

FISCAL YEAR ENDED:

12 / 31 / 15

ANNUAL REPORT CHECKLIST

PROVIDER(S): CC\_La Jolla, Inc. and CCW La Jolla, LLC

RECEIVED  
APR 29 2016

CCRC(S): Vi at La Jolla Village

CONTINUING CARE  
CONTRACTS BRANCH

CONTACT PERSON: Stephanie Fields

TELEPHONE NO.: ( 312 ) 803-8520

EMAIL: sfields@viliving.com

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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 34,054.08
  - If applicable, late fee in the amount of: \$ \_\_\_\_\_
- Certification by the provider's **Chief Executive Officer** that:
  - The reports are correct to the best of his/her knowledge.
  - Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.
- Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for *each* community.
- Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

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

**FORM 1-1**  
**RESIDENT POPULATION**

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	566
[2]	Number at end of fiscal year	585
[3]	Total Lines 1 and 2	1,151
[4]	Multiply Line 3 by “.50” and enter result on Line 5.	x.50
[5]	Mean number of continuing care residents	575.5
All Residents		
[6]	Number at beginning of fiscal year	588
[7]	Number at end of fiscal year	604
[8]	Total Lines 6 and 7	1,192
[9]	Multiply Line 8 by “.50” and enter result on Line 10.	x.50
[10]	Mean number of all residents	596
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places).	0.97

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service-interest only)	46,016,099
[a]	Depreciation	10,908,800
[b]	Debt Service (Interest Only)	0
[2]	Subtotal (add Line 1 a and 1b)	10,908,800
[3]	Subtract Line 2 from Line 1 and enter result.	35,107,299
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	0.97
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	34,054,080
		x.001
[6]	Total Amount Due (multiply Line 5 by .001)	34,054.08

**PROVIDER:** CC – La Jolla, Inc. and CCW La Jolla, LLC

**COMMUNITY:** Vi at La Jolla Village (previously Classic Residence by Hyatt at La Jolla Village)

Form 1-1 and Form  
1-2

California Department of Social Services  
Application for Certificate of Authority

RECEIVED  
APR 29 2016  
CONTINUING CARE  
CONTRACTS BRANCH

CERTIFICATION

---

The undersigned certifies that the Annual Report for the fiscal year ended 12/31/2015 is correct to the best of his knowledge, that each continuing care contract form in use or offered to new residents has been approved by the Department, and the provider is maintaining the required liquid reserve and refund reserve.

Dated: April 27, 2016

CCW LaJolla, L.L.C., a Delaware limited liability company

By: CC-LaJolla, Inc., a Delaware corporation

Its: Managing Member

By:   
Randal J. Richardson, President

CC-LaJolla, Inc., a Delaware corporation

By:   
Randal J. Richardson, President



AGENCY CUSTOMER ID: \_\_\_\_\_  
LOC #: \_\_\_\_\_



### ADDITIONAL REMARKS SCHEDULE

AGENCY Willis of Illinois, Inc.		NAMED INSURED CCW La Jolla, L.L.C. 8515 Costa Verde Drive San Diego, CA 92122	
POLICY NUMBER See Page 1		EFFECTIVE DATE: See Page 1	
CARRIER See Page 1	NAIC CODE See Page 1		

**ADDITIONAL REMARKS**

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,  
FORM NUMBER: 25 FORM TITLE: Certificate of Liability Insurance

INSURER AFFORDING COVERAGE: Columbia Casualty Company NAIC#: 31127  
POLICY NUMBER: 4034814088 EFF DATE: 12/31/2015 EXP DATE: 12/31/2016

TYPE OF INSURANCE:	LIMITS:
Excess Umbrella	\$25,000,000 Each Occurrence \$25,000,000 Aggregate

Re: Vi at LaJolla Village, Tower 2, 8515 Costa Verde Drive, San Diego, CA 92122



# CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)  
12/24/2015

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 INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

If this certificate is being prepared for a party who has an insurable interest in the property, do not use this form. Use ACORD 27 or ACORD 28.

<b>PRODUCER</b> Willis of Illinois, Inc. c/o 26 Century Blvd P.O. Box 305191 Nashville, TN 372305191 USA	<b>CONTACT NAME:</b> PHONE (A/C, No, Ext): 1-877-945-7378 E-MAIL ADDRESS: certificates@willis.com PRODUCER CUSTOMER ID:		<b>FAX (A/C, No):</b> 1-888-467-2378
	<b>INSURER(S) AFFORDING COVERAGE</b>		
<b>INSURED</b>  CCW La Jolla, L.L.C. 8515 Costa Verde Drive San Diego, CA 92122	<b>INSURER A:</b> Federal Insurance Company		<b>NAIC #</b> 20281
	<b>INSURER B:</b>		
	<b>INSURER C:</b>		
	<b>INSURER D:</b>		
	<b>INSURER E:</b>		
	<b>INSURER F:</b>		

**COVERAGES**                      **CERTIFICATE NUMBER:** W1235209                      **REVISION NUMBER:**

**LOCATION OF PREMISES / DESCRIPTION OF PROPERTY** (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
Vi at La Jolla Village, 8515 Costa Verde Boulevard, San Diego, CA 92122

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

INSR LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
	<input type="checkbox"/> PROPERTY				BUILDING	\$
	<input type="checkbox"/> CAUSES OF LCSS	<input type="checkbox"/> DEDUCTIBLES			PERSONAL PROPERTY	\$
	<input type="checkbox"/> BASIC	<input type="checkbox"/> BUILDING			BUSINESS INCOME	\$
	<input type="checkbox"/> BROAD	<input type="checkbox"/> CONTENTS			EXTRA EXPENSE	\$
	<input type="checkbox"/> SPECIAL				RENTAL VALUE	\$
	<input type="checkbox"/> EARTHQUAKE				BLANKET BUILDING	\$
	<input type="checkbox"/> WIND				BLANKET PERS PROP	\$
	<input type="checkbox"/> FLOOD				BLANKET BLDG & PP	\$
						\$
						\$
	<input type="checkbox"/> INLAND MARINE	TYPE OF POLICY				\$
	<input type="checkbox"/> CAUSES OF LOSS					\$
	<input type="checkbox"/> NAMED PERILS	POLICY NUMBER				\$
						\$
A	<input checked="" type="checkbox"/> CRIME				<input checked="" type="checkbox"/> Employee Theft	\$ 10,000,000
	<input type="checkbox"/> TYPE OF POLICY	8197-6307	12/31/2015	12/31/2016	<input checked="" type="checkbox"/> Forgery	\$ 7,000,000
	Crime				<input checked="" type="checkbox"/> Retention	\$ 50,000
	<input type="checkbox"/> BOILER & MACHINERY / EQUIPMENT BREAKDOWN					\$
						\$
						\$
						\$

**SPECIAL CONDITIONS / OTHER COVERAGES** (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

<b>CERTIFICATE HOLDER</b>  California Department of Social Services Attn. Ms. Linda Smith 744 P. Street Sacramento, CA 95814	<b>CANCELLATION</b>  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  <i>Andrea Paris</i>
---	---



# CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)  
12/24/2015

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 INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

If this certificate is being prepared for a party who has an insurable interest in the property, do not use this form. Use ACORD 27 or ACORD 28.

<b>PRODUCER</b> Willis of Illinois, Inc. c/o 26 Century Blvd P.O. Box 305191 Nashville, TN 372305191 USA	<b>CONTACT NAME:</b> PHONE (A/C, No, Ext): 1-877-945-7378      FAX (A/C, No): 1-888-467-2378 E-MAIL ADDRESS: certificates@willis.com PRODUCER CUSTOMER ID:	
	<b>INSURER(S) AFFORDING COVERAGE</b> <b>NAIC #</b>	
<b>INSURED</b>  CCW La Jolla, L.L.C. 8515 Costa Verde Drive San Diego, CA 92122	<b>INSURER A:</b> Starr Surplus Lines Insurance Company      13604	
	<b>INSURER B:</b>	
	<b>INSURER C:</b>	
	<b>INSURER D:</b>	
	<b>INSURER E:</b>	
	<b>INSURER F:</b>	

**COVERAGES**      **CERTIFICATE NUMBER:** W1235212      **REVISION NUMBER:**

**LOCATION OF PREMISES / DESCRIPTION OF PROPERTY** (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
Vi at La Jolla Village, 8515 Costa Verde Blvd., San Diego, CA 92122

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

INSR LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS	
A	<input checked="" type="checkbox"/> PROPERTY	SLSTPTY10796715	12/31/2015	12/31/2016	<input checked="" type="checkbox"/> BUILDING	\$ See Below	
	CAUSES OF LOSS				DEDUCTIBLES	<input checked="" type="checkbox"/> PERSONAL PROPERTY	\$ See Below
	<input type="checkbox"/> BASIC				BUILDING	<input checked="" type="checkbox"/> BUSINESS INCOME	\$ See Below
	<input type="checkbox"/> BROAD				50,000	<input checked="" type="checkbox"/> EXTRA EXPENSE	\$ See Below
	<input checked="" type="checkbox"/> SPECIAL				CONTENTS	<input checked="" type="checkbox"/> RENTAL VALUE	\$ See Below
	<input checked="" type="checkbox"/> EARTHQUAKE				See Attached	BLANKET BUILDING	\$
	<input checked="" type="checkbox"/> WIND				See Attached	BLANKET PERS PROP	\$
	<input checked="" type="checkbox"/> FLOOD				See Attached	BLANKET BLDG & PP	\$
				<input checked="" type="checkbox"/> Loss Limit (Blanket)	\$ 350,000,000		
	<b>INLAND MARINE</b>	TYPE OF POLICY			\$		
	CAUSES OF LOSS				\$		
	<input type="checkbox"/> NAMED PERILS	POLICY NUMBER			\$		
	<input type="checkbox"/> CRIME				\$		
	TYPE OF POLICY				\$		
	<input type="checkbox"/> BOILER & MACHINERY / EQUIPMENT BREAKDOWN				\$		
					\$		
					\$		

**SPECIAL CONDITIONS / OTHER COVERAGES** (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
Replacement Cost Valuation; Agreed Amount; No Coinsurance

<b>CERTIFICATE HOLDER</b>  California Department of Social Services Attn.: Ms. Linda Smith 744 P. Steet Sacramento, CA 95814	<b>CANCELLATION</b>  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 
---	--

**Supplement to Acord 24 – Certificate of Property Insurance  
 Supplement to Acord 28 – Evidence of Commercial Property Insurance**

**Insured:** CC-Development Group, Inc.

**Policy Period:** 12/31/15 – 12/31/16

**Issuing Companies**

<b>Layer</b>	<b>Insurer</b>	<b>Policy Number</b>	<b>Limit</b>	
Primary (\$25,000,000)	Allied World Assurance Company, Ltd.	P006392/009	4,500,000	
	Axis Surplus Insurance Company	ECF771021-15	2,250,000	
	Chubb Custom Insurance Company	44681329-04	833,333	
	Endurance Worldwide Insurance Ltd.	B080112090U15	1,238,425	
	General Security Indemnity Co. of America	T0234451502392	833,333	
	Ironshore Specialty Insurance Company	001227004	1,562,500	
	Landmark American Insurance Company	LHD394769	1,250,000	
	Lexington Insurance Company	012944691	2,500,000	
	Lloyd's Syndicates 0623, 2623, 1414, 0318, 5000, 2987, 3000, 2003	B080112090U15	7,949,075	
	National Fire & Marine Insurance Company	42-PRP-000099-03	1,250,000	
	Starr Surplus Lines Insurance Company	SLSTPTY10796715	833,334	
	1 <sup>st</sup> Excess Layer (55mm xs 25mm)	Alterra Excess & Surplus Insurance Company	MKLS12XP001446	5,000,000
		Arch Specialty Insurance Company	PRP0036632-06	7,111,500
Chubb Custom Insurance Company		44681329-04	2,750,000	
General Security Indemnity Co. of America		T0234451502392	2,750,000	
Ironshore Specialty Insurance Company		002590100	6,187,500	
Lexington Insurance Company		012944691	5,500,000	
Lloyd's London Syndicate 2987		PD-10584-01	3,256,000	
Lloyd's Syndicates 2015, 1955, 3902, 1200		B080115732U15	5,945,000	
National Fire & Marine Insurance Company		42-PRP-000099-03	2,750,000	
Starr Surplus Lines Insurance Company		SLSTPTY10796715	2,750,000	
Westport Insurance Corporation		NAP045257602	11,000,000	
2 <sup>nd</sup> Excess Layer (170m xs 80mm)	Axis Surplus Insurance Company	ECF764473-15	22,500,000	
	Endurance Worldwide Insurance Ltd.	B080112090U15	7,852,810	
	Homeland Insurance Company of New York	795003995	26,500,000	
	Landmark American Insurance Company	LHD394768	38,500,000	
	Lloyd's London Syndicate 2987	PD-10584-01	17,900,000	
	Lloyd's Syndicates 2003, 1861, 5820	B080112090U15	14,247,190	
	National Fire & Marine Insurance Company	42-PRP-000099-03	8,500,000	
	Westport Insurance Corporation	NAP045257602	34,000,000	
3 <sup>rd</sup> Excess Layer (100mm xs 250mm)	Mitsui Sumitomo Insurance Company of America	EXP7000111	100,000,000	
Excess California EQ (20mm xs 80mm)	QBE Specialty Insurance Company	ESE14009-00	15,000,000	
	General Security Indemnity Company of Arizona	TR0001486-01187-15	5,000,000	

**Key Sublimits/Modifications (per occurrence, unless otherwise indicated)**

Flood – FEMA 100 Year Flood Zones (occurrence / aggregate).....	\$50,000,000
Flood – All Other Locations (occurrence / aggregate).....	\$200,000,000
Earth Movement – California (occurrence / aggregate) .....	\$100,000,000
Earth Movement – Alaska, Hawaii, Puerto Rico (occurrence / aggregate) .....	\$80,000,000
Earth Movement – Critical New Madrid Areas (occurrence / aggregate) .....	\$50,000,000
Earth Movement – Critical Pacific Northwest Areas (occurrence / aggregate).....	\$50,000,000
Earth Movement – All Other Locations (occurrence / aggregate) .....	\$200,000,000
Named Storm – FL, HI, PR, US VI and First Tier Areas in all other states .....	\$80,000,000
Debris Removal .....	\$25,000,000
Extended Period of Indemnity.....	365 days
Extra Expense.....	\$50,000,000
Mold - ensuing loss only (occurrence/aggregate) .....	\$5,000,000

**Supplement to Acord 24 – Certificate of Property Insurance**  
**Supplement to Acord 28 – Evidence of Commercial Property Insurance**

**Insured:** CC-Development Group, Inc.

**Policy Period:** 12/31/15 – 12/31/16

**Special Deductibles**

- Earth Movement – AK, CA, HI, PR -- 5% of the reported "unit of insurance" subject to a minimum of \$250,000 and a maximum of \$7,500,000 per occurrence
- Earth Movement – Critical New Madrid Areas and Critical Pacific Northwest areas – 2% of the reported "unit of insurance" subject to a minimum of \$100,000 per occurrence
- Earth Movement – All Other Locations - \$100,000 per occurrence
- Flood – FEMA 100 Year Flood Zones – \$1,000,000 per occurrence
- Flood – All Other Locations– \$100,000 per occurrence
- Named Windstorm – South Carolina - 3% of the reported "unit of insurance" subject to a minimum of \$250,000 and a maximum of \$3,500,000 per occurrence
- Named Windstorm – FL, HI, PR, US VI and First Tier Areas in all other states (except SC) 3% of the reported "unit of insurance" subject to a minimum of \$250,000 and a maximum of \$3,500,000 per occurrence per occurrence



**CC-LA JOLLA, INC. AND SUBSIDIARY**

Consolidated Financial Statements and Supplementary Schedules

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

# CC-LA JOLLA, INC. AND SUBSIDIARY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Stockholder's Equity (Deficit)	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
<b>Supplementary Schedules</b>	
Long-Term Debt Incurred in a Prior Fiscal Year – Form 5-1	16
Long-Term Debt Incurred during Fiscal Year – Form 5-2	17
Calculation of Long-Term Debt Reserve Amount – Form 5-3	18
Calculation of Net Operating Expenses – Form 5-4	19
Annual Reserve Certification – Form 5-5	20



KPMG LLP  
Aon Center  
Suite 5500  
200 East Randolph Drive  
Chicago, IL 60601-6436

RECEIVED  
APR 29 2016

CONTINUING CARE  
CONTRACTS BRANCH

## Independent Auditors' Report

The Shareholder  
CC-La Jolla, Inc.:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CC-La Jolla, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in stockholder's equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CC-La Jolla, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Form 5-1 through Form 5-5 is presented for purposes of additional analysis and for compliance with the requirements of the California Health and Safety Code Section 1792 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**KPMG LLP**

Chicago, Illinois  
April 22, 2016

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2015 and 2014

<b>Assets</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
Current assets:		
Cash and cash equivalents	\$ 5,804,021	6,528,410
Current portion of assets limited as to use	177,029	523,307
Resident accounts receivable, net of allowance for doubtful accounts of approximately \$614,900 in 2015 and \$470,900 in 2014	570,527	639,860
Deposits and other	<u>230,753</u>	<u>339,146</u>
Total current assets	<u>6,782,330</u>	<u>8,030,723</u>
Assets limited as to use, net of amounts required for current liabilities	3,871,216	1,852,946
Property and equipment:		
Land	8,288,908	8,288,908
Building and improvements	197,039,267	193,089,848
Furniture, fixtures, and equipment	34,506,761	30,407,352
Construction in progress	<u>1,702,967</u>	<u>1,302,840</u>
	241,537,903	233,088,948
Less accumulated depreciation	<u>109,577,563</u>	<u>99,546,055</u>
Property and equipment, net	131,960,340	133,542,893
Long-term accounts receivable – master trust	21,058,250	23,929,344
Cost to acquire initial continuing care contracts, net	3,981,376	4,858,668
Deferred tax asset	14,101,269	11,723,694
Goodwill	<u>5,984,168</u>	<u>5,984,168</u>
Total assets	<u>\$ 187,738,949</u>	<u>189,922,436</u>
<b>Liabilities and Stockholder's Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,648,405	1,175,038
Accrued expenses	3,601,992	2,457,859
Prepaid resident service revenue	185,085	199,027
Due to affiliates	693,968	605,330
Current portion of entrance fee repayments	3,810,205	5,521,121
Resident deposits	<u>177,029</u>	<u>523,307</u>
Total current liabilities	10,116,684	10,481,682
Repayable entrance fees	81,070,297	73,859,765
Deferred revenue from nonrepayable entrance fees	74,124,845	67,404,676
Master trust loan	<u>29,088,674</u>	<u>32,958,525</u>
Total liabilities	<u>194,400,500</u>	<u>184,704,648</u>
Stockholder's equity (deficit):		
Common stock, no par value. Authorized, issued, and outstanding, 100 shares	1,000	1,000
Additional paid-in capital	86,966,513	97,503,875
Accumulated deficit	<u>(93,629,064)</u>	<u>(92,287,087)</u>
Total stockholder's equity (deficit)	<u>(6,661,551)</u>	<u>5,217,788</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ 187,738,949</u>	<u>189,922,436</u>

See accompanying notes to consolidated financial statements.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Consolidated Statements of Operations

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenue:		
Net resident service revenue:		
Net resident service revenue before bad debt	\$ 32,136,365	29,300,061
Provision for doubtful accounts	144,224	153,976
Net resident service revenue	<u>31,992,141</u>	<u>29,146,085</u>
Amortization of entrance fees	11,450,718	10,370,911
Investment income	861	1,397
Other income	100,567	65,124
Total revenue	<u>43,544,287</u>	<u>39,583,517</u>
Expenses:		
Food and beverage	3,927,711	3,629,102
Dining room	1,692,741	1,604,935
Laundry	307,929	302,404
Housekeeping	1,488,301	1,389,356
Resident services	2,477,786	2,428,496
Resident care	6,158,785	5,965,537
Repairs and maintenance	2,077,658	2,110,905
Utilities	2,481,025	2,307,006
Sales and marketing	1,635,875	1,449,670
Total operating expenses	<u>22,247,811</u>	<u>21,187,411</u>
Management fees	1,925,562	1,756,448
Property taxes	2,574,719	2,446,043
Depreciation and amortization	10,908,800	10,832,391
Administration	7,442,126	5,137,042
Insurance	917,628	875,580
Total expenses	<u>46,016,646</u>	<u>42,234,915</u>
Loss before income tax benefit	<u>(2,472,359)</u>	<u>(2,651,398)</u>
Income tax benefit	864,165	1,061,676
Net loss	<u><u>\$ (1,608,194)</u></u>	<u><u>(1,589,722)</u></u>

See accompanying notes to consolidated financial statements.

**CC-LA JOLLA, INC. AND SUBSIDIARY**  
Consolidated Statements of Changes in Stockholder's Equity (Deficit)  
Years ended December 31, 2015 and 2014

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total stockholder's equity (deficit)</u>
	<u>Number</u>	<u>Assigned value</u>			
Balance at December 31, 2013	100	\$ 1,000	106,931,198	(90,366,159)	16,566,039
Capital distributions	—	—	(9,427,323)	—	(9,427,323)
Net loss	—	—	—	(1,589,722)	(1,589,722)
Tax adjustment	—	—	—	(331,206)	(331,206)
Balance at December 31, 2014	100	1,000	97,503,875	(92,287,087)	5,217,788
Capital distributions	—	—	(10,537,362)	—	(10,537,362)
Net loss	—	—	—	(1,608,194)	(1,608,194)
Tax adjustment	—	—	—	266,217	266,217
Balance at December 31, 2015	<u>100</u>	<u>\$ 1,000</u>	<u>86,966,513</u>	<u>(93,629,064)</u>	<u>(6,661,551)</u>

See accompanying notes to consolidated financial statements.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from residents	\$ 32,148,099	29,407,082
Proceeds from nonrepayable entrance fees	19,318,549	18,719,067
Interest received	861	1,397
Cash paid to suppliers and employees	(28,793,034)	(27,210,266)
Cash paid for management fees and commissions	(1,925,562)	(1,756,448)
Cash paid for real estate taxes	(2,574,719)	(2,446,043)
Cash paid for income taxes	(1,247,193)	—
Net cash provided by operating activities	<u>16,927,001</u>	<u>16,714,789</u>
Cash flows from investing activities:		
Additions to property and equipment	(8,448,955)	(6,292,505)
Net change in resident deposits	(346,278)	285,585
Net change in assets limited as to use	(1,671,992)	466,130
Net cash used in investing activities	<u>(10,467,225)</u>	<u>(5,540,790)</u>
Cash flows from financing activities:		
Distributions to Parent, net	(10,537,362)	(9,427,323)
Proceeds from repayable entrance fees	13,268,896	9,694,706
Repayments of repayable entrance fees	(8,947,782)	(10,683,437)
Refunds to master trust loan	(967,917)	(1,718,310)
Net cash used in financing activities	<u>(7,184,165)</u>	<u>(12,134,364)</u>
Net decrease in cash and cash equivalents	(724,389)	(960,365)
Cash and cash equivalents at beginning of year	6,528,410	7,488,775
Cash and cash equivalents at end of year	\$ <u>5,804,021</u>	<u>6,528,410</u>
Reconciliation of net loss to net cash provided by operating activities:		
Net loss	\$ (1,608,194)	(1,589,722)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Proceeds from nonrepayable entrance fees	19,318,549	18,719,067
Depreciation and amortization	10,908,800	10,832,391
Amortization of entrance fees	(11,450,718)	(10,370,911)
Income tax adjustment	266,217	(331,206)
Provision for doubtful accounts	144,224	153,976
Changes in assets and liabilities:		
Accounts receivable	(74,891)	18,153
Deposits and other	108,393	(44,912)
Accounts payable	473,367	(560,646)
Accrued expenses	1,144,133	548,407
Prepaid resident service revenue	(13,942)	23,744
Due to affiliates	88,638	46,918
Deferred tax asset	(2,377,575)	(730,470)
Net cash provided by operating activities	\$ <u>16,927,001</u>	<u>16,714,789</u>

See accompanying notes to consolidated financial statements.

## CC-LA JOLLA, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

#### (1) Purpose and Organization

The accompanying consolidated financial statements include the accounts of CC-La Jolla, Inc. (La Jolla) and its consolidated subsidiary, CCW La Jolla, L.L.C. (the L.L.C.). La Jolla is the sole corporate member of the L.L.C. La Jolla and the L.L.C. are collectively referred to herein as CC-La Jolla, Inc. (Company), a wholly owned subsidiary of CC-Development Group, Inc. (Parent).

The L.L.C. was formed in 1998 for the purpose of owning, developing, and operating a senior living community containing 401 independent living apartments, 36 assisted living units, 19 memory support units, and a 60-bed healthcare center located in La Jolla, California. The community was acquired under a Joint Plan of Reorganization from La Jolla Village Tower – 500, a Chapter 11 bankrupt partnership.

All significant intercompany balances and transactions have been eliminated in consolidation.

#### (2) Summary of Significant Accounting Policies

##### (a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### (b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding amounts limited as to use.

##### (c) Fair Value Measurements

The Company applies the provisions of Accounting Standards Update (ASU) 2010-06, *Improving Disclosure, about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurement – Overall*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify other existing disclosure requirements.

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

## CC-LA JOLLA, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In estimating the fair value of its financial instruments, the Company determined the carrying amounts reported in the consolidated balance sheets for cash and cash equivalents and assets limited as to use approximate fair value because of the short maturities of these instruments and are considered Level 1 investments within the fair value hierarchy.

**(d) *Assets Limited as to Use***

Assets limited as to use include restricted resident deposits and assets set aside by the Company for capital improvements, and assets held in escrow under state statutes. Restricted resident deposits represent good faith deposits. Good faith deposits are received by the Company from prospective residents who are interested in occupying one of the community units. Good faith deposits do not earn interest on behalf of the prospective residents. Assets limited as to use for capital improvements represent funds designated by the Company for acquisition of property and equipment, which may be used at the discretion of the Company. Assets limited as to use by State for operations represent funds designated by the Company to satisfy State operating reserve requirements. Assets held in escrow under state statutes represent funds designated to establish certain entrance fee repayments as required by the State of California. The amounts held in escrow under this requirement include cash and cash equivalents of \$473,025 and investments in the real estate of the community of \$1,103,724, which represents 70% of the total reserve of \$1,576,749. The historical cost method was utilized to value the real estate for purposes of ensuring it falls within the allowable investment allocation under the state statutes. Assets limited as to use are invested in money market funds or liquid securities with maturities of 90 days or less when purchased and are considered cash equivalents.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Assets limited as to use are reported in the accompanying consolidated balance sheets as follows:

	2015	2014
Current portion of assets limited as to use – resident deposits	\$ 177,029	523,307
Assets limited as to use – by Company for capital improvements	\$ 398,191	1,560,875
Assets limited as to use – by State for operations	3,000,000	—
Assets limited as to use – by State for entrance fee repayments	473,025	292,071
Assets limited as to use, net of amounts required for current liabilities	\$ 3,871,216	1,852,946

**(e) Property and Equipment**

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets ranging from 4 to 40 years. Construction in progress at December 31, 2015 relates to costs associated with common area renovations that will be placed in service during 2016. No significant contractual commitments exist related to these renovations as of December 31, 2015.

**(f) Impairment of Long-Lived Assets**

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the Company intended to dispose of its assets, they would be reported at the lower of the carrying amount or fair value less estimable costs to sell, and would no longer be depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its long-lived assets as of December 31, 2015 or 2014.

**(g) Long-Term Accounts Receivable – Master Trust**

Long-term accounts receivable represent the earned portion of nonrepayable entrance fees due from a trustee pursuant to the Master Trust Agreement (note 4). Upon termination of resident contracts, such amounts are offset against amounts due under the Master Trust Agreement.

**(h) Costs of Acquiring Initial Continuing Care Contracts**

Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts. In accordance with ASC Subtopic 720-35, *Other Expenses – Advertising Costs*, the Company capitalizes costs incurred in connection with direct response advertising whose primary purpose is to secure

## CC-LA JOLLA, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

deposits from residents who are shown to have responded specifically to the advertising. Such advertising costs include newspaper, magazine, television, radio, brochures, and other costs. The Costs are being amortized using the straight-line method over the expected stay at the community of the first resident group, beginning in the first period in which revenue associated with the Costs are earned. Upon occupancy of the first resident group, additional Costs are expensed as incurred. The Costs are shown net of accumulated amortization of \$6,546,139 and \$5,668,847 as of December 31, 2015 and 2014, respectively.

**(i) Goodwill**

Goodwill represents the excess of the fair value of the Company, as determined through an independent valuation at the time of the formation of the Company, over the fair value of tangible assets contributed to the Company by its members. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of ASC Subtopic 350-20, *Intangibles – Goodwill and Other*.

In connection with this evaluation, the Company was required to determine the fair value of the acquired reporting entity including goodwill and intangible assets, and compare it to the carrying value of the assets. If the goodwill is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of the acquired reporting entity exceeded its carrying amount and the Company was not required to recognize an impairment loss during the years ended December 31, 2015 and 2014.

**(j) Obligation to Provide Future Services**

The Company annually calculates the present value of the estimated net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of unearned revenue from entrance fees. If the present value of the net costs of future services and the use of facilities exceeds the unearned revenue from entrance fees, a liability is recorded (obligation to provide future services and the use of facilities) with the corresponding charge to income. The obligation is discounted at 5.5%, based on the expected long-term rate of return. The present value of the net cost of future services and the use of facilities was less than the deferred revenue from entrance fees at both December 31, 2015 and 2014, and accordingly, no future service obligation has been recognized in the accompanying consolidated balance sheets.

**(k) Repayable Entrance Fees**

Residents enter into a residency agreement with the Company that requires the payment of a onetime entrance fee. Upon termination of the residency agreement, residents are entitled to a repayment of the portion of the entrance fee that has not been earned by the Company, payable upon the sooner of reoccupancy of the unit or 10 years after the unit is made available. The Company earns 2% of the fee per month up to varying amounts of 100%, 60%, 58%, 20%, or 18%, dependent on the resident contract. The Company amortizes the nonrepayable portion of the entrance fee over the estimated life of the residents. Through July 31, 2005, entrance fees were remitted to a trustee pursuant to the Master Trust Agreement (note 4). Beginning August 1, 2005, entrance fees were remitted directly to the Company. The Company has recorded the repayable portion of the entrance fees (remitted directly to

## CC-LA JOLLA, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

the Company) separately from the nonrepayable portion within the accompanying consolidated balance sheets. If all contracts terminated on December 31, 2015, the repayable portion of the entrance fees due to all residents would be \$122,039,783 of which \$113,920,132 relates to residents who remitted their entrance fees directly to the Company and \$8,119,651 relates to residents who remitted their entrance fees to the Master Trust.

#### (l) *Net Resident Service Revenue*

Resident revenue related to independent living units, assisted living units, memory support units, and non-Medicare skilled care units is recognized on a fee-for-service basis in the month in which occupancy and services are provided. Net resident service revenue related to Medicare skilled care units is reported at the estimated net realizable amounts from residents and third-party payors.

#### (m) *Income Taxes*

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

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

The Company accounts for tax positions in accordance with ASC Topic 740, *Income Taxes*. ASC Topic 740 clarifies the accounting for uncertainty in tax positions and also provides guidance on when the tax positions are recognized in an entity's financial statements and how the values of these positions are determined. The Company does not have any liabilities recognized for uncertain tax positions.

#### (3) **Concentration of Credit Risk**

The Company grants credit to its self-pay residents as well as those that are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	45%	45%
Self-pay and commercial insurance	55	55
	<u>100%</u>	<u>100%</u>

## CC-LA JOLLA, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

#### (4) Master Trust Agreement

Through July 31, 2005, upon entrance into a residency agreement, residents also entered into a Master Trust Agreement with an independent trustee. Upon execution of the agreements, resident deposits were due to the trustee. The trustee entered into a loan agreement with the Company dated June 29, 2000. The terms of the loan agreement allow the Company to borrow up to \$100,000,000 on a demand basis evidenced by a promissory note in the amount of \$100,000,000. The loan bears no interest, and becomes due and payable on June 29, 2050. The promissory note is secured by a deed of trust covering the real property of the Company.

Once entrance fees were deposited with the trustee of the Master Trust and then loaned to the Company, the funds were used primarily for original acquisition indebtedness, capital acquisitions, operating deficits, and cash distributions to members. Repayments to residents are paid directly out of the trust. Repayments of \$967,917 and \$1,718,310 during the years ended December 31, 2015 and 2014, respectively, were made to residents by the trustee. The source of the repayments is provided by new resident entrance fee proceeds. In the event the trust has no liquid assets to make repayments, the Company is obligated to fund the trust.

The Master Trust Agreement with each resident is for 100% of the resident's entrance fee. Upon termination of the residency agreement, the repayable portion of the entrance fee, ranging from 0% to 82%, is due to the resident, and the earned portion of nonrepayable entrance fees is due to the Company. The Company is entitled to 2% of the entrance fee per month up to the maximum of 100%, dependent on the contract provisions (note 2).

#### (5) Transactions with Related Parties

The Company entered into a management agreement dated April 28, 1998 between the Company and Classic Residence Management Limited Partnership (Classic), an affiliate of La Jolla, whereby Classic manages the operations of the Company. On October 26, 2005, the management agreement was amended to include management of the operations of a second independent living tower. The agreement is for a term of 25 years and requires the Company to pay an annual management fee equal to 6% of annual resident service revenue excluding certain items as defined in the management agreement. The Company incurred management fee expense of \$1,925,562 and \$1,756,449 for the years ended December 31, 2015 and 2014, respectively.

Classic also contracts with third parties on behalf of the Company to provide property, health, liability, and workers' compensation insurance and various marketing and other services. Classic advances the funds to third parties and is reimbursed by the Company. Reimbursement to Classic for such advances amounted to \$4,517,275 and \$3,727,787 for the years ended December 31, 2015 and 2014, respectively. There is no interest associated with these advances. Amounts due to Classic totaled \$693,968 and \$605,330 at December 31, 2015 and 2014, respectively, and are reported as due to affiliates in the accompanying consolidated balance sheets.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

**(6) Defined Contribution Plan**

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar up to 4% of a participant's salary, the Company matches each participant's contribution in an amount equal to 100% of the participant's deferral. For every dollar in excess of 4% of a participant's salary and limited to 6% of a participant's salary, the Company matches each participant's contribution in an amount equal to 50% of the participant's deferral. For the years ended December 31, 2015 and 2014, the Company recorded matching contribution expense of \$313,736 and \$293,057, respectively. Contributions are funded on a current basis.

**(7) Income Taxes**

The operating results of the Company are included in the Parent's consolidated federal income tax return. The Company is party to a tax sharing agreement that provides that, among other things, the Company shall not be entitled to any reimbursement for utilization of its tax attributes in the consolidated federal income tax return of the Parent. The tax sharing agreement also provides that the Company shall not be entitled to any reimbursement for utilization of its tax attributes in the various combined state income tax returns of the Parent and its subsidiaries.

The Company is required to pay the Parent for any tax liability that may arise from its operations, computed on a separate return basis. For the year ended December 31, 2014, the Company sustained losses for federal and state income tax purposes. Accordingly, the 2014 current tax benefit attributable to the Company in the Parent company's income tax returns, as required pursuant to the provision of ASC Topic 740, has been eliminated through an adjustment to shareholder's equity during 2014. Certain differences resulting from the reconciliation of the 2014 tax provision to the 2014 filed tax return have also been eliminated through an adjustment to shareholder's equity during 2015.

The income tax benefit for the years ended December 31, 2015 and 2014 comprises the following:

	<u>2015</u>	<u>2014</u>
Current:		
U.S. federal	\$ 1,202,417	(282,074)
State	310,993	(49,132)
Total current	<u>1,513,410</u>	<u>(331,206)</u>
Deferred:		
U.S. federal	(2,042,290)	(627,459)
State	(335,285)	(103,011)
Total deferred	<u>(2,377,575)</u>	<u>(730,470)</u>
Income tax benefit	\$ <u>(864,165)</u>	<u>(1,061,676)</u>

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Depreciation	\$ 32,617	60,673
Accrued expenses and other	1,311,297	696,570
Deferred revenue from nonrepayable entrance fees	<u>16,817,915</u>	<u>15,384,473</u>
Total gross deferred tax assets	18,161,829	16,141,716
Less valuation allowance	<u>—</u>	<u>—</u>
Total net deferred tax assets	<u>18,161,829</u>	<u>16,141,716</u>
Deferred tax liabilities:		
Amortization of goodwill	(2,438,309)	(2,438,309)
Costs to acquire initial continuing care contracts	<u>(1,622,251)</u>	<u>(1,979,713)</u>
Total deferred tax liabilities	<u>(4,060,560)</u>	<u>(4,418,022)</u>
Net deferred tax assets	\$ <u>14,101,269</u>	\$ <u>11,723,694</u>

As of December 31, 2015 and 2014, no valuation allowance is considered necessary as management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets.

Income tax benefit attributable to income was \$864,165 and \$1,061,676 for the years ended December 31, 2015 and 2014, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income from continuing operations as a result of the following:

	<u>2015</u>	<u>2014</u>
Computed "expected" tax benefit	\$ 865,326	927,989
Change in income taxes resulting from:		
State and local income taxes, net of federal income tax expense	133,256	134,946
Other, net	<u>(134,417)</u>	<u>(1,259)</u>
	\$ <u>864,165</u>	\$ <u>1,061,676</u>

## CC-LA JOLLA, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

#### **(8) Commitments and Contingencies**

##### **(a) State Regulatory Requirements**

The Company is subject to regulatory requirements as set forth by the Department of Social Services in the state of California. Such requirements set forth the establishment of a restricted cash escrow account for resident deposits until execution of the residency agreement (note 2) and the submission of schedules detailing the availability of debt service and operating expense reserves.

##### **(b) Federal Regulatory Compliance**

The laws and regulations governing the Medicare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for long-term care organizations. Recently the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. The Company maintains a compliance program designed to educate employees and to detect and correct possible violations.

##### **(c) Internal Revenue Service Audit**

The Company is currently undergoing an audit by Internal Revenue Service for its tax years ended December 31, 2012, 2011, and 2010. Management anticipates the audits will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

#### **(9) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated subsequent events after the balance sheet date of December 31, 2015 through April 22, 2016, which was the date the consolidated financial statements were available to be issued.

On August 20, 2014, a Plaintiff filed a putative wage and hour class action complaint in the Superior Court of the State of California for the County of San Diego against Classic. The Plaintiff amended the complaint on August 28, 2014, asserting that she fairly and adequately represented a putative class comprised of all nonexempt Classic employees who have been or were then currently employed by Classic in the State of California since August 2010. The Plaintiff's claims included but were not limited to Violation of Labor Code, Failure to Pay Meal and Rest Break Penalties at the Proper Regular Rate, Inaccurate Wage Statements, Failure to Provide Meal Periods, and Failure to Pay Wages. Classic denies the allegations and maintains that all employees have been accurately paid for time worked, however, in an effort to mitigate potential costs and disruption associated with litigation, Classic negotiated a settlement with the class. On February 19, 2016, the Superior Court of the State of California granted a motion for conditional certification and preliminary approval of a class action settlement between Classic (on behalf of the Company and one of its affiliates) and the Settlement Class, as defined in the agreement. Included in accrued expenses in the accompanying 2015 consolidated balance sheet is \$1,722,813 related to the expected disposition of funds pursuant to the terms of the settlement.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Form 5-1

Long-Term Debt Incurred in a Prior Fiscal Year  
(Including Balloon Debt)

Long-term debt obligation	(a) Date incurred	(b) Principal paid during fiscal year	(c) Interest paid during fiscal year	(d) Credit enhancements paid in fiscal year	(e) Total paid (columns (b)+(c) + (d))
1		\$			
2					
3					
4					
5					
6					
7					
8					
			\$		
				(Transfer this amount to Form 5-3, line 1)	

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

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Form 5-2

**Long-Term Debt Incurred during Fiscal Year  
(Including Balloon Debt)**

(a) Long-term debt obligation	(b) Date incurred	(b) Total interest paid during fiscal year	(c) Amount of most recent payment on the debt	(d) Number of payments over next 12 months	(e) Reserve requirement (see instruction 5) (columns (c)*(d))
1		\$			
2					
3					
4					
5					
6					
7					
8					
		\$			
					(Transfer this amount to Form 5-3, line 2)

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

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Form 5-3

**Calculation of Long-Term Debt Reserve Amount**

<u>Line</u>		<u>Total</u>
1	Total from Form 5-1 bottom of Column (e)	\$
2	Total from Form 5-2 bottom of Column (e)	—
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	—
4	Total amount required for long-term debt reserve	—

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Form 5-4

Calculation of Net Operating Expenses

<u>Line</u>	<u>Amounts</u>	<u>Total</u>
1		
2		
	Total operating expenses from financial statements	\$ 46,016,646
	Deductions:	
	a Interest paid on long-term debt (see instructions)	—
	b Credit enhancement premiums paid for long-term debt (see instructions)	—
	c Depreciation	10,031,507
	d Amortization	877,293
	e Revenue received during fiscal year for services to residents who did not have a continuing care contract	5,454,743
	f Extraordinary expenses approved by the Department	—
3	Total deductions	16,363,543
4	Net operating expenses	29,653,103
5	Divide Line 4 by 365 and enter the result	81,241
6	<b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount	\$ 6,093,075

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.  
**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

Form 5-4 line 2e reconciliation

Cash received per audited financials	\$ 32,148,099
Cash received from residents with CCRC contracts	26,693,356
Cash per Form 5-4 line 2e	<u>\$ 5,454,743</u>

**CC-LA JOLLA, INC. AND SUBSIDIARY**

Form 5-5

Annual Reserve Certification

Provider Name: CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

Fiscal Year Ended: December 31, 2015

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2015 and are in compliance with those requirements.

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

	<u>Amount</u>
(1) Debt service reserve amount	\$ —
(2) Operating expense reserve amount	<u>6,093,075</u>
(3) Total liquid reserve amount	<u><u>\$ 6,093,075</u></u>

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

<u>Qualifying asset description</u>	<u>Amount (market value at end of quarter)</u>	
	<u>Debt service reserve</u>	<u>Operating reserve</u>
(4) Cash and cash equivalents	\$ —	5,804,021
(5) Investment securities	—	3,398,191
(6) Equity securities	—	—
(7) Unused available lines of credit	—	—
(8) Unused available letters of credit	—	—
(9) Debt service reserve	—	—
(10) Other (describe qualifying asset)	—	—
Total amount of qualifying assets listed for liquid reserve (11)	—	(12) 9,202,212
Total amount required (13)	—	(14) <u>6,093,075</u>
Surplus (deficiency) (15)	\$ —	(16) <u><u>3,109,137</u></u>

Signature:

 \_\_\_\_\_ Date 4/27/16

(Authorized representative)

VP

(Title)

See accompanying independent auditors' report.



**CCW LA JOLLA, L.L.C.**

**Financial Statements and Supplementary Schedules**

**December 31, 2015 and 2014**

**(With Independent Auditors' Report Thereon)**

CCW LA JOLLA, L.L.C.

Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Members' Deficit	5
Statements of Cash Flows	6
Notes to Financial Statements	7
<b>Supplementary Schedules</b>	
Long-Term Debt Incurred in a Prior Fiscal Year – Form 5-1	14
Long-Term Debt Incurred during Fiscal Year – Form 5-2	15
Calculation of Long-Term Debt Reserve Amount – Form 5-3	16
Calculation of Net Operating Expenses – Form 5-4	17
Annual Reserve Certification – Form 5-5	18



KPMG LLP  
Aon Center  
Suite 5500  
200 East Randolph Drive  
Chicago, IL 60601-6436

RECEIVED  
APR 29 2016

CONTINUING CARE  
CONTRACTS BRANCH

## Independent Auditors' Report

The Members  
CCW La Jolla, L.L.C.:

### Report on the Financial Statements

We have audited the accompanying financial statements of CCW La Jolla, L.L.C., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in members' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CCW La Jolla, L.L.C. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



*Other Matters*

**Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Form 5-1 through Form 5-5 is presented for purposes of additional analysis and for compliance with the requirements of the California Health and Safety Code Section 1792 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

**KPMG LLP**

Chicago, Illinois  
April 22, 2016

**CCW LA JOLLA, L.L.C.**

Balance Sheets

December 31, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 5,804,021	6,528,410
Current portion of assets limited as to use	177,029	523,307
Resident accounts receivable, net of allowance for doubtful accounts of approximately \$614,900 in 2015 and \$470,900 in 2014	570,527	639,860
Deposits and other	230,753	339,146
Total current assets	6,782,330	8,030,723
Assets limited as to use, net of amounts required for current liabilities	3,871,216	1,852,946
Property and equipment:		
Land	8,288,908	8,288,908
Building and improvements	197,039,267	193,089,848
Furniture, fixtures, and equipment	34,506,761	30,407,352
Construction in progress	1,702,967	1,302,840
	241,537,903	233,088,948
Less accumulated depreciation	109,577,563	99,546,055
Property and equipment, net	131,960,340	133,542,893
Long-term accounts receivable – master trust	21,058,250	23,929,344
Cost to acquire initial continuing care contracts, net	3,981,376	4,858,668
Goodwill	5,984,168	5,984,168
Total assets	\$ 173,637,680	178,198,742
<b>Liabilities and Members' Deficit</b>		
Current liabilities:		
Accounts payable	\$ 1,648,405	1,175,038
Accrued expenses	3,601,992	2,457,859
Prepaid resident service revenue	185,085	199,027
Due to affiliates	693,837	605,204
Current portion of repayable entrance fees	3,810,205	5,521,121
Resident deposits	177,029	523,307
Total current liabilities	10,116,553	10,481,556
Repayable entrance fees	81,070,297	73,859,765
Deferred revenue from nonrepayable entrance fees	74,124,845	67,404,676
Master trust loan	29,088,674	32,958,525
Total liabilities	194,400,369	184,704,522
Members' deficit:		
Contributed capital	70,737,833	82,522,930
Accumulated deficit	(91,500,522)	(89,028,710)
Total members' deficit	(20,762,689)	(6,505,780)
Total liabilities and members' deficit	\$ 173,637,680	178,198,742

\*See accompanying notes to financial statements.

**CCW LA JOLLA, L.L.C.**

Statements of Operations

Years ended December 31, 2015 and 2014

	2015	2014
Revenue:		
Net resident service revenue:		
Net resident service revenue before bad debt	\$ 32,136,365	29,300,061
Provision for doubtful accounts	144,224	153,976
Net resident service revenue	31,992,141	29,146,085
Amortization of entrance fees	11,450,718	10,370,911
Investment income	861	1,397
Other income	100,567	65,124
Total revenue	43,544,287	39,583,517
Expenses:		
Food and beverage	3,927,711	3,629,102
Dining room	1,692,741	1,604,935
Laundry	307,929	302,404
Housekeeping	1,488,301	1,389,356
Resident services	2,477,786	2,428,496
Resident care	6,158,785	5,965,537
Repairs and maintenance	2,077,658	2,110,905
Utilities	2,481,025	2,307,006
Sales and marketing	1,635,875	1,449,670
Total operating expenses	22,247,811	21,187,411
Management fees	1,925,562	1,756,448
Property taxes	2,574,719	2,446,043
Depreciation and amortization	10,908,800	10,832,391
Administration	7,441,579	5,136,707
Insurance	917,628	875,580
Total expenses	46,016,099	42,234,580
Net loss	\$ (2,471,812)	(2,651,063)

See accompanying notes to financial statements.

**CCW LA JOLLA, L.L.C.**

Statements of Changes in Members' Deficit

Years ended December 31, 2015 and 2014

	<u>Contributed capital</u>	<u>Accumulated deficit</u>	<u>Total members' equity (deficit)</u>
Balance at December 31, 2013	\$ 91,950,584	(86,377,647)	5,572,937
Distributions to member	(9,427,654)	—	(9,427,654)
Net loss	—	(2,651,063)	(2,651,063)
Balance at December 31, 2014	82,522,930	(89,028,710)	(6,505,780)
Distributions to member	(11,785,097)	—	(11,785,097)
Net loss	—	(2,471,812)	(2,471,812)
Balance at December 31, 2015	<u>\$ 70,737,833</u>	<u>(91,500,522)</u>	<u>(20,762,689)</u>

See accompanying notes to financial statements.

**CCWLA JOLLA, L.L.C.**

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Cash received from residents	\$ 32,148,099	29,407,082
Proceeds from nonrepayable entrance fees	19,318,549	18,719,067
Interest received	861	1,397
Cash paid to suppliers and employees	(28,792,492)	(27,209,935)
Cash paid for management fees	(1,925,562)	(1,756,448)
Cash paid for real estate taxes	(2,574,719)	(2,446,043)
Net cash provided by operating activities	18,174,736	16,715,120
Cash flows from investing activities:		
Additions to property and equipment	(8,448,955)	(6,292,505)
Net change in resident deposits	(346,278)	285,585
Net change in assets limited as to use	(1,671,992)	466,130
Net cash used in investing activities	(10,467,225)	(5,540,790)
Cash flows from financing activities:		
Distributions to managing member, net	(11,785,097)	(9,427,654)
Proceeds from repayable entrance fees	13,268,896	9,694,706
Repayments of repayable entrance fees	(8,947,782)	(10,683,437)
Repayments to master trust	(967,917)	(1,718,310)
Net cash used in financing activities	(8,431,900)	(12,134,695)
Net decrease in cash and cash equivalents	(724,389)	(960,365)
Cash and cash equivalents at beginning of year	6,528,410	7,488,775
Cash and cash equivalents at end of year	\$ 5,804,021	6,528,410
Reconciliation of net loss to net cash provided by operating activities:		
Net loss	\$ (2,471,812)	(2,651,063)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Proceeds from nonrepayable entrance fees	19,318,549	18,719,067
Depreciation and amortization	10,908,800	10,832,391
Amortization of entrance fees	(11,450,718)	(10,370,911)
Provision for doubtful accounts	144,224	153,976
Changes in assets and liabilities:		
Accounts receivable	(74,891)	18,153
Deposits and other	108,393	(44,912)
Accounts payable	473,367	(560,646)
Accrued expenses	1,144,133	548,407
Prepaid resident service revenue	(13,942)	23,744
Due to affiliates	88,633	46,914
Net cash provided by operating activities	\$ 18,174,736	16,715,120

See accompanying notes to financial statements.

**CCW LA JOLLA, L.L.C.**

Notes to Financial Statements

December 31, 2015 and 2014

**(1) Purpose and Organization**

CCW La Jolla, L.L.C. (the Company) is a Delaware limited liability company whose sole corporate member is CC-La Jolla, Inc., a Delaware corporation. CC-La Jolla, Inc. is a wholly owned subsidiary of CC-Development Group, Inc. (Parent). The Company was formed in 1998 for the purpose of owning, developing, and operating a senior living community containing 401 independent living apartments, 36 assisted living units, 19 memory support units, and a 60-bed healthcare center located in La Jolla, California. The community was acquired under a Joint Plan of Reorganization from La Jolla Village Tower – 500, a Chapter 11 bankrupt partnership.

**(2) Summary of Significant Accounting Policies**

**(a) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**(b) Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding amounts limited as to use.

**(c) Fair Value Measurements**

The Company applies the provisions of Accounting Standards Update (ASU) 2010-06, *Improving Disclosure about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurement*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify other existing disclosure requirements.

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or

**CCW LA JOLLA, L.L.C.**  
Notes to Financial Statements  
December 31, 2015 and 2014

can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

In estimating the fair value of its financial instruments, the Company determined the carrying amounts reported in the balance sheets for cash and cash equivalents and assets limited as to use approximate fair value because of the short maturities of these instruments and are considered Level 1 investments within the fair value hierarchy.

**(d) Assets Limited as to Use**

Assets limited as to use include restricted resident deposits, assets set aside by the Company for capital improvements, assets set aside to satisfy state operating reserve requirements, and assets held in escrow under state statutes. Restricted resident deposits represent good faith deposits. Good faith deposits are received by the Company from prospective residents who are interested in occupying one of the community units. Good faith deposits do not earn interest on behalf of the prospective residents. Assets limited as to use for capital improvements represent funds designated by the Company for acquisition of property and equipment, which may be used at the discretion of the Company. Assets limited as to use by State for operations represent funds designated by the Company to satisfy State operating reserve requirements. Assets held in escrow under state statutes represent funds designated to establish certain entrance fee repayments as required by the State of California. The amounts held in escrow under this requirement include cash and cash equivalents of \$473,025 and investments in the real estate of the community of \$1,103,724, which represents 70% of the total reserve of \$1,576,749 at December 31, 2015. The historical cost method was utilized to value the real estate for purposes of ensuring it falls within the allowable investment allocation under the state statutes. Assets limited as to use are invested in money market funds or liquid securities with maturities of 90 days or less when purchased and are considered cash equivalents.

Assets limited as to use are reported in the accompanying balance sheets as follows:

	<u>2015</u>	<u>2014</u>
Current portion of assets limited as to use – resident deposits	\$ 177,029	523,307
Assets limited as to use – by Company for capital improvements	\$ 398,191	1,560,875
Assets limited as to use – by State for operations	3,000,000	—
Assets limited as to use – by State for entrance fee repayments	<u>473,025</u>	<u>292,071</u>
Assets limited as to use, net of amounts required for current liabilities	<u>\$ 3,871,216</u>	<u>1,852,946</u>

**CCW LA JOLLA, L.L.C.**

Notes to Financial Statements

December 31, 2015 and 2014

**(e) *Property and Equipment***

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets ranging from 4 to 40 years. Construction in progress at December 31, 2015 related to costs associated with renovations that will be placed in service during 2016. No significant contractual commitments exist related to these renovations as of December 31, 2015.

**(f) *Impairment of Long-Lived Assets***

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the Company intended to dispose of its assets, they would be reported at the lower of the carrying amount or fair value less estimable costs to sell, and would no longer be depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its long-lived assets as of December 31, 2015 or 2014.

**(g) *Long-Term Accounts Receivable – Master Trust***

Long-term accounts receivable represent the earned portion of nonrepayable entrance fees due from residents pursuant to the Master Trust Agreement (note 4). Upon termination of resident contracts, such amounts are offset against amounts due under the Master Trust Agreement.

**(h) *Costs of Acquiring Initial Continuing Care Contracts***

Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts. In accordance with ASC Subtopic 720-35, *Advertising Costs*, the Company capitalizes costs incurred in connection with direct response advertising whose primary purpose is to secure deposits from residents who are shown to have responded specifically to the advertising. Such advertising costs include newspaper, magazine, television, radio, brochures, and other costs. The Costs are being amortized using the straight-line method over the expected stay at the community of the first resident group, beginning in the first period in which revenue associated with the Costs are earned. Upon occupancy of the first resident group, additional costs are expensed as incurred. The Costs are shown net of accumulated amortization of \$6,546,139 and \$5,668,847 as of December 31, 2015 and 2014, respectively.

**(i) *Goodwill***

Goodwill represents the excess of the fair value of the Company, as determined through an independent valuation at the time of the formation of the Company, over the fair value of tangible assets contributed to the Company by its members. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of ASC Subtopic 350-20, *Goodwill*.

**CCWLA JOLLA, L.L.C.**

Notes to Financial Statements

December 31, 2015 and 2014

In connection with this evaluation, the Company was required to determine the fair value of the acquired reporting entity, including goodwill and intangible assets, and compare it to the carrying value of the assets. If the goodwill is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of the acquired reporting entity exceeded its carrying amount and the Company was not required to recognize an impairment loss during the years ended December 31, 2015 and 2014.

**(j) *Obligation to Provide Future Services***

The Company annually calculates the present value of the estimated net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of unearned revenue from entrance fees. If the present value of the net costs of future services and the use of facilities exceeds the unearned revenue from entrance fees, a liability is recorded (obligation to provide future services and the use of facilities) with the corresponding charge to income. The obligation is discounted at 5.5%, based on the expected long-term rate of return. The present value of the net cost of future services and the use of facilities was less than the deferred revenue from entrance fees at December 31, 2015 and 2014, and accordingly, no future service obligation has been recognized in the accompanying balance sheets.

**(k) *Repayable Entrance Fees***

Residents enter into a residency agreement with the Company that requires the payment of a onetime entrance fee. Upon termination of the residency agreement, residents are entitled to a repayment of the portion of the entrance fee that has not been earned by the Company, payable upon the sooner of reoccupancy of the unit or 10 years after the unit is made available. The Company earns 2% of the fee per month up to varying amounts of 100%, 60%, 58%, 20%, or 18%, dependent on the resident contract. The Company amortizes the nonrepayable portion of the entrance fee over the estimated life of the residents. Through July 31, 2005, entrance fees were remitted to a trustee pursuant to the Master Trust Agreement (note 4). Beginning August 1, 2005, entrance fees were remitted directly to the Company. The Company has recorded the repayable portion of the entrance fees (remitted directly to the Company) separately from the nonrepayable portion within the accompanying balance sheets. If all contracts terminated on December 31, 2015, the repayable portion of the entrance fees due to all residents would be \$122,039,783 of which \$113,920,132 relates to residents who remitted their entrance fees directly to the Company and \$8,119,651 relates to residents who remitted their entrance fees to the Master Trust.

**(l) *Net Resident Service Revenue***

Resident revenue related to independent living units, assisted living units, memory support units, and non-Medicare skilled care units is recognized on a fee-for-service basis in the month in which occupancy and services are provided. Net resident service revenue related to Medicare skilled care units is reported at the estimated net realizable amounts from residents and third-party payors.

**(m) *Income Taxes***

The financial statements of the Company do not reflect a provision or benefit for income taxes as the members have elected to recognize their proportionate share of the Company's income or loss in their individual tax returns.

CCW LA JOLLA, L.L.C.

Notes to Financial Statements

December 31, 2015 and 2014

The Company accounts for tax positions in accordance with ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. ASC Topic 740 clarifies the accounting for uncertainty in tax positions and also provides guidance on when the tax positions are recognized in an entity's financial statements and how the values of these positions are determined. The Company does not have any liabilities recognized for uncertain tax positions.

**(3) Concentration of Credit Risk**

The Company grants credit to its self-pay residents as well as those that are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	45%	45%
Self-pay and commercial insurance	55	55
	<u>100%</u>	<u>100%</u>

**(4) Master Trust Agreement**

Through July 31, 2005, upon entrance into a residency agreement, residents also entered into a Master Trust Agreement with an independent trustee. Upon execution of the agreements, resident deposits were due to the trustee. The trustee entered into a loan agreement with the Company dated June 29, 2000. The terms of the loan agreement allow the Company to borrow up to \$100,000,000 on a demand basis evidenced by a promissory note in the amount of \$100,000,000. The loan bears no interest, and becomes due and payable on June 29, 2050. The promissory note is secured by a deed of trust covering the real property of the Company.

Once entrance fees were deposited with the trustee of the master trust and then loaned to the Company, the funds were used primarily for original acquisition indebtedness, capital acquisitions, operating deficits, and cash distributions to members. Repayments to residents are paid directly out of the trust. Repayments of \$967,917 and \$1,718,310 during the years ended December 31, 2015 and 2014, respectively, were made to residents by the trustee. The source of the repayments is provided by new resident entrance fee proceeds. In the event the trust has no liquid assets to make repayments, the Company is obligated to fund the trust.

The Master Trust Agreement with each resident is for 100% of the resident's entrance fee. Upon termination of the residency agreement, the repayable portion of the entrance fee, ranging from 0% to 82%, is due to the resident, and the earned portion of nonrepayable entrance fees is due to the Company. The Company is entitled to 2% of the entrance fee per month up to the maximum of 100%, dependent on the contract provisions (note 2).

**CCW LA JOLLA, L.L.C.**

Notes to Financial Statements

December 31, 2015 and 2014

**(5) Transactions with Related Parties**

The Company entered into a management agreement dated April 28, 1998 between the Company and Classic Residence Management Limited Partnership (Classic), an affiliate of CC-La Jolla, Inc., whereby Classic manages the operations of the Company. On October 26, 2005, the management agreement was amended to include management of the operations of a second independent living tower. The agreement is for a term of 25 years and requires the Company to pay an annual management fee equal to 6% of annual resident service revenue excluding certain items as defined in the management agreement. The Company incurred management fee expense of \$1,925,562 and \$1,756,448 for the years ended December 31, 2015 and 2014, respectively.

Classic also contracts with third parties on behalf of the Company to provide property, health, liability, and workers' compensation insurance and various marketing and other services. Classic advances the funds to third parties and is reimbursed by the Company. Reimbursement to Classic for such advances amounted to \$4,517,275 and \$3,727,787 for the years ended December 31, 2015 and 2014, respectively. There is no interest associated with these advances. Amounts due to Classic totaled \$693,837 and \$605,204 at December 31, 2015 and 2014, respectively, and are reported as due to affiliates in the accompanying balance sheets.

**(6) Defined Contribution Plan**

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan for every dollar up to 4% of a participant's salary, the Company matches each participant's contribution in an amount equal to 100% of the participant's deferral. For every dollar in excess of 4% of a participant's salary and limited to 6% of a participant's salary, the Company matches each participant's contribution in an amount equal to 50% of the participant's deferral. For the years ended December 31, 2015 and 2014, the Company recorded matching contribution expense of \$313,736 and \$293,057, respectively. Contributions are funded on a current basis.

**(7) Commitments and Contingencies**

**(a) State Regulatory Requirements**

The Company is subject to regulatory requirements as set forth by the Department of Social Services in the state of California. Such requirements set forth the establishment of a restricted cash escrow account for resident deposits until execution of the residency agreement (note 2) and the submission of schedules detailing the availability of debt service and operating expense reserves.

**(b) Federal Regulatory Compliance**

The laws and regulations governing the Medicare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for long-term care organizations. Recently the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. The Company maintains a compliance program designed to educate employees and to detect and correct possible violations.

**CCW LA JOLLA, L.L.C.**

Notes to Financial Statements

December 31, 2015 and 2014

**(8) Subsequent Events**

In connection with the preparation of the financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated subsequent events after the balance sheet date of December 31, 2015 through April 22, 2016, which was the date the financial statements were available to be issued.

On August 20, 2014, a plaintiff filed a putative wage and hour class action complaint in the Superior Court of the State of California for the County of San Diego against Classic. The plaintiff amended the complaint on August 28, 2014, asserting that she fairly and adequately represented a putative class comprised of all nonexempt Classic employees who have been or were then currently employed by Classic in the state of California since August 2010. The plaintiff's claims included but were not limited to Violation of Labor Code, Failure to Pay Meal and Rest Break Penalties at the Proper Regular Rate, Inaccurate Wage Statements, Failure to Provide Meal Periods, and Failure to Pay Wages. Classic denies the allegations and maintains that all employees have been accurately paid for time worked, however, in an effort to mitigate potential costs and disruption associated with litigation, Classic negotiated a settlement with the class. On February 19, 2016, the Superior Court of the State of California granted a motion for conditional certification and preliminary approval of a class action settlement between Classic (on behalf of the Company and one of its affiliates) and the Settlement Class, as defined in the agreement. Included in accrued expenses in the accompanying 2015 balance sheet is \$1,722,813 related to the expected disposition of funds pursuant to the terms of the settlement.

**CCW LA JOLLA, L.L.C.**

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 enhancements paid in fiscal year	(e) Total paid (columns (b)+(c) + (d))
1		\$			
2					
3					
4					
5					
6					
7					
8					
		\$			

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

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

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

**CCW LA JOLLA, L.L.C.**

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)*(d))
1		\$			
2					
3					
4					
5					
6					
7					
8					
		\$			
					(Transfer this amount to Form 5-3, line 2)

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

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

**CCW LA JOLLA, L.L.C.**

Form 5-3

Calculation of Long-Term Debt Reserve Amount

<u>Line</u>	<u>Total</u>
1 Total from Form 5-1 bottom of Column (e)	\$ —
2 Total from Form 5-2 bottom of Column (e)	\$ —
3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$ —
4 Total amount required for long-term debt reserve	\$ —

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

**CCW LA JOLLA, L.L.C.**

Form 5-4

Calculation of Net Operating Expenses

<u>Line</u>	<u>Amounts</u>	<u>Total</u>
1		
2		\$ 46,016,099
	Deductions:	
a	—	
b	—	
c	10,031,507	
d	877,293	
e	5,454,743	
f	—	
3	16,363,543	
4	29,652,556	
5	81,240	
6	\$ 6,093,000	

**PROVIDER:** CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

**COMMUNITY:** Vi at La Jolla Village

See accompanying independent auditors' report.

Form 5-4 line 2e reconciliation

Cash received per audited financials	\$ 32,148,099
Cash received from residents with CCRC contracts	26,693,356
Cash per Form 5-4 line 2e	<u>\$ 5,454,743</u>

**CCW LA JOLLA, L.L.C.**

Form 5-5

**Annual Reserve Certification**

Provider Name: CC-La Jolla, Inc. and CCW La Jolla, L.L.C.

Fiscal Year Ended: December 31, 2015

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the fiscal year ended December 31, 2015 and are in compliance with those requirements.

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

	<u>Amount</u>
(1) Debt service reserve amount	\$ —
(2) Operating expense reserve amount	<u>6,093,000</u>
(3) Total liquid reserve amount	<u><u>\$ 6,093,000</u></u>

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

<u>Qualifying asset description</u>	<u>Amount (market value at end of quarter)</u>	
	<u>Debt service reserve</u>	<u>Operating expense reserve</u>
(4) Cash and cash equivalents	\$ —	5,804,021
(5) Investment securities	—	3,398,191
(6) Equity securities	—	—
(7) Unused available lines of credit	—	—
(8) Unused available letters of credit	—	—
(9) Debt service reserve	—	—
(10) Other (describe qualifying asset)	—	—
Total amount of qualifying assets listed for liquid reserve:	(11) —	(12) 9,202,212
Total amount required	(13) —	(14) <u>6,093,000</u>
Surplus (deficiency)	(15) \$ —	(16) <u><u>3,109,212</u></u>

Signature:



Date 4/27/16

(Authorized representative)

(Title)

VP

See accompanying independent auditors' report.

**CCW La Jolla, LLC and CC-La Jolla, Inc.**

**Form 5-5 Description of Reserves**

Debt Service Reserve Amount        \$ 0

Operating Reserve Amount            \$6,093,000

Please see Form 5-4 of Annual Audit for calculation of operating reserve amount

**CCW LaJolla, L.L.C.**

**Detail of Cash and Investments by Bank Account:**

Cash and Cash Equivalents	Investment Securities	Total
\$1,500 Petty Cash held at property		\$1,500
\$13,583 Bank of America checking		\$13,583
\$1,461,677 Bank of America checking		\$1,461,677
\$4,325,612 Bank of America checking		\$4,325,612
\$0 Bank of America checking		\$0
\$1,650 Bank of America checking		\$1,650
<u>\$5,804,021</u>		<u>\$5,804,021</u>
	\$3,000,000 State Operating Reserves	\$3,000,000
	<u>\$398,191 Bank of America MMA/Short Term Funds</u>	<u>\$398,191</u>
		<u><u>\$3,398,191</u></u>

**Amounts listed on form 5-5:**

Qualifying assets for debt service reserve  
 Qualifying assets for operating reserve

\$0
<u>9,202,212</u>
<u><u>\$9,202,212</u></u>

**Amounts listed in audited financial statements:**

Cash and cash equivalents (page 2) (invested as discussed on page 7)  
 Assets limited as to use - by Company for Capital improvements (pages 7 and 8) \*  
 Assets limited as to use - by State for operations (pages 7 and 8) \*\*

\$ 5,804,021
\$ 398,191
\$ 3,000,000
<u>\$ 9,202,212</u>

\* Amounts are earmarked internally for future capital projects which have not been determined at this time.

\*\* Amounts are held for purposes of satisfying the reserve obligation

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

Date Prepared: 4/20/2016

FACILITY NAME: Vi at La Jolla Village  
 ADDRESS: 8515 Costa Verde Blvd., San Diego, CA ZIP CODE: 92122 PHONE: (858) 646-7712  
 PROVIDER NAME: CCW La Jolla, LLC & CC-La Jolla, Inc. FACILITY OPERATOR: Classic Residence Management Limited Partnership  
 RELATED FACILITIES: Yes - see page 2 RELIGIOUS AFFILIATION: None  
 YEAR OPENED: 1996 # OF ACRES: 4.2  SINGLE  MULTI-  
 STORY STORY  OTHER: \_\_\_\_\_ MILES TO SHOPPING CTR: .5  
 MILES TO HOSPITAL: 3

**NUMBER OF UNITS:**

<b>RESIDENTIAL LIVING</b>	<b>HEALTH CARE</b>
APARTMENTS — STUDIO: <u>0</u>	ASSISTED LIVING: <u>36</u>
APARTMENTS — 1 BDRM: <u>98</u>	SKILLED NURSING: <u>60</u>
APARTMENTS — 2 BDRM: <u>254</u>	SPECIAL CARE: <u>19</u>
COTTAGES/HOUSES: <u>0</u>	DESCRIPTION: > <u>Dementia Care</u>
RLU OCCUPANCY (%) AT YEAR END: <u>94%</u>	> <u>Apartments - 3 BDRM - 49</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% 40%, or 80%

RANGE OF ENTRANCE FEES: \$ 232,800 - \$ 2,281,900 LONG-TERM CARE INSURANCE REQUIRED?  YES  NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Type I: Assisted living and skilled nursing care

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: none required OTHER: Application process

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > Attend periodic meetings with members of governing body.  
 > Periodic meetings with Management. Serve on resident council and attend committee meetings.

FACILITY SERVICES AND AMENITIES					
COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING ( <u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS ( <u>2</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input type="checkbox"/>	<input checked="" 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 checked="" 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 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 checked="" type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER <u>Computer Room</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.  
 Page 1 of 4

PROVIDER NAME: CCW La Jolla, LLC & CC-La Jolla, Inc.

<u>OTHER CCRCs</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
Vi at Palo Alto	Palo Alto, CA	(650) 853-5000
Vi at Bentley Village	Naples, FL	(941) 598-3153
Vi at Lakeside Village	Lantana, FL	(561) 966-4600
TidePointe, a Vi Community (fee for service)	Hilton Head Island, SC	(843) 341-7200
Vi at Grayhawk, a Vi and Plaza Companies Comm.	Scottsdale, AZ	(480) 659-5100
Vi at Aventura	Aventura, FL	(305) 692-4700
Vi at the Glen	Glenview, IL	(847) 904-4600
Vi at Highlands Ranch	Highlands Ranch, CO	(720) 747-1234
Vi at Silverstone	Scottsdale, AZ	(480) 476-6100

<u>MULTI-LEVEL RETIREMENT COMMUNITIES</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
None		

<u>FREE-STANDING SKILLED NURSING</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
None		

<u>SUBSIDIZED SENIOR HOUSING</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
None		

No listed facility is life care as defined in California.

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

PROVIDER NAME: CCW La Jolla, LLC & CC-La Jolla, Inc.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (Excluding amortization of entrance fee income)	\$25,005,927	\$27,139,201	\$29,212,606	\$32,093,569
<b>LESS OPERATING EXPENSES</b> (Excluding depreciation, amortization, and interest)	\$27,131,013	\$28,962,191	\$31,402,189	\$35,107,299
<b>NET INCOME FROM OPERATIONS</b>	\$(2,125,086)	\$(1,822,990)	\$(2,189,583)	\$(3,013,730)
<b>LESS INTEREST EXPENSE</b>	\$145,256	\$0	\$0	\$0
<b>PLUS CONTRIBUTIONS</b>	\$0	\$0	\$0	\$0
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)	\$0	\$0	\$0	\$0
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	\$(2,270,342)	\$(1,822,990)	\$(2,189,583)	\$(3,013,730)
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)	\$12,582,426	\$18,482,048	\$16,012,026	\$22,671,746

\*\*\*\*\*  
**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>

\*\*\*\*\*  
**FINANCIAL RATIOS** (see next page for ratio formulas)

	<b>2013 CCAC Medians 50<sup>th</sup> Percentile (optional)</b>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>DEBT TO ASSET RATIO</b>		0	0	0
<b>OPERATING RATIO</b>		1.07	1.07	1.09
<b>DEBT SERVICE COVERAGE RATIO</b>		0	0	0
<b>DAYS CASH ON HAND RATIO</b>		125.24	94.02	95.67

\*\*\*\*\*  
**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2015</u>
STUDIO	n/a		n/a		n/a		n/a
ONE BEDROOM	\$3,273	3.0%	\$3,412	4.0%	\$3,597	3.8%	\$3,750
TWO BEDROOM	\$4,241	3.0%	\$4,630	4.0%	\$4,820	3.8%	\$5,044
COTTAGE/HOUSE	n/a		n/a		n/a		n/a
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

\*\*\*\*\*  
**COMMENTS FROM PROVIDER:** > Note: If you sign a continuing care residency contract, your monthly fee for assisted living, memory care, or skilled nursing > will be based on your monthly fee for your residential living apartment. The dollar amounts shown are the average monthly fees paid by existing residents as of December > 31st of each year. The % column reflects the percentage increase over the prior year's monthly fee that was applied to the monthly fees of existing residents.

**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.

**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)	<u>\$1,872 - \$7,876</u>	<u>\$1,872 - \$7,876</u>	<u>\$1,872 - \$7,876</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.8%</u>	<u>3.8%</u>	<u>3.8%</u>

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: January 1, 2015  
(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:** CCW La Jolla, L.L.C. & CC-La Jolla, Inc.  
**COMMUNITY:** Vi at Jolla Village

**CC – La Jolla, Inc. and CCW La Jolla, LLC**

**Form 7-1 Explanation for Increase in Monthly Service Fees**

Each monthly service fee increase is based on projected expenses, prior year expenses and economic indicators. As with most businesses, we are faced with a number of rising costs including personnel, maintenance, utilities, food, and healthcare services. To maintain the high level of quality and services expected of our brand, the following increases were implemented:

IL 3.8%

AL 3.8%

SNF 3.8%

**PART 9**  
**CALCULATION OF REFUND RESERVE AMOUNT**

Per the instruction of Bob Thompson, the entrance fee refund reserve report will be prepared and submitted at a later date when the updated forms and instructions are available.