%	98%	94%	95%	96%	96%	96%	96%	96%	96%	N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	14.00%	19.00%	23.00%	23.00%	21.00%	23.00%	40.00%	45.00%	45.00%	45.00%	45.00%	↑
3. Net Operating Margin - Adjusted (%)	74.00%	67.00%	33.00%	34.00%	36.00%	19.00%	25.00%	25.00%	25.00%	25.00%	25.00%	↓
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments (\$000)	\$16,965	\$20,748	\$15,141	\$11,931	\$10,373	\$9,026	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	↑
5. Days Cash on Hand (Unrestricted)	636	673	453	339	283	250	450	450	450	450	450	↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees (\$000)	\$77,327	\$89,507	\$84,717	\$83,022	\$97,020	\$97,438	\$72,500	\$70,000	\$70,000	\$70,000	\$70,000	N/A
7. Net Annual E/F proceeds (\$000)	\$23,235	\$16,738	\$1,809	\$2,206	\$3,207	-\$736	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	N/A
8. Unrestricted Net Assets (\$000)	\$127,952	\$127,393	\$118,429	\$99,366	\$93,226	\$85,986	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000	N/A
9. Annual Capital Asset Expenditure (\$000)	\$395	\$371	\$89	\$89	\$145	\$222	\$100	\$100	\$100	\$100	\$100	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	0.08	0.17	0.25	1.72	-5.71	-1.26	1.20	1.30	1.30	1.30	1.30	↑
11. Annual Debt Service Coverage (x)	8.94	5.66	0.82	9.15	6.58	-5.36	1.75	2	2	2	2	↑
12. Annual Debt Service/Revenue (%)	10.00%	10.00%	5.00%	1.00%	1.00%	1.00%	5.00%	5.00%	5.00%	5.00%	5.00%	↓
13. Average Annual Effective Interest Rate (%)	4.00%	4.00%	4.00%	0.00%	0.00%	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	25.00%	31.00%	20.00%	21.00%	18.00%	16.00%	20.00%	20.00%	20.00%	20.00%	20.00%	↑
15. Average Age of Facility (years)	1.77	2.72	3.82	4.21	5.68	6.67	1.2	1.1	1.1	1.1	1.1	↓