CASA PACIFICA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

WITH INDEPENDENT AUDITORS' REPORT

CASA PACIFICA
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DECEMBER 31, 2014

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Partners of
Casa Pacifica
Lake Forest, California

We have audited the accompanying financial statements of Casa Pacifica (a California general partnership) (the "Partnership"), which comprise the balance sheet as of December 31, 2014, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the year 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 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 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 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 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 auditors consider internal control relevant to the Partnership'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 Partnership'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 qualified audit opinion.

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Offices located in Orange and San Diego Counties

Basis for Qualified Opinion

As more fully described in Note 7 to the financial statements, the Partnership recognizes income from deferred entrance fees when the funds are constructively received. For the year ended December 31, 2014, this revenue recognition method results in a conservative presentation of income and equity. In our opinion, accounting principles generally accepted in the United States of America require that a deferred entrance fee be amortized to income over future periods based on the estimated life expectancy of the resident. If the financial statements were corrected for that departure from accounting principles, assets would increase by approximately $11,272,000, liabilities would increase by approximately $9,478,000, beginning partners' deficit would decrease by approximately $2,396,000, and revenue from resident services, including deferred entrance fees and nonrefundable advance fees, would decrease by approximately $602,000.

Qualified Opinion

In our opinion, except for the effects of recognition of deferred entrance fees as income upon constructive receipt of payment as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Casa Pacifica as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Diehl Evans LLP

Irvine, California
April 29, 2015

CASA PACIFICA
BALANCE SHEET
DECEMBER 31, 2014

ASSETS

Current Assets:		
Cash and cash equivalents	$	198,791
Accounts receivable		998,131
Inventories		191,316
Prepaid expenses		155,191
Related party receivable		491,680
Current portion of note receivable from related party		277,645
Total Current Assets		2,312,754
Property and Equipment:		
Land		5,705,268
Building and improvements		19,288,867
Machinery and equipment		4,419,933
Furniture and fixtures		9,598,143
Vehicles		315,182
Total property and equipment, at cost		39,327,393
Less: Accumulated depreciation		(24,456,591)
Property and Equipment, at Net Book Value		14,870,802
Other Assets:		
Receivables from residents		336,114
Note receivable from related party, long-term portion		885,220
Total Other Assets		1,221,334
Total Assets	$	18,404,890

The accompanying notes are an integral part of these financial statements.

CASA PACIFICA
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2014

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Current Liabilities:		
Accounts payable	$	296,918
Accrued expenses		751,207
Current portion of note payable to master trust		750,000
Current portion of note payable		132,453
Total Current Liabilities		1,930,578
Long-Term Liabilities:		
Note payable to master trust, net of current portion		16,500,000
Note payable, net of current portion		2,970,158
Notes payable to related parties		700,000
Resident deposits		57,500
Due to non-contracted residents		21,010
Total Long-Term Liabilities		20,248,668
Total Liabilities		22,179,246
Deferred Revenue		5,782
Partners' Equity (Deficit)		(3,780,138)
Total Liabilities and Partners' Equity (Deficit)	$	18,404,890

The accompanying notes are an integral part of these financial statements.

CASA PACIFICA
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014

Revenues:		
Resident services, including deferred entrance fees and non-refundable advance fees of $4,410,753	$	12,151,872
Patient services, net		8,705,127
Miscellaneous revenue		192,564
Total Revenues		21,049,563
Caregiver and Ancillary Service Costs		2,397,013
Net Revenues		18,652,550
Operating Expenses:		
Resident care		2,837,915
Dietary		2,490,128
Housekeeping		770,876
Plant facility operating costs		1,887,459
General and administrative expenses		4,867,523
Depreciation and amortization		1,409,956
Total Operating Expenses		14,263,857
Income from Operations		4,388,693
Other Income (Expense):		
Interest expense		(129,105)
Interest income		829
Total Other Income (Expense)		(128,276)
Net Income	$	4,260,417

The accompanying notes are an integral part of these financial statements.

CASA PACIFICA
STATEMENT OF CHANGES IN PARTNERS' EQUITY (DEFICIT)
YEAR ENDED DECEMBER 31, 2014

Balance, at December 31, 2013	$	(4,265,555)
Net income		4,260,417
Distributions to Partners		(3,775,000)
Balance, at December 31, 2014	$	(3,780,138)

The accompanying notes are an integral part of these financial statements.

CASA PACIFICA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

Cash Flows from Operating Activities:	
Cash received from residents	$ 14,380,023
Interest income	829
Reimbursements for services to non-residents	6,317,231
Cash paid to suppliers and employees	(15,835,992)
Interest paid	(129,105)
Net Cash Provided by Operating Activities	4,732,986
Cash Flows from Investing Activities:	
Purchase of property and equipment	(1,120,720)
Note receivable from related party	827,394
Proceeds from maturity of investments	96,350
Net Cash Used in Investing Activities	(196,976)
Cash Flows from Financing Activities:	
Payments on note payable to master trust	(750,000)
Payments on note payable	(877,907)
Distributions to partners	(3,775,000)
Net Cash Used in Financing Activities	(5,402,907)
Net Decrease in Cash and Cash Equivalents	(866,897)
Cash and Cash Equivalents, Beginning of Year	1,065,688
Cash and Cash Equivalents, End of Year	$ 198,791

The accompanying notes are an integral part of these financial statements.

CASA PACIFICA
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014

Reconciliation of Net Income to Cash Provided by Operating Activities:		
Net Income	$	4,260,417
Non-Cash Items Included in Net Income:		
Depreciation and amortization		1,409,956
Deferred revenue		2,471
Changes In:		
Accounts receivable		(397,293)
Inventories		(18,958)
Prepaid expenses		107,027
Related party receivables		(289,714)
Receivables from residents		42,218
Accounts payable		(134,789)
Accrued expenses		(248,649)
Resident deposits		16,300
Due to non-contracted residents		(16,000)
Net Cash Provided by Operating Activities	$	4,732,986

The accompanying notes are an integral part of these financial statements.

Note 1: Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Casa Pacifica (the "Partnership") is a California general partnership which owns and operates a continuing care retirement community known as Freedom Village.

Freedom Village provides permanent living, assisted living, skilled nursing, and other ancillary services through the operation of a retirement facility (the "Retirement Center") which includes 257 residential units and a health care facility (the "Health Care Center") which includes 118 beds.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), with the exception of the effects of recognition of deferred entrance fees as discussed in Note 7. References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative U.S. GAAP.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly-liquid debt instruments with original maturities of three months or less.

Accounts Receivable

Accounts receivable consist of amounts due from residents, occupants, or third-party payers for monthly service fees, skilled nursing services, assisted living services and other ancillary services. These services and fees are primarily due on a net 30 day term. Accounts for which no payments have been received are contacted after 60 days and customary collection efforts are taken. Accounts receivable are periodically evaluated for collectability based on past credit history with residents, occupants, or third-party payers and their current financial condition. After six months of unsatisfactory contact, the Partnership writes off what they believe will be uncollectible after obtaining approval from management.

The Partnership provides an allowance for doubtful accounts, as needed, for accounts deemed uncollectible. An allowance was not deemed necessary at December 31, 2014.

Inventories

Inventories consist of food, service ware, linen and other necessary supplies. These inventories are valued at the lower of cost or market on a first-in, first-out basis.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over estimated useful lives of 5 to 40 years. Depreciation is computed using the straight-line method for financial purposes and accelerated methods for income tax purposes.

The estimated useful lives of the related assets are as follows:

Buildings and improvements	7-40 years
Machinery and equipment	5-12 years
Furniture and fixtures	7-12 years
Vehicles	5 years

Depreciation expense for the year ended December 31, 2014, totaled $1,409,956. At December 31, 2014, fully depreciated property improvements and equipment totaled $11,988,414 and are still in use.

Long-Lived Assets

The Partnership accounts for impairment and disposition of long-lived assets in accordance with ASC 360-10, "*Property, Plant, and Equipment*". ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There was no impairment of value of such assets for the year ended December 31, 2014.

Receivables from Residents

Residents, who entered the Retirement Center prior to June 1993, are provided up to 360 days of health care at no additional charge ("free days"). A resident may use 22 free days of health care during a 90-day period. The cost of days in excess of the 22 free days of health care used is charged to the resident. The residents are allowed to accrue the additional cost over their monthly service fee against their refundable deferred entrance fee. Accrued receivables are due and paid upon termination of the resident's occupancy.

Revenue and Expenses

In accordance with the Residence Agreement, future monthly fees due from residents for maintenance and operating expenses may be adjusted with appropriate notice as specified in the individual agreements.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenue from resident and patient services is accounted for on the accrual basis of accounting as earned. See Note 7 for a description of the revenue recognition policy of deferred entrance fees.

Net patient services revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered. Revenue from third-party payers is calculated based on specified rates per agreement. The difference between charges generated by third-party program patients and the estimated amounts to be received is reflected as provision for contractual discounts as shown below:

Gross patient charges	$ 11,246,834
Provision for contractual discounts	(2,541,707)
Patient Services, Net	$ 8,705,127

Advertising and Promotional Costs

Advertising and promotional costs are charged to operations when incurred. For the year ended December 31, 2014, advertising and promotional costs and related expenses totaled $837,263 and are included in general and administrative expenses in the accompanying statement of operations.

Income Taxes

The Partnership is not taxed on its income. The taxable income is reportable by each of the partners.

Use of Estimates

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Recently Adopted Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". As compared to existing guidance on revenue recognition, ASU 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Guidance (Continued)

The ASU core principal is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted but no earlier than periods beginning after December 15, 2016. The Partnership is currently evaluating the impact of the provisions of ASU 2014-09 on the presentation of its financial statements.

Note 2: Concentrations, Risks and Uncertainties

The Partnership maintains cash balances at several banks. At December 31, 2014, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2014, the Partnership's uninsured cash balances at these institutions totaled $71,588.

Prior to actual occupancy by the resident, a contribution referred to as a Loan Deposit is required to be deposited with the Master Trust pursuant to a residency agreement (the "Resident Agreement"). Under the Resident Agreement, the contribution received will be refundable under the following terms and conditions:

A. Cancellation During the Trial Residence Period - Under California law, there is a probationary period of 90 days after the date of the signed agreement during which either the Partnership or the resident may cancel the agreement with or without cause. Death of the resident during the period will cancel the agreement. In the event of cancellation, the resident shall be entitled to a refund in accordance with California law which states that the Partnership may deduct from the contribution amount a reasonable fee to cover costs and any charges incurred but not paid.

B. Cancellation After 90 Days and Before 2 Years - A resident may cancel his or her agreement at any time after the trial residence period for any reason by giving the Partnership 90 days written notice. Death of the resident will cancel the agreement. However, if an agreement applies to more than one resident, it will remain in effect after the death of one of the residents and be adjusted as described in the agreement. The Partnership may cancel the agreement at any time after the trial residence period for good cause, upon 90 days written notice to the resident. Examples of good cause are defined in the agreement.

Note 2: Concentrations, Risks and Uncertainties (Continued)

B. Cancellation After 90 Days and Before 2 Years - (Continued)

Upon termination of the agreement, during the period from 90 days to 2 years of occupancy, the resident or his or her estate will be entitled to a repayment of a portion of his or her Loan Deposit, less a pre-determined percentage per month of occupancy and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

C. Cancellation After 2 Years - The criteria for cancellation after 2 years is the same as the criteria described above for cancellation after 90 days and before 2 years. If termination occurs after 2 years, the resident or his or her estate may be entitled to a portion of his or her Loan Deposit, less any charges incurred but not paid, as determined per the terms and conditions of the individual agreements.

Additionally, the Partnership offers rental apartments and private healthcare to nonresidents. Upon entrance into the facility, each occupant is required to pay a deposit to be fully refunded or applied to the last month's fees. At December 31, 2014, the balance due to non-contracted residents totaled $21,010.

Note 3: Prepaid Expenses

Prepaid expenses at December 31, 2014, consist of the following:

Prepaid insurance	$ 154,774
Other	417
Total Prepaid Expenses	$ 155,191

Note 4: Receivables from Residents

Pursuant to the terms discussed in Note 1, the Partnership has receivables due from residents associated with past healthcare services provided. At December 31, 2014, resident receivables related to past healthcare services totaled $336,114.

Note 5: Accrued Expenses

Accrued expenses at December 31, 2014, consist of the following:

Accrued salaries and wages	$ 278,082
Accrued payroll taxes	116,040
Accrued vacation	171,516
Workers' compensation reserve	185,569
Total Accrued Expenses	$ 751,207

Note 6: Line of Credit

The Partnership has an unsecured revolving line of credit with a bank whereby the Partnership may borrow a maximum of $1,500,000 with an interest rate at the bank's reference rate but no less than 4.00 percent per annum. At December 31, 2014, there was no balance outstanding under this line of credit. The line expires in November 2015 and is guaranteed by all partners of the Partnership. The Partnership has agreed to certain covenants with the bank in connection with the line of credit and a term loan as described in Note 8. As of December 31, 2014, the Partnership was in compliance with respect to the covenants.

Note 7: Note Payable to Master Trust and Trust Arrangement

The residents of Freedom Village established a trust fund for the purpose of providing permanent financing, operating capital and statutory reserves for the benefit of the Retirement Center. The residents sign a Joinder in Master Trust Agreement, joining in and becoming grantors under a Master Trust Agreement between the trustee and the grantors. At December 31, 2014, the Master Trust note payable balance outstanding was $17,250,000.

In addition, each grantor upon execution of a Joinder in Master Trust Agreement must deposit with the trustee the contribution amount required of such grantor as set forth in the Residence Agreement and the Deposit Subscription Agreement.

The grantors deposit the required contribution amount into the trust and acknowledge in a Commitment Letter that the trustee of the Master Trust is directed to transfer all requested funds in the form of an interest-free loan to the Partnership for the purpose of providing permanent financing and operating capital for the Retirement Center, subject to availability and specific loan limits described below. This loan is secured by the following:

A. A first priority deed of trust on Freedom Village Retirement Center's real property and improvements.

B. A security agreement creating a fast security interest in all of the improvements, fixtures and personal property associated and used in connection with Freedom Village Retirement Center.

C. An assignment of rents, leases, profits and contracts including, but not limited to, any residence agreement and any management agreements entered into in conjunction with the operation of Freedom Village Retirement Center.

The security shall also include any after-acquired collateral, as well as any insurance proceeds recovered for the loss of any property serving as collateral for this loan.

Upon the resale of a resident's unit, any proceeds over and above the departing resident's loan balance remaining in the trust after admission of a new resident may be loaned to the Partnership. The total loans to the Partnership shall not exceed the lesser of $28,000,000 or 80 percent of the appraised value of the property.

Note 7: Note Payable to Master Trust and Trust Arrangement (Continued)

Payments of principal are made on an annual basis and are calculated based on a forty-year loan amortization with the final payment due March 31, 2038. The Partnership is required to make minimum annual principal payments of approximately $750,000 for each of the next five years.

A resident's balance is repaid upon termination of the Residence Agreement. In accordance with the Joinder in Master Trust Agreement, the residents request and direct that all principal payments received be paid directly to the Partnership for the benefit of the resident. The purpose of this provision is to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Partnership under the Residence Agreement. The deferred entrance fee is included in the accompanying statement of operations as deferred entrance fees and non-refundable advance fees.

The Master Trust also distributes to the Partnership any excess funds that are not invested in the form of an interest-free loan to the Partnership. Distributions of this kind also serve to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Partnership under the Residence Agreement. These fees are included in the accompanying statement of operations as deferred entrance fees and non-refundable advance fees.

Since the Partnership received an unsecured promise from the residents to pay the deferred entrance fee at the termination of the agreement, the fee does not become due until all the other services required to be rendered under the contract have, in fact, been fulfilled.

Upon termination of the Residence Agreement, the grantor or his/her estate instructs the Master Trust to distribute the balance of the grantor's Loan Deposit, partially to the grantor and partially to the Partnership, as a deferred entrance fee.

The amount of the fee constructively received by the Partnership is, at that time, recognized as income and is considered a net payment upon termination. These fees are included in the accompanying statement of operations as deferred entrance fees and non-refundable advance fees.

Deferred entrance fees and non-refundable advance fees for the year ended December 31, 2014, consist of the following:

Annual principal payment	$ 750,000
Excess funds	3,000,000
Deferred entrance fees	660,753
Total Deferred Entrance Fees and Non-Refundable Advance Fees	$ 4,410,753

Accounting principles generally accepted in the United States of America require that a deferred entrance fee be amortized to income over future periods based on the estimated life expectancy of the resident.

Note 7: Note Payable to Master Trust and Trust Arrangement (Continued)

As described in the preceding paragraphs, the Partnership recognizes income from deferred entrance fees upon constructive receipt of payment or on the cash basis method which is not in accordance with accounting principles generally accepted in the United States of America.

Note 8: Note Payable

At December 31, 2014, the Partnership has available a term loan with a bank for the purposes of remodeling improvements. The loan provides for up to $4,000,000 of borrowings, with interest accruing at a fixed rate of 4.232%, payable monthly. The loan is collateralized by certain real property of the Partnership. The loan calls for 59 monthly payments of principal and interest totaling $21,767, and annual option payments totaling 20% of the outstanding balance, with one balloon payment required on or before the maturity date of October 2, 2018. The outstanding balance on the note totaled $3,102,611 at December 31, 2014.

Principal payments of the current outstanding note are estimated to mature as follows:

2015	$ 132,453
2016	138,169
2017	144,131
2018	2,687,858
Total	$ 3,102,611

Note 9: Commitments and Contingencies

Obligation to Provide Future Services

The Partnership annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of monthly service fees and revenue from deferred entrance fees based upon the cash basis method. If the present value of the net cost of future services and use of facilities exceeds the present value of the future cash inflows from the monthly service fees and revenue from deferred entrance fees, a liability is recorded. Using a discount rate of 8 percent, the anticipated revenues are estimated to exceed the anticipated cost of future services by $16,366,597 for the year ended December 31, 2014. Therefore, no liability was accrued.

The obligation of the Partnership to provide future health services will probably increase as some residents experience financial difficulties and are unable to pay 100 percent for their health care charges. Management has identified five residents experiencing financial difficulties. Management has reasonably estimated that the Partnership's total future revenues might be reduced by $434,697 over 5.2 years, the residents' average life expectancy.

Note 9: Commitments and Contingencies (Continued)

Maintenance Contracts

The Partnership has a software maintenance contract requiring monthly payments of $1,076 through July 2015. The Partnership has an elevator maintenance contract requiring monthly payments of $1,841 through November 2015.

Reservations and Designations

At December 31, 2014, there are no cash reserves maintained for contingencies or accumulated for specific projects or purposes.

Litigation

The Partnership experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

Note 10: Related Party Transactions

Freedom Properties West, an affiliate, functions as the management company of the Partnership under a formal management agreement. Under the agreement, the Partnership pays Freedom Properties West compensation equal to five percent of the gross monthly receipts of the Partnership's operation and deferred entrance fees. There are also other factors which may affect the calculation of the management fees. Included in accounts payable in the accompanying balance sheet is $62,829 representing management fees due to Freedom Properties West at December 31, 2014. Management fees expensed during 2014 in the amount of $904,813 are included in general and administrative expenses in the accompanying statement of operations.

At December 31, 2014, the Partnership has notes outstanding with three partners. The notes currently bear interest at 4.232 percent due in monthly payments of interest only through January 31, 2020, at which time any unpaid principal and interest is due. Prior to maturity, principal payments ranging from $2,500 to $4,000 may be made at the Partnership's discretion, but no more than once per month. Any payments made during a month will be deemed to have been made on the last day of that month, for purposes of calculating interest due. As of December 31, 2014, the outstanding balances on these note payables totaled $700,000 and are included in notes payables to related parties in the accompanying balance sheet. The interest expense paid to the partners during the year ended December 31, 2014, was $29,624 and is included in interest expense in the accompanying statement of operations.

Note 10: Related Party Transactions (Continued)

The Partnership has a long-term note receivable from the commonly-owned company for certain remodeling expenses, totaling $1,162,865, with interest accruing at a fixed rate of 4.232%, payable monthly. The note is being paid in 59 monthly payments of principal and interest totaling $8,163, and annual option payments totaling 20% of the outstanding balance, with one balloon payment required on or before the maturity date of October 2, 2018. The note is included as note receivable from related party in the accompanying balance sheet, and effectively represents a shared responsibility for the note payable obligation as described in Note 8.

The Partnership also shares certain expenses with the same commonly-owned company. At December 31, 2014, the Partnership had a net current receivable from this company for certain shared expenses totaling $491,680, which is included in related party receivable in the accompanying balance sheet.

Note 11: Employee Benefit Plan

The Partnership sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute a percentage of their compensation up to the maximum amounts prescribed by law, with the employer matching a discretionary contribution equal to a percentage of the amount of the employee deferral as determined each year by the employer. Also, the Partnership may make a discretionary profit sharing contribution as determined each year by the employer. There were no employer matching or profit sharing contributions for the year ended December 31, 2014.

Plan administrative expenses totaled $900 for the year ended December 31, 2014, and are included in general and administrative expenses in the accompanying statement of operations.

Note 12: Subsequent Events

Events occurring after December 31, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of April 29, 2015, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Partners of
Casa Pacifica
Lake Forest, California

We have audited the financial statements of Casa Pacifica (the "Partnership") as of and for the year ended December 31, 2014, and our report thereon dated April 29, 2015, which appears on pages 1 and 2, was qualified, as the Partnership recognizes income from deferred entrance fees when the funds are constructively received, yet accounting principles generally accepted in the Unites States of America require that deferred entrance fees be amortized into income over future periods based on the estimated life expectancy of the resident. The audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the accompanying schedules of Form 5-1 through Form 5-5 and Form 7-1 has been prepared for filing with the State of California, Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and is presented for purposes of additional analysis and is not a required part of 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 information is fairly stated in all material respects in relation to the financial statements as a whole and presents fairly in all material respects the continuing care reserve requirements of the Partnership at December 31, 2014, in conformity with the report preparation provisions of the California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the partners and management of the Partnership and for filing with the California Department of Social Services and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.

White Nelson Diehl Evans LLP

Irvine, California
April 29, 2015

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Offices located in Orange and San Diego Counties

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	06/01/87	$750,000	$0		$750,000
2	10/01/09		$12,696		$12,696
3	01/04/11		$4,232		$4,232
4	01/04/11		$8,464		$8,464
5	01/04/11		$4,232		$4,232
6	11/27/13	$97,908	$163,299		$261,207
7					$0
8					$0
		TOTAL:	$192,923	$0	$1,040,831

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

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

PROVIDER: Casa Pacifica

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: Casa Pacifica

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,040,831
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:**	$1,040,831

PROVIDER: Casa Pacifica

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$14,263,857
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$192,923	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c.	Depreciation	$1,409,956	
	d.	Amortization	$0	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$6,317,231	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$7,920,110
4		Net Operating Expenses		$6,343,747
5		Divide Line 4 by 365 and enter the result.		$17,380
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$1,303,510

PROVIDER: Casa Pacifica
COMMUNITY: Freedom Village

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Casa Pacifica
Fiscal Year Ended: 12/31/2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2014 and are in compliance with those requirements.

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

		Amount
[1]	Debt Service Reserve Amount	$290,831
[2]	Operating Expense Reserve Amount	$1,303,510
[3]	**Total Liquid Reserve Amount:**	$1,594,340

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

	Qualifying Asset Description	**Amount (market value at end of quarter)** **Debt Service Reserve**		**Operating Reserve**
[4]	Cash and Cash Equivalents			$198,791
[5]	Investment Securities			$0
[6]	Equity Securities			$0
[7]	Unused/Available Lines of Credit			$1,500,000
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other:	$336,114		$1,162,865

Receivables from Residents (see Auditor's Note 4) These receivables are amounts due for Healthcare services, secured by the residents' refund from the Master Trust, in turn secured by first trust deed against the Retirement Center of Freedom Village ($336,114). Note Receivable from related party $1,162,865 (see Auditor's Note 10).

Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11]	$336,114	[12]	$2,861,656
Reserve Obligation Amount:	[13]	$290,831	[14]	$1,303,510
Surplus/(Deficiency):	[15]	$45,283	[16]	$1,558,146

Signature:

(Authorized Representative)

Date: 4/28/2015

Partner/Chief Financial Officer
(Title)

Provider Name:	Casa Pacifica	
Fiscal Year Ended:	12/31/2014	

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

Total Qualifying Assets as Filed:

Cash and Cash Equivalents	198,791	
Line of Credit	1,500,000	Only drawn when necessary.
Other	1,498,979	Receivables from Residents (see Auditor's Note 4) $336,114. These receivables are amounts due for Healthcare services, secured by the residents' refund from the Master Trust, in turn secured by first trust deed against the Retirement Center of Freedom Village. Note Receivable from related party $1,162,865 (See Auditor's Note 10).
Total Qualifying Assets as Filed	3,197,770	

Reservations and Designations:	None

Per Capita Cost of Operations Operating Expenses (Form 5-4 line #1)	14,263,857
Mean # of All Residents (Form 1-1 line #10)	347.5
Per Capita Cost of Operations	41,047

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$1,800-$4,641	$5,075	$8,100
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	2.5%	5.5%	7.4%

☐ 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: April, 2014
(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: Casa Pacifica
COMMUNITY: Freedom Village, Lake Forest, California

FORM 7-1
<u>REPORT ON CCRC MONTHLY SERVICE FEES</u>
Supporting Explanation for Line 5

Reasons for increase in monthly service fees:

1. Decrease in CPI All Consumers from Oct, 2012 thru Oct, 2013 = -.07%
2. Increase in CPI Health Care from Oct, 2012 thru Oct, 2013 = 1.4%
3. Increase in California minimum wage July 2014 = 12.5% ($1.00 hr.)

PROVIDER: Casa Pacifica
COMMUNITY: Freedom Village, Lake Forest, California