



April 29, 2019

Allison Nakatomi, Manager  
Continuing Care Contracts Branch  
Department of Social Services  
744 P Street  
MS 9-14-91  
Sacramento, CA 95814

Re: Varena at Fountaingrove LLC / Varena LLC

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

- 3 copies of:
  - Annual Report Checklist
  - Form 1-1 / Form 1-2
  - Certification of Managing Member
  - Evidence of Insurance
  - Annual Audited Financial Statement
  - Audited Reserve Reports
  - Form 7-1 as well as copies of renewal increase letter
  
- 4 copies of:
  - Disclosure Statement

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

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph G. Lin".

Joseph G. Lin  
Chief Financial Officer

FISCAL YEAR ENDED:

12 / 31 / 18

ANNUAL REPORT CHECKLIST

PROVIDER(S): Varena at Fountaingrove LLC / Varena LLC

CCRC(S): Varena at Fountaingrove

CONTACT PERSON: Joseph Lin

TELEPHONE NO.: ( 707 ) 535-3289

EMAIL: joe.lin@oakmontsl.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: \$ 9,300
  - 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>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	226
[2]	Number at end of fiscal year	228
[3]	Total Lines 1 and 2	454
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	227
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	226
[7]	Number at end of fiscal year	228
[8]	Total Lines 6 and 7	454
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	227
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	1.00

**FORM 1-2  
ANNUAL PROVIDER FEE**

<u>Line</u>	<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only) <b>\$15,011,800</b>
[a]	Depreciation <b>\$3,235,900</b>
[b]	Debt Service (Interest Only) <b>\$2,476,000</b>
[2]	Subtotal (add Line 1a and 1b) <b>\$5,711,900</b>
[3]	Subtract Line 2 from Line 1 and enter result. <b>\$9,299,900</b>
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11) <b>100%</b>
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) <b>\$9,299,900</b>
[6]	<b>Total Amount Due</b> (multiply Line 5 by .001) <b>\$9,300</b>

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

**Reconciliation of Form 1-2 for 2018**

Varena at Fountaingrove

**Note to Form 1-2 reconciling total Operating Expense**

Total Operating Expenses Per Consolidated Statement	14,266,800
Less: Facility Lease	(1,819,700)
Add: Amortization Expense	88,700
Add: Interest Expense (subtracted on line 1-b)	<u>2,476,000</u>
<b>Form 1-2, Line 1</b>	<b><u><u>15,011,800</u></u></b>



April 29, 2019

Continuing Care Contracts Branch  
California Department of Social Services

To Whom It May Concern:

I, William P Gallaher, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2018 for Varena at Fountaingrove LLC / Varena LLC are true and correct to the best of my knowledge.

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

Varena at Fountaingrove is maintaining the required liquid reserve.

Varena at Fountaingrove does not offer refundable Contracts.

Sincerely,

A handwritten signature in black ink, appearing to read "William P Gallaher", written over a thin, light-colored line.

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



OAKMSEN-01

IPETRIE

# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
04/30/2018

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> Alliance Insurance Group 941 Oak St. Eugene, OR 97401	<b>CONTACT NAME:</b> Susan Rendsland <b>PHONE (A/C, No, Ext):</b> (541) 654-4516 337 <b>FAX (A/C, No):</b> (541) 687-4718 <b>E-MAIL ADDRESS:</b> srendslan@allianceinsgrp.com	
	<b>INSURER(S) AFFORDING COVERAGE</b> <b>NAIC #</b>	
<b>INSURED</b>  Oakmont Management Group 9240 Old Redwood Hwy #200 Windsor, CA 95492	<b>INSURER A:</b> National Fire & Marine Insurance Company      20079	
	<b>INSURER B:</b>	
	<b>INSURER C:</b>	
	<b>INSURER D:</b>	
	<b>INSURER E:</b>	
	<b>INSURER F:</b>	

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

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

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSD WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR  GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC OTHER:		NSC100463	05/01/2018	05/01/2019	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 200,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ 3,000,000 <b>OVERALL AGG LIM \$ 10,000,000</b>
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS ONLY <input type="checkbox"/> NON-OWNED AUTOS ONLY					COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
A	<input type="checkbox"/> UMBRELLA LIAB <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> EXCESS LIAB <input checked="" type="checkbox"/> CLAIMS-MADE DED    RETENTIONS \$ 0		ENSC100463	05/01/2018	05/01/2019	EACH OCCURRENCE \$ 10,000,000 AGGREGATE \$ <b>Aggregate \$ 10,000,000</b>
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) <input type="checkbox"/> Y/N    N/A If yes, describe under DESCRIPTION OF OPERATIONS below					PER STATUTE    OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Professional Liab		NSC100463	05/01/2018	05/01/2019	Per Claim 1,000,000
A	Professional Liab		NSC100463	05/01/2018	05/01/2019	Aggregate Limit 3,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)  
Coverage placed with National Fire & Marine Insurance Company is issued pursuant to the surplus lines law and does not have the protection of state guaranty or insolvency funds nor has the policy wording been reviewed by the Insurance Department of the State.

30 days notice of cancellation/ 10 days for non-payment

Sexual Misconduct is included.

SEE ATTACHED ACORD 101

**CERTIFICATE HOLDER**      **CANCELLATION**

Evidence of Coverage	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>Paul Rose</i>



## ADDITIONAL REMARKS SCHEDULE

AGENCY Alliance Insurance Group		NAMED INSURED Oakmont Management Group 9240 Old Redwood Hwy #200 Windsor, CA 95492 Folsom	
POLICY NUMBER SEE PAGE 1			
CARRIER SEE PAGE 1	NAIC CODE SEE P 1	EFFECTIVE DATE: SEE PAGE 1	

## ADDITIONAL REMARKS

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

## Description of Operations/Locations/Vehicles:

General & Professional Liability deductible: \$25,000 Indemnity only per claim, except; \$1,000 for Employee Benefits Liability.

Umbrella/Excess Coverage over General Liability, Professional Liability & Sexual Misconduct, coverage follows form for underlying.

Retro date: 5/1/15 or as scheduled on the policy per location.

Varenna, LLC

Varenna at Fountaingrove, LLC  
dba: Varenna Signature Living  
1401 Fountaingrove Pkwy, Santa Rosa CA 95403

GL/PL Retro Date: 5/1/2015

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*Report of Independent Auditors and  
Consolidated Financial Statements with  
Consolidating Information*

**Varena at Fountaingrove LLC and  
Subsidiaries**

*December 31, 2018 and 2017*





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## **Report of Independent Auditors**

To the Members  
Varena at Fountaingrove LLC and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Varena at Fountaingrove LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in members' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

#### ***Auditor's Responsibility***

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

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

We believe that the audit evidence 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 Varena at Fountaingrove LLC and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

***Report on 2018 Consolidating Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2018 consolidating information presented on pages 17 through 20 is presented for purposes of additional analysis and is not a required part of the 2018 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 2018 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2018 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 2018 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California  
April 26, 2019

## **Consolidated Financial Statements**

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,803,300	\$ 14,566,000
Restricted cash	1,959,100	1,815,400
Accounts receivable and other assets	761,300	664,300
Due from related parties	179,200	-
Investment in real estate		
Buildings and improvements	92,044,500	91,757,000
Land	3,836,000	3,836,000
Furniture, fixtures, and equipment	4,939,300	5,013,800
Land improvements	39,500	-
Accumulated depreciation	<u>(37,528,200)</u>	<u>(34,422,500)</u>
Total investment in real estate, net	<u>63,331,100</u>	<u>66,184,300</u>
Total assets	<u>\$ 78,034,000</u>	<u>\$ 83,230,000</u>
<b>LIABILITIES AND MEMBERS' DEFICIT</b>		
Accounts payable and accrued liabilities	\$ 3,500,700	\$ 6,019,900
Due to related parties	647,200	444,400
Deferred revenue	19,900	15,700
Deferred rent	3,160,600	1,340,900
Entrance fees subject to refund	90,758,200	87,082,100
Entrance fees nonrefundable, net	9,116,600	9,685,300
Debt obligations, net of unamortized debt issuance costs	<u>56,316,500</u>	<u>57,298,400</u>
Total liabilities	163,519,700	161,886,700
Members' deficit	<u>(85,485,700)</u>	<u>(78,656,700)</u>
Total liabilities and members' deficit	<u>\$ 78,034,000</u>	<u>\$ 83,230,000</u>

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Members' Deficit**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>REVENUE</b>		
Continuing care contracts	\$ 12,622,000	\$ 10,855,600
Noncontinuing care contracts	192,500	4,427,100
Total revenue	12,814,500	15,282,700
<b>OPERATING EXPENSES</b>		
Continuing care contract operating expenses	7,894,800	7,360,900
Noncontinuing care contract operating expenses	84,900	2,603,300
Management fees - related party	477,900	569,400
General and administrative	753,600	417,700
Depreciation	3,235,900	3,241,700
Facility lease	1,819,700	1,971,600
Total operating expenses	14,266,800	16,164,600
<b>LOSS FROM CONTINUING OPERATIONS</b>	(1,452,300)	(881,900)
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	1,500	2,900
Amortization of debt issuance costs	(88,700)	(88,700)
Interest expense	(2,476,000)	(2,521,000)
Gain on sale of equipment	5,600	10,600
Fire related expenses	(1,722,200)	(3,233,700)
Fire related insurance recovery proceeds	3,584,100	1,308,100
Water damage related insurance recovery proceeds	650,500	-
Water damage remediation costs	(2,326,500)	-
Fire related loss	-	(249,800)
<b>NET LOSS</b>	(3,824,000)	(5,653,500)
<b>MEMBERS' DEFICIT, beginning of year</b>	(78,656,700)	(74,013,300)
<b>CONTRIBUTIONS</b>	13,550,000	37,760,100
<b>DISTRIBUTIONS</b>	(16,555,000)	(36,750,000)
<b>MEMBERS' DEFICIT, end of year</b>	\$ (85,485,700)	\$ (78,656,700)

See accompanying notes.

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from continuing care contracts	\$ 10,809,000	\$ 9,393,500
Cash received from entrance fees nonrefundable	1,029,000	341,800
Cash received from noncontinuing care contracts	360,000	3,971,400
Cash received from related parties	23,600	444,400
Cash received fire related insurance proceeds	3,584,100	1,308,100
Cash received from water damage related insurance proceeds	650,500	-
Cash paid to employees and suppliers	(11,297,500)	(5,848,500)
Cash paid for management fees	(477,900)	(569,400)
Cash paid for facility lease	-	(1,515,400)
Cash paid for fire related expenses	(1,722,200)	(3,233,700)
Cash paid for water damage remediation costs	(2,326,500)	-
Interest received	1,500	2,900
Interest paid	(2,476,000)	(2,521,000)
	<u>(1,842,400)</u>	<u>1,774,100</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in real estate	(430,400)	(390,600)
Proceeds from sale of property, plant & equipment	53,300	10,600
	<u>(377,100)</u>	<u>(380,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Refunds of entrance fees subject to refunds	(9,991,800)	(6,968,300)
Proceeds from entrance fees subject to refunds	13,667,900	6,012,000
Payments made on debt obligations	(1,070,600)	(1,025,400)
Member contributions	13,550,000	37,760,100
Member distributions	(16,555,000)	(36,750,000)
	<u>(399,500)</u>	<u>(971,600)</u>
<b>NET CHANGE IN CASH AND RESTRICTED CASH</b>	(2,619,000)	422,500
<b>CASH AND RESTRICTED CASH, beginning of year</b>	<u>16,381,400</u>	<u>15,958,900</u>
<b>CASH AND RESTRICTED CASH, end of year</b>	<u>\$ 13,762,400</u>	<u>\$ 16,381,400</u>

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING EXPENSES		
Net loss	\$ (3,824,000)	\$ (5,653,500)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	3,235,900	3,241,700
Gain on sale of equipment	(5,600)	(10,600)
Expensed property, plant & equipment	-	33,400
Fire related loss	-	249,800
Amortization of debt issuance costs	88,700	88,700
Amortization of entrance fees nonrefundable	(1,597,700)	(1,427,200)
Proceeds from entrance fees nonrefundable	1,029,000	341,800
Changes in:		
Accounts receivable and other assets	(97,000)	(261,400)
Due from related parties	(179,200)	-
Accounts payable and accrued liabilities	(2,519,200)	4,277,900
Due to related parties	202,800	444,400
Deferred revenue	4,200	(7,100)
Deferred rent	1,819,700	456,200
	\$ (1,842,400)	\$ 1,774,100



## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

The following table provides a reconciliation of cash and restricted cash reporting within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows at December 31:

	<u>2018</u>	<u>2017</u>
Cash	\$ 11,803,300	\$ 14,566,000
Restricted cash	<u>1,959,100</u>	<u>1,815,400</u>
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 13,762,400</u>	<u>\$ 16,381,400</u>

**Accounts receivable and other assets** – Accounts receivable and other assets consist of receivables from tenants, deposits, and prepaid expenses. Management regularly monitors and adjusts its reserves and allowances related to these receivables. Accounts deemed to be uncollectible are written-off only after all reasonable collection efforts are exhausted. There was no allowance recorded for accounts receivable at December 31, 2018 and 2017.

## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

The Company reviews its investments in real estate for impairment whenever events or changes in circumstances indicate that the cost basis of such assets may not be recoverable. If the cost basis of an investment in real estate is greater than the projected future undiscounted net cash flows (before interest) from that property, an impairment loss is recognized. Impairment losses are calculated as the difference between the property's cost basis and its estimated fair value. No such impairment losses have been recognized to date. An investment in real estate held for sale is carried at the lower of its carrying amount or estimated fair value, less costs to sell. The Company considers investment in real estate held for sale when the property is being actively marketed for sale, and expects it to sell within one year. Varena was not held for sale at December 31, 2018 or 2017.

**Debt issuance costs** – Debt issuance costs are stated at cost and consist of fees incurred in connection with the debt obligations. These costs are amortized on a straight-line basis over the term of the associated indebtedness, which approximates the effective interest method. The unamortized cost is classified as a reduction to the debt obligations. The Company incurred amortization expense related to debt issuance costs of \$88,700 for the years ended December 31, 2018 and 2017.

**Revenue recognition** – Resident fee revenue, presented as continuing care and noncontinuing care contracts, is recorded when services are rendered and consists of fees for basic housing, support services, and fees associated with additional services, such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenues for certain care services provided are also charged in advance. Additional ancillary charges are billed monthly in arrears. As of December 31, 2018 and 2017, \$19,900 and \$15,700, respectively, has been recorded in deferred revenue related to fees paid by applicants prior to occupancy.

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

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

## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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Entrance fees nonrefundable, amortized over the estimated life of the resident, were \$9,116,600 and \$9,685,300 at December 31, 2018 and 2017, respectively. Entrance fees subject to refund at December 31, 2018 and 2017, were \$90,758,200 and \$87,082,100, respectively. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Included in revenue from continuing care contracts is revenue recognized from amortization of entrance fees nonrefundable, which totaled \$1,597,700 and \$1,427,200 for the years ended December 31, 2018 and 2017, respectively.

The Company's operations also include leasing apartment units. Rental income is recognized on a straight-line basis over the lives of the related leases when collectability is reasonably assured. The lease terms are generally for periods of one year or less. Differences between the rental revenue recognized and amount due under the respective lease agreements are recorded as deferred rent receivable, which was \$0 as of December 31, 2018 and 2017. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

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

The Company follows the accounting standard related to accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters, such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the State of California. The Company is subject to examination by U.S. federal income tax authorities. The Company recognizes interest and penalties related to income tax matters in operating expenses. There are no interest and penalties recorded in the consolidated financial statements for the years ended December 31, 2018 and 2017.

**Recent accounting pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. Following the FASB's finalization of a one-year deferral of this standard, the effective date annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. All other entities may apply the guidance earlier as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. An entity is required to apply the amendments in this Update at the same time that it applies the amendments in Update 2014-09. The Company is currently evaluating the impact of the new standard and has not yet determined if it will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic v842)*, which provides a new model for accounting by lessees, whereby the rights and obligations under substantially all leases, existing and new, would be capitalized and recorded on the consolidated balance sheet. For lessors, however, the accounting remains largely unchanged and the distinction between operating and finance leases is retained. ASU 2016-02 is effective for annual periods beginning on or after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities. The Company is currently evaluating the impact of the new standard and has not yet determined if it will have a material impact on its consolidated financial statements.

## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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**Obligation to provide future services** – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Company has determined that no accrual for the obligation to provide future services and use of facilities to current residents was required at December 31, 2018 and 2017. The discount rate used to calculate the obligation to provide future services is 5%.

**Statutory cash reserve requirements** – The Company is subject to statutory cash reserve requirements. At December 31, 2018 and 2017, the Company's reserves were in excess of such requirements by \$4,580,600 and \$7,707,200, respectively, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code.

**Reclassification** – Certain amounts from the prior year statement of net assets available for benefits have been reclassified, in order to conform to the current year presentation.

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

The Company has evaluated subsequent events through April 26, 2019, which is the date the consolidated financial statements were available to be issued, in accordance with the Company's policy related to disclosures of subsequent events, and has not identified any material events that should be disclosed.

## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### NOTE 2 – DEBT OBLIGATIONS

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

	<u>2018</u>	<u>2017</u>
Loan payable to a financial institution with monthly principal and interest payments of \$287,000, bearing interest at 4.25%. The loan matures in August 2025, and is guaranteed by a member. The payments are secured in part by a pledge of reserve funds and the mortgaged property.	\$ 55,022,500	\$ 56,071,000
Loan payable to a financial institution; monthly payments for the first 60 months of \$8,500 bearing interest at 4.24%; monthly payments of \$9,000 for the following 59 months bearing interest at the weekly average yield of U.S. Treasury Securities adjusted to a constant maturity of 5 years, as made available by the federal reserve board, (2.51% and 2.20% at December 31, 2018 and 2017, respectively) plus a margin of 3%; one final payment of outstanding principal and interest at maturity in July 2024; guaranteed by a member of Oakmont Senior Living LLC; subject to certain financial covenants. Management believes the Company was in compliance at December 31, 2018 and 2017.	<u>1,860,400</u>	<u>1,882,500</u>
	56,882,900	57,953,500
Less unamortized debt issuance costs	<u>(566,400)</u>	<u>(655,100)</u>
	<u>\$ 56,316,500</u>	<u>\$ 57,298,400</u>

All debt obligations are secured by deeds of trust on the investment in real estate.

The loan agreements contain general affirmative and negative covenants that include provisions for the upkeep of Varena, maintenance, insurance, compliance with laws, and financial reporting requirements. Many agreements include restrictions on certain transactions and changes in capital structure. Management believes the Company is in compliance with these covenants at December 31, 2018 and 2017.

## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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Future minimum principal payments due under the debt obligations subsequent to December 31, 2018, are as follows:

Year Ending December 31,

2019	\$ 1,118,000
2020	1,159,600
2021	1,217,200
2022	1,270,800
2023	1,326,800
Thereafter	<u>50,790,500</u>
	<u>\$ 56,882,900</u>

#### NOTE 3 – RELATED-PARTY TRANSACTIONS

Pursuant to asset and property management agreements between the Company and affiliated entities, the Company is obligated to pay monthly management fees. For the years ended December 31, 2018 and 2017, management fees in the amounts of \$477,900 and \$569,400 were incurred, respectively, and are included in management fees in the accompanying consolidated statements of operations and changes in members' deficit. As of December 31, 2018 and 2017, the Company had amounts due to related parties of \$647,200 and \$444,400, respectively. As of December 31, 2018 and 2017, the Company had amounts due from related parties of \$179,200 and \$0, respectively.

The Company's majority member has a controlling financial interest in a financial institution. As of December 31, 2018 and 2017, the Company had cash deposits with this financial institution of \$11,794,200 and \$12,279,800, respectively.

#### NOTE 4 – MEMBERS' DEFICIT

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

#### NOTE 5 – COMMITMENTS

The Company entered into a long-term noncancelable operating lease to operate assisted living facility with an initial lease term of 15 years, with renewal options of three successive extension terms of four years each, and expiration date through October 2032. Operating lease rent expense is recorded on the straight-line basis and amounted to \$1,819,700 and \$1,971,600 for the years ended December 31, 2018 and 2017, respectively. Deferred rent liability was \$3,160,600 and \$1,340,900 at December 31, 2018 and 2017, respectively.

## Varena at Fountaingrove LLC and Subsidiaries

### Notes to Consolidated Financial Statements

Future minimum lease payments under these operating lease agreements in effect as of December 31, 2018, are as follows:

Year Ending December 31,

2019	\$	2,033,900
2020		2,074,500
2021		2,116,000
2022		2,154,800
2023		2,176,300
Thereafter		<u>8,678,700</u>
	\$	<u>19,234,200</u>

#### NOTE 6 – EXTRAORDINARY EVENT

During October 2017, Sonoma and Napa Counties, experienced wild fires that impacted or destroyed many homes and structures. As a result of the wild fires, Varena Assisted Living was completely destroyed, while Varena, LLC experienced fire damage that required repair. The Company and its related properties are fully insured against fire related events and coordinates with the insurance providers to recover the costs related to fire damage. Fire related expenses include business interruption expenses, temporary relocation costs, employee reimbursements, evacuation costs, and remediation costs, which are accounted for as other expenses as incurred. Fire related loss includes loss due to destroyed property and equipment and is recorded upon the complete destruction of the property. As such, the loss is recorded as other expense in the consolidated statement of operations. Insurance recovery proceeds include payments from the insurance providers to recover the costs relating to fire related expenses or fire related loss. Insurance proceeds in excess of recognized losses are recorded as gains. There were no gains recorded relating to fire related events during the years ended December 31, 2018 and 2017. As of December 31, 2018 and 2017, the Company has recognized the following fire related expenses, losses, and insurance recoveries:

	<u>2018</u>	<u>2017</u>
<b>FIRE RELATED EXPENSES:</b>		
Varena Assisted Living, LLC	\$ (80,300)	\$ (806,400)
Varena, LLC	<u>(1,641,900)</u>	<u>(2,427,300)</u>
	<u>\$ (1,722,200)</u>	<u>\$ (3,233,700)</u>
<b>FIRE RELATED LOSS:</b>		
Varena Assisted Living, LLC	<u>\$ -</u>	<u>\$ (249,800)</u>
<b>INSURANCE RECOVERY PROCEEDS:</b>		
Varena Assisted Living, LLC	\$ 21,600	\$ 533,200
Varena, LLC	<u>3,562,500</u>	<u>774,900</u>
	<u>\$ 3,584,100</u>	<u>\$ 1,308,100</u>

## **Varena at Fountaingrove LLC and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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As of December 31, 2018, included in accounts payables and accrued liabilities is \$0 of fire related expenses. As of December 31, 2017, included in accounts payables and accrued liabilities is \$1,616,500 of fire related expenses.

During 2018, Varena, LLC had a pipe burst at the community that affected several units of the building, requiring those units to be vacated for several months while repairing the damage. The Company is fully insured against the property damage and is working with the insurance providers to recover all of the costs associated with the water damage. For the year ended December 31, 2018, the Company has incurred \$2,326,500 of expenses related to the water damage, and received \$650,500 of recoveries from the insurance company. The Company is in the process of finalizing the insurance claim and anticipates recovering all expenses. As of December 31, 2018, included in accounts payables and accrued liabilities is \$639,900 of water damage related expenses.

#### **NOTE 7 – CONTINGENCIES**

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

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



## **Consolidating Information**

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidating Balance Sheets**  
**December 31, 2018**

	Varena at Fountaingrove LLC	Varena Assisted Living LLC	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,200	\$ 122,000	\$ 63,800	\$ 11,616,300	\$ 11,803,300	\$ -	\$ 11,803,300
Restricted cash	-	-	-	1,959,100	1,959,100	-	1,959,100
Accounts receivable and other assets	-	321,900	19,900	419,500	761,300	-	761,300
Due from related parties	-	-	-	179,200	179,200	-	179,200
Investment in subsidiaries	(30,290,400)	-	-	-	(30,290,400)	30,290,400	-
Investment in real estate							
Buildings and improvements	-	-	5,292,900	86,751,600	92,044,500	-	92,044,500
Land	-	-	71,000	3,765,000	3,836,000	-	3,836,000
Furniture, fixtures, and equipment	-	9,700	51,500	4,878,100	4,939,300	-	4,939,300
Land Improvements	-	-	-	39,500	39,500	-	39,500
Accumulated depreciation	-	-	(2,087,000)	(35,441,200)	(37,528,200)	-	(37,528,200)
Total investment in real estate, net	-	9,700	3,328,400	59,993,000	63,331,100	-	63,331,100
Total assets	\$ (30,289,200)	\$ 453,600	\$ 3,412,100	\$ 74,167,100	\$ 47,743,600	\$ 30,290,400	\$ 78,034,000
<b>LIABILITIES AND MEMBERS' (DEFICIT) EQUITY</b>							
Accounts payable and accrued liabilities	\$ -	\$ 101,300	\$ 20,800	\$ 3,378,600	\$ 3,500,700	\$ -	\$ 3,500,700
Due to related parties	-	647,200	-	-	647,200	-	647,200
Deferred revenue	-	-	19,900	-	19,900	-	19,900
Deferred rent	-	3,160,600	-	-	3,160,600	-	3,160,600
Entrance fees subject to refund	-	-	-	90,758,200	90,758,200	-	90,758,200
Entrance fees nonrefundable, net	-	-	-	9,116,600	9,116,600	-	9,116,600
Debt obligations, net of unamortized debt issuance costs	-	-	1,859,300	54,457,200	56,316,500	-	56,316,500
Total liabilities	-	3,909,100	1,900,000	157,710,600	163,519,700	-	163,519,700
Members' (deficit) equity	(30,289,200)	(3,455,500)	1,512,100	(83,543,500)	(115,776,100)	30,290,400	(85,485,700)
Total liabilities and members' (deficit) equity	\$ (30,289,200)	\$ 453,600	\$ 3,412,100	\$ 74,167,100	\$ 47,743,600	\$ 30,290,400	\$ 78,034,000

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidating Statements of Operations**  
**Year Ended December 31, 2018**

	Varena at Fountaingrove LLC	Varena Assisted Living LLC	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
<b>REVENUE</b>							
Continuing care contracts	\$ -	\$ -	\$ -	\$ 12,622,000	\$ 12,622,000	\$ -	\$ 12,622,000
Noncontinuing care contracts	-	(78,000)	270,500	-	192,500	-	192,500
<b>Total revenue</b>	<b>-</b>	<b>(78,000)</b>	<b>270,500</b>	<b>12,622,000</b>	<b>12,814,500</b>	<b>-</b>	<b>12,814,500</b>
<b>OPERATING EXPENSES</b>							
Continuing care contract operating expenses	-	-	-	7,894,800	7,894,800	-	7,894,800
Noncontinuing care contract operating expenses	-	82,700	2,200	-	84,900	-	84,900
Management fees	30,000	-	5,500	442,400	477,900	-	477,900
General and administrative	9,300	193,900	137,100	413,300	753,600	-	753,600
Depreciation	-	-	176,700	3,059,200	3,235,900	-	3,235,900
Facility lease	-	1,819,700	-	-	1,819,700	-	1,819,700
<b>Total operating expenses</b>	<b>39,300</b>	<b>2,096,300</b>	<b>321,500</b>	<b>11,809,700</b>	<b>14,266,800</b>	<b>-</b>	<b>14,266,800</b>
<b>(LOSS) FROM CONTINUING OPERATIONS</b>	<b>(39,300)</b>	<b>(2,174,300)</b>	<b>(51,000)</b>	<b>812,300</b>	<b>(1,452,300)</b>	<b>-</b>	<b>(1,452,300)</b>
<b>OTHER INCOME (EXPENSE)</b>							
Interest income	-	-	-	1,500	1,500	-	1,500
Amortization of debt issuance costs	-	-	(2,800)	(85,900)	(88,700)	-	(88,700)
Interest expense	-	-	(80,500)	(2,395,500)	(2,476,000)	-	(2,476,000)
Gain on sale of equipment	-	-	-	5,600	5,600	-	5,600
Fire related expenses	-	(80,300)	-	(1,641,900)	(1,722,200)	-	(1,722,200)
Fire related insurance recovery proceeds	-	21,600	-	3,562,500	3,584,100	-	3,584,100
Water damage related insurance recovery proceeds	-	-	-	650,500	650,500	-	650,500
Water damage remediation costs	-	-	-	(2,326,500)	(2,326,500)	-	(2,326,500)
<b>NET LOSS</b>	<b>\$ (39,300)</b>	<b>\$ (2,233,000)</b>	<b>\$ (134,300)</b>	<b>\$ (1,417,400)</b>	<b>\$ (3,824,000)</b>	<b>\$ -</b>	<b>\$ (3,824,000)</b>

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidating Statements of Cash Flows**  
**Year Ended December 31, 2018**

	Varena at Fountaingrove LLC	Varena Assisted Living LLC	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash received from continuing care contracts	\$ -	\$ -	\$ -	\$ 10,809,000	\$ 10,809,000	\$ -	\$ 10,809,000
Cash received from entrance fees nonrefundable	-	-	-	1,029,000	1,029,000	-	1,029,000
Cash received from noncontinuing care contracts	-	79,600	280,400	-	360,000	-	360,000
Cash received from related parties	-	220,000	-	(196,400)	23,600	-	23,600
Cash received fire related insurance proceeds	-	21,600	-	3,562,500	3,584,100	-	3,584,100
Cash received from water damage related insurance pr	-	-	-	650,500	650,500	-	650,500
Cash paid to employees and suppliers	(9,300)	(379,000)	(131,700)	(10,777,500)	(11,297,500)	-	(11,297,500)
Cash paid for management fees	(30,000)	-	(5,500)	(442,400)	(477,900)	-	(477,900)
Cash paid for facility lease	-	-	-	-	-	-	-
Cash paid for fire related expenses	-	(80,300)	-	(1,641,900)	(1,722,200)	-	(1,722,200)
Cash paid for water damage remediation costs	-	-	-	(2,326,500)	(2,326,500)	-	(2,326,500)
Interest received	-	-	-	1,500	1,500	-	1,500
Interest paid	-	-	(80,500)	(2,395,500)	(2,476,000)	-	(2,476,000)
Net cash from operating activities	(39,300)	(138,100)	62,700	(1,727,700)	(1,842,400)	-	(1,842,400)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Investment in real estate	-	(9,700)	-	(420,700)	(430,400)	-	(430,400)
Payments to investment in subsidiary	3,005,000	-	-	-	3,005,000	(3,005,000)	-
Proceeds from sale of property, plant & equipment	-	19,600	-	33,700	53,300	-	53,300
Net cash from investing activities	3,005,000	9,900	-	(387,000)	2,627,900	(3,005,000)	(377,100)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Refunds of entrance fees subject to refunds	-	-	-	(9,991,800)	(9,991,800)	-	(9,991,800)
Proceeds from entrance fees subject to refunds	-	-	-	13,667,900	13,667,900	-	13,667,900
Payments on debt obligations	-	-	(22,000)	(1,048,600)	(1,070,600)	-	(1,070,600)
Member contributions	13,550,000	-	-	13,550,000	27,100,000	(13,550,000)	13,550,000
Member distributions	(16,555,000)	-	(20,100)	(16,534,900)	(33,110,000)	16,555,000	(16,555,000)
Net cash from financing activities	(3,005,000)	-	(42,100)	(357,400)	(3,404,500)	3,005,000	(399,500)
<b>NET CHANGE IN CASH AND RESTRICTED CASH</b>	(39,300)	(128,200)	20,600	(2,472,100)	(2,619,000)	-	(2,619,000)
<b>CASH AND RESTRICTED CASH, beginning of year</b>	40,500	250,200	43,200	16,047,500	16,381,400	-	16,381,400
<b>CASH AND RESTRICTED CASH, end of year</b>	\$ 1,200	\$ 122,000	\$ 63,800	\$ 13,575,400	\$ 13,762,400	\$ -	\$ 13,762,400

**Varena at Fountaingrove LLC and Subsidiaries**  
**Consolidating Statements of Cash Flows (Continued)**  
**Year Ended December 31, 2018**

	Varena at Fountaingrove LLC	Varena Assisted Living LLC and Subsidiary	Varena Apartments LLC	Varena LLC	Total	Eliminating Entries	Consolidated Total
<b>RECONCILIATION OF NET LOSS TO NET CASH</b>							
<b>FROM OPERATING EXPENSES</b>							
Net loss	\$ (39,300)	\$ (2,233,000)	\$ (134,300)	\$ (1,417,400)	\$ (3,824,000)	\$ -	\$ (3,824,000)
Adjustments to reconcile net loss to net cash from operating activities:							
Depreciation	-	-	176,700	3,059,200	3,235,900	-	3,235,900
Gain on sale of equipment	-	-	-	(5,600)	(5,600)	-	(5,600)
Amortization of debt issuance costs	-	-	2,800	85,900	88,700	-	88,700
Amortization of entrance fees nonrefundable	-	-	-	(1,597,700)	(1,597,700)	-	(1,597,700)
Proceeds from entrance fees nonrefundable	-	-	-	1,029,000	1,029,000	-	1,029,000
Changes in:							
Accounts receivable and other assets	-	162,000	5,700	(264,700)	(97,000)	-	(97,000)
Due from related parties	-	-	-	(179,200)	(179,200)	-	(179,200)
Accounts payable and accrued liabilities	-	(106,800)	7,600	(2,420,000)	(2,519,200)	-	(2,519,200)
Due to related parties	-	220,000	-	(17,200)	202,800	-	202,800
Deferred revenue	-	-	4,200	-	4,200	-	4,200
Deferred rent	-	1,819,700	-	-	1,819,700	-	1,819,700
Net cash from operating activities	<u>\$ (39,300)</u>	<u>\$ (138,100)</u>	<u>\$ 62,700</u>	<u>\$ (1,727,700)</u>	<u>\$ (1,842,400)</u>	<u>\$ -</u>	<u>\$ (1,842,400)</u>



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*Report of Independent Auditors and  
Continuing Care Liquid Reserve Schedules*

**Varena at Fountaingrove LLC and Subsidiaries**

*As of and for the Year Ended December 31, 2018*



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## **Report of Independent Auditors**

To the Members

Varenna at Fountaingrove LLC and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Varenna at Fountaingrove LLC and Subsidiaries (the Company), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended December 31, 2018, and the related note 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 the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Varenna at Fountaingrove LLC and Subsidiaries as of and for the year ended December 31, 2018, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

**Basis of Accounting**

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

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules, the Reconciliation of Form 5-4 for 2018 and the DSS – Reserve Report – Part of Form 5-5 Description of Reserves under SB 1212 Report are presented for the purpose of additional analysis 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 audit of 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 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, taken as a whole.

**Restriction on Use**

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

*Moss Adams LLP*

Santa Rosa, California

April 26, 2019

**Continuing Care Liquid Reserve Schedules**

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**Varena at Fountaingrove LLC**  
**Form 5-1**  
**Long-Term Debt Incurred in a Prior Fiscal Year (including Balloon Debt)**  
**December 31, 2018**

**FORM 5-1**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	06/23/14	\$22,000	\$80,500	\$0	\$102,500
2	07/20/15	\$1,048,600	\$2,395,500	\$0	\$3,444,100
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
<b>TOTAL:</b>			\$2,476,000	\$0	\$3,546,600

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

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

**PROVIDER:** Varena at Fountaingrove LLC / Varena LLC

**Varena at Fountaingrove LLC**  
**Form 5-2**  
**Long-Term Debt Incurred During Fiscal Year (including Balloon Debt)**  
**December 31, 2018**

**FORM 5-2**

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

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

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

**PROVIDER:** Varena at Fountaingrove LLC / Varena LLC

**Varena at Fountaingrove LLC**  
**Form 5-3**  
**Calculation of Long-Term Debt Reserve Amount**  
**December 31, 2018**

<b>Line</b>	<b>FORM 5-3</b>	<b>TOTAL</b>
1	Total from Form 5-1 bottom of Column (c)	<u>\$3,546,600</u>
2	Total from Form 5-2 bottom of Column (c)	<u>\$0</u>
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<u>\$1,819,700</u>
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b>	<u><u>\$5,366,300</u></u>

**PROVIDER:** Varena at Fountaingrove LLC / Varena LLC

**Varena at Fountaingrove LLC**  
**Form 5-4**  
**Calculation of Net Operating Expenses**  
**December 31, 2018**

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

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$15,011,800</u>
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	<u>\$2,476,000</u>	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	<u>\$0</u>	
	c. Depreciation	<u>\$3,235,900</u>	
	d. Amortization	<u>\$88,700</u>	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$192,500</u>	
	f. Extraordinary expenses approved by the Department	<u>\$0</u>	
3	Total Deductions		<u>\$5,993,100</u>
4	Net Operating Expenses		<u>\$9,018,700</u>
5	Divide Line 4 by 365 and enter the result.		<u>\$24,709</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u>\$1,853,175</u>

**PROVIDER:** Varena at Fountaingrove LLC / Varena LLC

**COMMUNITY:** Varena at Fountaingrove

**Varena at Fountaingrove LLC**  
**Form 5-5**  
**Annual Reserve Certification**  
**December 31, 2018**

**FORM 5-5**  
**ANNUAL RESERVE CERTIFICATION**

Provider Name: Varena at Fountaingrove LLC / Varena LLC  
 Fiscal Year Ended: December 31, 2018

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2018 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2018 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$5,366,300
[2] Operating Expense Reserve Amount	\$1,853,175
[3] <b>Total Liquid Reserve Amount:</b>	<b>\$7,219,475</b>

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

	<u>Amount</u>	
<u>Qualifying Asset Description</u>	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	\$9,000,000	\$2,803,300
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:		
(describe qualifying asset)		
<b>Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]</b>	<b>\$9,000,000 [12]</b>	<b>\$2,803,300</b>
<b>Reserve Obligation Amount: [13]</b>	<b>\$5,366,300 [14]</b>	<b>\$1,853,175</b>
<b>Surplus/(Deficiency): [15]</b>	<b>\$3,633,700 [16]</b>	<b>\$950,125</b>

Signature:

\_\_\_\_\_  
 (Authorized Representative)

William P Gallaher, Manager  
 (Title)

Date: \_\_\_\_\_



**Varena at Fountaingrove LLC**  
**Note to Continuing Care Liquid Reserve Schedules**  
**December 31, 2018**

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**NOTE 1 – BASIS OF ACCOUNTING**

The accompanying continuing care liquid reserve schedules have been prepared in accordance with the provisions of Health and Safety Section 1792 administered by the State of California Department of Social Services and are not intended to be a complete presentation of Varena at Fountaingrove LLC and Subsidiaries' (the Company), assets, liabilities, revenues, and expenses.

## **Supplementary Schedules**

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**Varena at Fountaingrove LLC**  
**Reconciliation of Form 5-4 for 2018**  
**December 31, 2018**

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**Reconciliation of Form 5-4 for 2018**

Varena at Fountaingrove LLC and Subsidiaries

**Note to Form 5-4 reconciling total operating expense**

Total Operating Expenses Per Consolidated Financial Statements	\$	14,266,800
Less: Facility Lease		(1,819,700)
Add: Amortization Expense		88,700
Add: Interest Expense (subtracted on line 1-b)		<u>2,476,000</u>
Form 5-4, Line 1	\$	<u><u>15,011,800</u></u>

**Varena at Fountaingrove LLC**  
**DSS – Reserve Report – Part of Form 5-5**  
**Description of Reserves under SB 1212**  
**December 31, 2018**

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

Total Qualifying Assets Listed on Line 4                   \$    11,803,300 All Cash and Equivalents. No Investments or equities or lines of credit listed.

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Please note that there is no restricted cash or equivalents included in the \$11,803,300 listed for the liquid reserve requirement.  
Additionally, \$1,959,100 is held by lender.

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Per Capita Cost of Operations

Operating Expenses per form 5-4 #1	\$	15,011,800
Mean # of all Residents from form 1-1 #10		227
Per Capita Costs of Operations	\$	66,131



**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	\$1,581 - \$7,566	\$2,644 - \$9,135	
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.0%	3.0%	

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

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

[4] Check each of the appropriate boxes:

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

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

**PROVIDER:** Varena at Fountgrove LLC – Varena LLC  
**COMMUNITY:** Varena at Fountaingrove

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

Date Prepared: 04/25/19

FACILITY NAME: Varena at Fountaingrove  
 ADDRESS: 1401 Fountaingrove Parkway, Santa Rosa, CA ZIP CODE: 95403 PHONE: 707-526-1226  
 PROVIDER NAME: Varena at Fountaingrove FACILITY OPERATOR: Varena, LLC  
 RELATED FACILITIES: n/a RELIGIOUS AFFILIATION: n/a  
 YEAR OPENED: 2007 # OF ACRES: 29  SINGLE STORY  MULTI-STORY  OTHER: Both MILES TO SHOPPING CTR: <1  
 MILES TO HOSPITAL: 1.5

**NUMBER OF UNITS:**

<b>RESIDENTIAL LIVING</b>	<b>HEALTH CARE</b>
APARTMENTS — STUDIO: _____	ASSISTED LIVING: <u>0</u>
APARTMENTS — 1 BDRM: <u>9</u>	SKILLED NURSING: _____
APARTMENTS — 2 BDRM: <u>127</u>	SPECIAL CARE: _____
COTTAGES/HOUSES: <u>27</u>	DESCRIPTION: <u>&gt;</u>
RLU OCCUPANCY (%) AT YEAR END: <u>97.55</u>	<u>&gt;</u>

TYPE OF OWNERSHIP:  NOT-FOR-PROFIT  FOR-PROFIT ACCREDITED?:  YES  NO BY: 0% / 100%

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

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

RANGE OF ENTRANCE FEES: \$ 415,000 - \$ 1,250,000 LONG-TERM CARE INSURANCE REQUIRED?  YES  NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: n/a

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

RESIDENT REPRESENTATIVE(S) TO, AND RESIDENT MEMBER(S) ON, THE BOARD (briefly describe provider's compliance and residents' role): >  
The Governing Body Member meets with residents and/or the resident

> association at least semi-annually. Residents can convey any concerns and provide input during those meetings or can convey concerns at any time to the community management team.

**FACILITY SERVICES AND AMENITIES**

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

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Varenna at Fountaingrove

**OTHER CCRCs**

Varenna at Fountaingrove

**LOCATION (City, State)**

Santa Rosa, CA

**PHONE (with area code)**

707-526-1226

**MULTI-LEVEL RETIREMENT COMMUNITIES**

**LOCATION (City, State)**

**PHONE (with area code)**

**FREE-STANDING SKILLED NURSING**

**LOCATION (City, State)**

**PHONE (with area code)**

**SUBSIDIZED SENIOR HOUSING**

**LOCATION (City, State)**

**PHONE (with area code)**

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



PROVIDER NAME: Varena at Fountaingrove

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b>				
(Excluding amortization of entrance fee income)	\$ 15,155,200	\$ 15,731,100	\$ 13,855,500	\$ 11,216,800
<b>LESS OPERATING EXPENSES</b>				
(Excluding depreciation, amortization, and interest)	\$ 14,568,800	\$ 13,382,800	\$ 12,922,800	\$ 11,030,900
<b>NET INCOME FROM OPERATIONS</b>	\$ 568,400	\$ 2,348,300	\$ 932,900	\$ 185,900
<b>LESS INTEREST EXPENSE</b>	(\$ 1,058,700)	(\$ 2,571,200)	(\$ 2,521,000)	(\$ 2,476,000)
<b>PLUS CONTRIBUTIONS</b>	\$ 30,147,200	\$ 34,169,800	\$ 37,759,900	\$ 13,550,000
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b>				
(excluding extraordinary items)	\$ 7,700	\$ 1,200	\$ 2,900	\$ 1,500
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	\$ 29,682,600	\$ 33,948,100	\$ 36,174,500	\$ 11,261,400
<b>NET CASH FLOW FROM ENTRANCE FEES</b>				
(Total Deposits Less Refunds)	\$ 3,099,600	\$ 1,554,000	(\$ 614,500)	\$4,705,100

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

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

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

	<b>2017 CCAC Medians 50<sup>th</sup> Percentile</b>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>DEBT TO ASSET RATIO</b>	<i>(optional)</i>	0.69	0.688	0.722
<b>OPERATING RATIO</b>		0.85	0.933	0.983
<b>DEBT SERVICE COVERAGE RATIO</b>		1.69	0.646	1.94
<b>DAYS CASH ON HAND RATIO</b>		199	301	266

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

	<u>2015</u>	<u>%</u>	<u>2016</u>	<u>%</u>	<u>2017</u>	<u>%</u>	<u>2018</u>
STUDIO	\$ 3,515	3.9	\$ 3,652	5.0	\$ 3,835	3.0	\$ 3,950
ONE BEDROOM	\$ 4,999	3.9	\$ 5,194	5.0	\$ 5,454	3.0	\$ 5,618
TWO BEDROOM	\$ 6,307	3.9	\$ 6,553	5.0	\$ 6,981	3.0	\$ 7,190
COTTAGE/HOUSE	\$ 5,502	3.9	\$ 5,717	5.0	\$ 6,003	3.0	\$ 6,021
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

**COMMENTS FROM PROVIDER:** >

> \_\_\_\_\_  
 > \_\_\_\_\_

**FINANCIAL RATIO FORMULAS**

**LONG-TERM DEBT TO TOTAL ASSETS RATIO**

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

**OPERATING RATIO**

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

**DEBT SERVICE COVERAGE RATIO**

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

**DAYS CASH ON HAND RATIO**

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

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

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

**12/31/2018**

<b><u>LENDER</u></b>	<b><u>OUTSTANDING BALANCE</u></b>	<b><u>INTEREST RATE</u></b>	<b><u>DATE OF ORIGINATION</u></b>	<b><u>DATE OF MATURITY</u></b>	<b><u>AMORTIZATION PERIOD</u></b>
<b>Freddie Mac / Greystone Servicing Corp</b>	<b>\$ 55,022,500</b>	<b>4.25</b>	<b>Aug-15</b>	<b>Aug-25</b>	<b>10 Years</b>
<b>Summit State Bank</b>	<b>\$ 1,860,400</b>	<b>4.24</b>	<b>Jul-14</b>	<b>Jul-24</b>	<b>10 Years</b>