

**LA COSTA GLEN  
CARLSBAD CCRC, LLC**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2020 AND 2019**

**WITH INDEPENDENT AUDITORS' REPORT**



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**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**TABLE OF CONTENTS**  
**DECEMBER 31, 2020 AND 2019**

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Balance Sheets .....	3
Statements of Operations .....	5
Statements of Changes in Members' Deficit .....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	9
<b>Independent Auditors' Report on Supplementary Information</b> .....	20
(Form 5-1) Long-Term Debt Incurred in a Prior Fiscal Year.....	21
Waiver Request under H&S Code Section 1792.3(c).....	23
(Form 5-2) Long-Term Debt Incurred During Fiscal Year .....	24
(Form 5-3) Calculation of Long-Term Debt Reserve Amount.....	25
(Form 5-4) Calculation of Net Operating Expenses .....	26
(Form 5-5) Annual Reserve Certification.....	28
(Form 7-1) Report on CCRC Monthly Service Fees .....	30



## **INDEPENDENT AUDITORS' REPORT**

### Members

La Costa Glen Carlsbad CCRC, LLC  
Carlsbad, California

We have audited the accompanying financial statements of La Costa Glen Carlsbad CCRC, LLC (a Delaware limited liability company) (the Company), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, changes in members' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 financial position of La Costa Glen Carlsbad CCRC, LLC as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

The financial statements as of and for the year ended December 31, 2019, were audited by White Nelson Diehl Evans LLP, whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2020, and has subsequently ceased operations. White Nelson Diehl Evans LLP's report dated April 6, 2020, expressed an unmodified opinion on those statements.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Irvine, California  
April 28, 2021

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**BALANCE SHEETS**  
**DECEMBER 31, 2020 AND 2019**

**ASSETS**

	2020	2019
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,748,901	\$ 4,095,766
Marketable securities	8,695,494	10,126,244
Accounts receivable	42,171	36,440
Deferred entrance fees receivable on terminated contracts	1,122,638	401,954
Inventories	141,521	127,968
Prepaid expenses and other current assets	690,895	423,779
Temporary loans to Master Trust	4,000,000	-
	21,441,620	15,212,151
<b>Property and Equipment:</b>		
Land	4,871,942	4,871,942
Land improvements	34,073,800	34,073,799
Buildings and improvements	167,571,973	167,509,005
Furniture, fixtures, and equipment	44,042,514	41,248,164
Computer equipment and systems	2,581,967	999,780
Construction in process	2,984,155	269,428
	256,126,351	248,972,118
Total Property and Equipment, at Cost	256,126,351	248,972,118
Less: Accumulated depreciation	(120,949,901)	(113,187,238)
	135,176,450	135,784,880
<b>Other Assets:</b>		
Accounts receivable, long term	850,819	1,026,834
Costs of acquiring contracts, net	1,247,659	1,391,024
Deferred entrance fees receivable	47,916,669	49,038,260
	50,015,147	51,456,118
Total Other Assets	50,015,147	51,456,118
Total Assets	\$ 206,633,217	\$ 202,453,149

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31, 2020 AND 2019**

**LIABILITIES AND MEMBERS' DEFICIT**

	<u>2020</u>	<u>2019</u>
Current Liabilities:		
Accounts payable	\$ 2,209,102	\$ 1,965,723
Accrued expenses	667,815	1,628,770
Deposits on future occupancy	4,023,115	4,609,661
Current portion of note payable to Master Trust	<u>9,198,290</u>	<u>9,331,580</u>
Total Current Liabilities	16,098,322	17,535,734
Long-Term Liabilities:		
Note payable to Master Trust, net of current portion	358,733,325	363,931,615
Deferred revenue from unamortized deferred entrance fees, net	<u>44,426,898</u>	<u>43,625,590</u>
Total Long-Term Liabilities	<u>403,160,223</u>	<u>407,557,205</u>
Total Liabilities	419,258,545	425,092,939
Members' Deficit	<u>(212,625,328)</u>	<u>(222,639,790)</u>
Total Liabilities and Members' Deficit	<u>\$ 206,633,217</u>	<u>\$ 202,453,149</u>

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Revenues:		
Resident services	\$ 49,798,035	\$ 49,395,717
Amortization of deferred entrance fees	8,232,823	7,897,968
Deferred entrance fees on terminated contracts	3,201,426	3,176,251
Nonresident services	196,267	531,936
Total Revenues	61,428,551	61,001,872
Operating Expenses:		
Resident care	16,630,553	16,802,974
Food and beverage services	8,586,365	7,816,019
Environmental services	2,526,179	2,285,012
Plant facility operating costs	5,935,746	6,016,548
General and administrative expenses	9,130,580	8,543,901
Depreciation and amortization	8,045,553	7,559,660
Total Operating Expenses	50,854,976	49,024,114
Income from Operations	10,573,575	11,977,758
Other Income (Expense):		
Net realized gain on sale of marketable securities	2,819	74,624
Net unrealized gain (loss) on marketable securities	(818,537)	1,808,188
Interest and dividend income	286,899	319,553
Other expense	(30,294)	(26,950)
Total Other Income (Expense)	(559,113)	2,175,415
Net Income	\$ 10,014,462	\$ 14,153,173

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' DEFICIT**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	Members' Deficit	Accumulated Other Comprehensive Income	Total Members' Deficit
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, December 31, 2018	\$ (216,508,804)	\$ 2,339,074	\$ (214,169,730)
Reclassification of other comprehensive income (Note 2)	2,339,074	(2,339,074)	-
Capitalization of costs of acquiring contracts (Note 2)	1,376,767	-	1,376,767
Distributions	(24,000,000)	-	(24,000,000)
Net income	<u>14,153,173</u>	<u>-</u>	<u>14,153,173</u>
Balance, December 31, 2019	(222,639,790)	-	(222,639,790)
Net income	<u>10,014,462</u>	<u>-</u>	<u>10,014,462</u>
Balance, December 31, 2020	<u><u>\$ (212,625,328)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (212,625,328)</u></u>

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Cash Flows from Operating Activities:		
Cash received from residents	\$ 58,018,237	\$ 61,796,357
Interest and dividend income	286,899	319,553
Other expense	(30,294)	(26,950)
Reimbursements for services to nonresidents	196,267	531,936
Cash paid to suppliers and employees	(43,939,821)	(41,392,759)
Net Cash and Cash Equivalents Provided by Operating Activities	14,531,288	21,228,137
Cash Flows from Investing Activities:		
Payments made on purchases of property and equipment	(7,154,233)	(3,526,560)
Purchases of marketable securities	(2,031,770)	(2,979,976)
Proceeds from redemption of marketable securities	2,639,430	2,754,440
Net Cash and Cash Equivalents Used in Investing Activities	(6,546,573)	(3,752,096)
Cash Flows from Financing Activities:		
Proceeds from note payable to Master Trust	4,000,000	14,000,000
Payments on note payable to Master Trust	(9,331,580)	(9,173,415)
Distributions to members	-	(24,000,000)
Net Cash and Cash Equivalents Used in Financing Activities	(5,331,580)	(19,173,415)
Net Increase (Decrease) in Cash and Cash Equivalents	2,653,135	(1,697,374)
Cash and Cash Equivalents, Beginning of Year	4,095,766	5,793,140
Cash and Cash Equivalents, End of Year	\$ 6,748,901	\$ 4,095,766

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Reconciliation of Net Income to Net Cash and Cash Equivalents		
Provided by Operating Activities:		
Net Income	\$ 10,014,462	\$ 14,153,173
Noncash Items Included in Net Income:		
Depreciation	7,762,663	7,389,608
Amortization of costs of acquiring contracts	282,890	170,052
Amortization of deferred entrance fees	(8,232,823)	(7,897,968)
Deferred entrance fees on terminated contracts	(3,201,426)	(3,176,251)
Net realized gain on sale of marketable securities	(2,819)	(74,624)
Net unrealized (gain) loss on marketable securities	818,537	(1,808,188)
Changes in:		
Accounts receivable	170,284	(404,522)
Deferred entrance fees receivable on terminated contracts	(720,684)	253,409
Inventories	(13,553)	46,392
Prepaid expenses and other current assets	(259,744)	30,996
Temporary loans to Master Trust	(4,000,000)	-
Costs of acquiring contracts	(139,525)	(184,309)
Deferred entrance fees receivable	13,357,149	12,803,031
Accounts payable	243,379	214,207
Accrued expenses	(960,956)	(35,591)
Deposits on future occupancy	(586,546)	(251,278)
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 14,531,288	\$ 21,228,137
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Deferred entrance fees receivable and deferred revenue from unamortized deferred entrance fees recorded to reflect additional amounts due from resident contributions	\$ 12,235,558	\$ 11,867,619

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Nature of Business**

La Costa Glen Carlsbad CCRC, LLC (the Company) owns and operates a multiuse continuing care retirement community (CCRC) located in Carlsbad, California. The Company operates under the continuing care concept whereby residents enter into agreements that require payment of a onetime entrance fee and a monthly charge. Generally, these payments will entitle residents to the use and privileges of the facility for life.

**Limited Liability Company Operating Agreement**

The rights and obligations of the members of the Company are governed by the First Amended and Restated Limited Liability Company Agreement (the Operating Agreement) of the Company dated October 4, 2013. The following represents a summary of significant financial terms of the Operating Agreement.

The Company has four members, one of whom is designated as the financing member. No member other than the financing member is required to contribute capital to the Company at any time.

One appointed manager is responsible for the management of the day-to-day business and affairs of the Company. Certain matters that require unanimous or majority approval are specified in the Operating Agreement.

The members' liability to general creditors is limited to their investments in the Company. The Company will continue until dissolved pursuant to the terms of the Operating Agreement.

Profits and losses for financial statement purposes, distributable cash from operations, and profits and losses for tax purposes are allocated and distributed to the members in accordance with the Operating Agreement. The Operating Agreement also provides for priority distributions, plus an allowance for interest.

**Basis of Presentation**

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). References to the ASC hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (FASB) as the source of authoritative U.S. GAAP.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents include the operating cash account of the Company, money market accounts, time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Marketable Securities**

The Company accounts for its investments in equity securities in accordance with FASB ASC 321-10, *Investments – Equity Securities*. Marketable securities held by the Company have readily determinable fair values and are reported at fair value, with realized and unrealized gains and losses included in earnings. Any dividends received are recorded in interest income.

**Accounts Receivable**

Accounts receivable consist of amounts due from residents for which the Company has an unconditional right to receive payment and are primarily composed of receivables for monthly service fees and other ancillary services, as well as amounts due from residents for obligations related to independent unit renovations. Receivables for monthly service fees are primarily due upon receipt of invoice, and they are reviewed weekly and are considered past due 14 days after the issuance of monthly statements. Accounts for which no payments have been received for 30 days are considered delinquent, and customary collection efforts are initiated. Uncollectible accounts are written off at the advice of a collection attorney and with the approval of ownership. Receivables for resident obligations are generally collected upon cancellation of contracts, which is estimated to occur long term.

The Company provides an allowance for doubtful accounts, as needed, for accounts deemed uncollectible. No allowance was necessary at December 31, 2020 and 2019.

**Inventories**

Inventories consist of food and supplies used in operations and are valued at the lower of cost or net realizable value on a first-in, first-out basis.

**Property and Equipment**

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over the estimated useful lives of the respective assets. Depreciation for property and equipment is computed on the straight-line method for book purposes. The estimated useful lives of the related assets are as follows:

Land improvements	15-20 years
Buildings and improvements	10-40 years
Furniture, fixtures, and equipment	5-10 years
Computer equipment and systems	3-5 years

Depreciation expense for the years ended December 31, 2020 and 2019, totaled \$7,762,663 and \$7,389,608, respectively. At December 31, 2020 and 2019, fully depreciated property and equipment still in use totaled \$25,709,958 for both years.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Long-Lived Assets**

The Company accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. There was no impairment of value of such assets for the years ended December 31, 2020 and 2019.

**Revenue Recognition from Contracts with Customers**

The Company recognizes revenue for residency in accordance with the provisions of FASB ASC 606, *Revenue from Contracts with Customers (Topic 606)*. The Company enters into continuing care residency contracts with its customers. The form of the agreement is in conformity with the statutes of the State of California Department of Social Services Continuing Care Contracts Branch. Prior to actual occupancy by the resident, a contribution is required to be deposited with the Master Trust (as defined in Note 5) pursuant to a Residence and Care Agreement (the Residence Agreement). The provisions of the Residence Agreement include, but are not limited to, such items as the unit to be occupied, initial monthly fee, amount of contribution to the Master Trust, and methods of cancellation and refunds or contingent repayments subject to resale of the units. Generally, the Company is deemed to have Type A life care contracts that are all-inclusive continuing care contracts that include residential facilities, other amenities, and access to health-care services, primarily assisted living and nursing care. Type A contracts are deemed to have one performance obligation – to provide each resident with the ability to live in the CCRC and access the appropriate level of care based on his or her needs. A Type A contract also allows a resident the ability to cancel the Residence Agreement at any time, and thus, because of this provision, the resident agreement for a Type A life care CCRC resident is generally deemed to be a monthly contract with the option to renew.

Contract Revenues

The following is a description of the services provided and the accounting policies related to the contracted services.

*Entrance Fees* - The contract provides a material right to occupy an appropriate-level living unit for life and to receive certain services for which residents are required to pay an entrance fee. Generally, the entrance fee is payable on or before occupancy by the resident. Residents may cancel their Residence Agreement at any time, and, upon cancellation, the contribution received will be repayable under the following terms and conditions:

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

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Revenue Recognition from Contracts with Customers (Continued)**

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

Further, upon termination of the Residence Agreement, the resident or his or her estate will be entitled to a repayment of the contribution less a predetermined percentage and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements. In addition, upon termination of the Residence Agreement after the probationary period of 90 days, the Company may be entitled to a Deferred Entrance Fee (a percentage of the resident's contribution amount), as defined in each resident's Residence Agreement.

*Resident Fees* - Resident living service fees, which are for basic support services, are paid on a monthly basis. Monthly fees are established at the inception of occupancy and may be increased by the Company with appropriate notice as specified in the individual agreements, generally based on increases in operating costs or inflationary increases. Revenue for resident fees is recognized as the Company satisfies the performance obligation, which is monthly.

*Nonresident Services* - Nonresident services are revenues recognized at a point in time primarily for nonresident guest meals and short-term guest accommodations.

Contract Assets and Contract Liabilities

The following are assets and liabilities resulting from contracts with customers.

*Deferred Entrance Fees Receivable on Terminated Contracts* - Deferred entrance fees receivable on terminated contracts represent the portion of the entrance fees that are payable to the Company following the current year terminations of Residence Agreements, based on the specific terms of each resident contract, which are currently due from the Master Trust (see Note 5).

*Deferred Entrance Fees Receivable* - Deferred entrance fees receivable represent that portion of the entrance fees that would be payable to the Company upon termination of the existing Residence Agreements, based on the specific terms of each resident contract, which are due from the Master Trust (see Note 5).

*Deposits on Future Occupancy* - Deposits on future occupancy represent deposits on future contracts from prospective residents that are fully refundable upon demand.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Revenue Recognition from Contracts with Customers (Continued)**

Contract Assets and Contract Liabilities - (Continued)

*Deferred Revenue from Unamortized Entrance Fees* - Deferred revenue from unamortized entrance fees represents the total amount of the entrance fees that has become nonrepayable to the residents, based on the specific terms of each resident contract, which is recorded as deferred revenue from entrance fees and is amortized to income over time using the straight-line method over the remaining life expectancy of the resident. The period of amortization is adjusted annually based on the actuarially determined estimated remaining life expectancy of each individual or joint and last survivor life expectancy of each pair of residents occupying the same unit.

Costs of Acquiring Contracts

*Costs of Acquiring Contracts* - Costs of acquiring contracts are the unamortized incremental costs of acquiring contracts, which primarily consist of commissions paid to salespeople. These assets are amortized on a straight-line basis over the duration of the contract. During the years ended December 31, 2020 and 2019, the Company recognized amortization expense of these assets totaling \$282,890 and \$170,052, respectively.

**Comprehensive Income**

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. An analysis of changes in components of accumulated other comprehensive income is presented in the statements of changes in members' deficit.

**Income Taxes**

The Company is taxed as a partnership for federal tax purposes and, accordingly, pays no federal taxes. For California purposes, the Company pays an \$800 limited liability company tax plus a fee based on its total revenue. The taxable income or loss is recognized on the individual income tax returns of the members.

**Advertising and Promotional Costs**

Advertising and promotional costs are charged to operations when incurred. For the years ended December 31, 2020 and 2019, advertising and promotional costs totaled \$998,361 and \$1,017,602, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Use of Estimates**

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

**Note 2: Adoption of New Accounting Standards**

On January 1, 2019, the Company adopted FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as well as FASB ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. A summary of the impact resulting from the implementation of ASU 2014-09, as well as members' deficit reclassifications driven by the adoption of ASU 2016-01 as of January 1, 2019, is stated below.

Members' Deficit - December 31, 2018

Accumulated other comprehensive income:		
Accumulated other comprehensive income, as reported	\$	2,339,074
Adjusted for the effect of ASU 2016-01		<u>(2,339,074)</u>
Accumulated other comprehensive income, adjusted as of January 1, 2019	\$	<u>                    -</u>
Members' deficit:		
Members' deficit, as reported	\$	(216,508,804)
Adjusted for the effect of ASU 2016-01		<u>2,339,074</u>
Members' deficit, subtotal		(214,169,730)
Members' deficit, impact of ASU 2014-09		<u>1,376,767</u>
Members' Deficit, Adjusted – January 1, 2019		<u>\$ (212,792,963)</u>
Total Members' Deficit – As of January 1, 2019		<u>\$ (212,792,963)</u>

**Note 3: Revenue from Contracts with Customers**

The following table presents the Company's revenue disaggregated by service for the years ended December 31, 2020 and 2019:

	2020	2019
Revenue from Contracts with Customers:		
Entrance fees, amortized and on terminated contracts (over time)	\$ 11,434,249	\$ 11,074,219
Monthly resident fees and ancillary charges (over time)	49,798,035	49,395,717
Nonresident services (point in time)	<u>196,267</u>	<u>531,936</u>
Total Revenue from Contracts with Customers	<u>\$ 61,428,551</u>	<u>\$ 61,001,872</u>

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 3: Revenue from Contracts with Customers (Continued)**

The beginning and end of year balances of the Company’s various contract-related balances were as follows:

	January 1, 2020	December 31, 2020
Accounts Receivable	<u>\$ 1,063,274</u>	<u>\$ 892,990</u>
Deferred Entrance Fees Receivable on Terminated Contracts	<u>\$ 401,954</u>	<u>\$ 1,122,638</u>
Costs to Acquire Contracts	<u>\$ 1,391,024</u>	<u>\$ 1,247,659</u>
Deferred Entrance Fees Receivable	<u>\$ 49,038,260</u>	<u>\$ 47,916,669</u>
Deposits on Future Occupancy	<u>\$ 4,609,661</u>	<u>\$ 4,023,115</u>
Deferred Revenue from Unamortized Entrance Fees	<u>\$ 43,625,590</u>	<u>\$ 44,426,898</u>

**Note 4: Concentrations, Risks, and Uncertainties**

The Company maintains cash balances with one financial institution. At December 31, 2020 and 2019, accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The Company’s deposits in these financial institutions at times exceeded the amount insured by the FDIC. The risk is managed by maintaining deposits in high-quality financial institutions.

At December 31, 2020 and 2019, the Company also maintains its money market funds and investments in equity securities at brokerage firms that are not FDIC insured. The firms are insured by the Securities Investor Protection Corporation for up to \$500,000.

During 2020, the World Health Organization declared the spread of coronavirus (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Management believes that the Company is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated, as the pandemic continues to have impacts on the global economy.

**Note 5: Note Payable to Master Trust and Trust Agreement**

The La Costa Glen Carlsbad Master Trust (the Master Trust) was established to provide protection to the residents of the community by providing them with a vehicle through which they obtain a secured interest in the real property of the Company. New residents join in and become grantors under the trust agreement. At December 31, 2020 and 2019, the balance outstanding on the Master Trust note payable was \$367,931,615 and \$373,263,195, respectively.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 5: Note Payable to Master Trust and Trust Agreement (Continued)**

A contribution amount, as specified in the Residence Agreement, is made to the Master Trust by the grantor (see Note 1). The trustee of the Master Trust is directed to invest virtually all the funds in the form of an interest-free loan to the Company. The loan, which currently may not exceed \$452,000,000, is secured by the following:

- (1) A first priority deed of trust on the Company's real property and improvements thereon.
- (2) Security agreement creating a first security interest in the Company's current and hereafter acquired equity in all the improvements, fixtures, personal property, and intangible property associated and used in connection with the real property described in the deed of trust.
- (3) First priority assignment of contracts including, but not limited to, any residence and care agreement and any management agreement entered into in conjunction with the operation of La Costa Glen Carlsbad.

The security also includes any income generated from and any insurance proceeds recovered from the loss of any property serving as collateral for this loan.

Repayments of principal will be made in annual amounts for a period of 40 years with a final payment due December 31, 2050. Each annual payment or series of payments made during the year shall be equal to or greater than the amount of principal advanced on December 15 next preceding the payment due date divided by 40 years. The next scheduled principal payment of \$9,198,290 was paid in January 2021.

Principal payments of the current outstanding Master Trust loan are estimated to mature as follows:

2021	\$ 9,198,290
2022	8,968,333
2023	8,744,125
2024	8,525,522
2025	8,312,384
Thereafter	<u>324,182,961</u>
Total	<u>\$ 367,931,615</u>

In addition to the annual principal payment, the Company provides the Master Trust temporary loans to fund grantor distributions when necessary. These temporary loans are refunded to the Company upon subsequent sale of a unit or when the Master Trust has excess liquidity. At December 31, 2020, the temporary loans to the Master Trust totaled \$4,000,000, and are presented as current as due to their temporary nature, management anticipates repayment in the next year.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 6: Commitments and Contingencies**

**Obligation to Provide Future Services**

The Company annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the present value of monthly service fees and the unamortized deferred revenue from deferred entrance fees. If the present value of the net cost of future services and use of facilities exceeds the monthly service fees and deferred revenue from deferred entrance fees, a liability is recorded. Using a discount rate of 5.50% at December 31, 2020, and a rate of 2.30% at December 31, 2019, the anticipated revenues are estimated to exceed the cost of future services for both years and therefore, no liability was accrued.

**Reservations and Designations**

At December 31, 2020 and 2019, the Company maintains cash reserves in the amount of \$8,756,128 and \$8,410,791, respectively, for operating expense contingencies in accordance with the requirements of the California Health and Safety Code under the State of California Department of Social Services. These reserves are included in cash and cash equivalents and marketable securities in the accompanying balance sheets.

**Litigation**

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

**Note 7: Related-Party Transactions**

Pursuant to the provisions of FASB ASU 2018-17, *Consolidation (Topic 810)*, the Company has elected to not apply variable interest entity guidance to legal entities under common control. The Company is not aware of any exposure to loss as a result of its involvement with these entities.

At December 31, 2020 and 2019, the Company has a formal service agreement with a related company concerning the provision of administrative and operational oversight services, including use of brand, transaction processing, and benefit and insurance administration, among others. The service agreement calls for annual service fees payable in equal monthly installments, and the agreement renews annually unless canceled. For the years ended December 31, 2020 and 2019, service fees paid under this agreement totaled \$815,304 and \$606,204, respectively. The service agreement also provides for additional fees for supplemental services and out-of-pocket expenses, as needed. For the years ended December 31, 2020 and 2019, the additional fees paid under this agreement totaled \$485,236 and \$328,051, respectively. Furthermore, the service agreement also provides for insurance premiums to be paid to a related company. Insurance premiums paid under this agreement for the years ended December 31, 2020 and 2019, totaled \$471,141 and \$400,312, respectively.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 7: Related-Party Transactions (Continued)**

During both years ended December 31, 2020 and 2019, the Company paid \$50,000 for management services provided by an affiliated entity owned by the financing member. These expenses are included in general and administrative expenses in the accompanying statements of operations.

The Company has an agreement for purchased health-care costs with Glenbrook HC, LLC, an affiliated entity. The health-care costs paid to this entity during the years ended December 31, 2020 and 2019, were \$15,189,235 and \$15,338,403, respectively, and are included in resident care expenses in the accompanying statements of operations. In addition, the Company had payables for accrued health-care costs totaling \$612,400 and \$649,250 at December 31, 2020 and 2019, respectively, which are included in accounts payable in the accompanying balance sheets.

**Note 8: Employee Benefit Plan**

The Company sponsors a qualified 401(k) plan (the Plan) for all eligible employees. Employees may contribute up to 80% of their yearly compensation for up to the maximum amount prescribed by law. The Company makes a safe harbor matching contribution equal to 100% of the first 3% of the participant's compensation and 50% of the next 2% of the participant's compensation, which is deferred as an elective deferral. For the years ended December 31, 2020 and 2019, employer contributions to the Plan totaled \$241,512 and \$210,506, respectively, which are included in operating expenses in the accompanying statements of operations.

**Note 9: Fair Value Measurements**

FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date.

The three levels are defined as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measurement considered from the perspective of a market participant rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

**LA COSTA GLEN CARLSBAD CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 9: Fair Value Measurements (Continued)**

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table provides fair value measurement for financial assets measured at fair value on a recurring basis as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:			
Large value	\$ 2,688,758	\$ -	\$ -
Large growth	214,300	-	-
Large core	5,553,651	-	-
Mid value	<u>238,785</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>\$ 8,695,494</u>	<u>\$ -</u>	<u>\$ -</u>

The following table provides fair value measurement for financial assets measured at fair value on a recurring basis as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:			
Large value	\$ 3,330,253	\$ -	\$ -
Large growth	521,216	-	-
Large core	5,456,265	-	-
Mid value	<u>818,510</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>\$ 10,126,244</u>	<u>\$ -</u>	<u>\$ -</u>

**Note 10: Reclassifications**

Certain reclassifications have been made to the 2019 financial statements to conform to the current year presentation.

**Note 11: Subsequent Events**

Events occurring after December 31, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of April 28, 2021, which is the date the financial statements were available to be issued. There were no adjustments to the financial statements or additional disclosures as a result of this evaluation.

**SUPPLEMENTARY INFORMATION**



**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY INFORMATION**

Members  
La Costa Glen Carlsbad CCRC, LLC  
Carlsbad, California

We have audited the financial statements of La Costa Glen Carlsbad CCRC, LLC (the Company) as of and for the year ended December 31, 2020, and our report thereon dated April 28, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2020 schedules of Form 5-1 through Form 5-5 and Form 7-1 are prepared for filing with the State of California Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the members and management of the Company and for filing with the State of California Department of Social Services and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record, and its distribution is not limited.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Irvine, California  
April 28, 2021

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
<b>TOTAL:</b>			\$0	\$0	\$0

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

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

**PROVIDER:** La Costa Glen Carlsbad CCRC, LLC

**FORM 5-1**  
**LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR**  
**Supporting Calculation for Line 1(b)**

Line 1(b) Debt Service Reserve is waived as per the attached letter.

**PROVIDER:** La Costa Glen Carlsbad CCRC, LLC  
**COMMUNITY:** La Costa Glen Carlsbad



JOHN A. WAGNER  
DIRECTOR

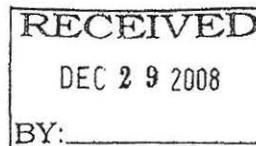
STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY  
**DEPARTMENT OF SOCIAL SERVICES**

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ARNOLD SCHWARZENEGGER  
GOVERNOR

December 18, 2008



Mr. E. Justin Wilson III  
Chief Operating Officer  
Continuing Life Communities LLC  
1940 Levante Street  
Carlsbad, California 92009

Dear Mr. Wilson:

**SUBJECT: CONTINUING LIFE COMMUNITIES DBA LA COSTA GLEN CARLSBAD  
LONG-TERM DEBT RESERVE REQUIREMENT WAIVER**

The California Department of Social Services (Department) has received notification from Bank of America that Continuing Life Communities, LLC (CLC) dba La Costa Glen Carlsbad's (LCGC) loan has been paid off in full as of November 21, 2008. Therefore, as provided for in Health and Safety Code (H&SC) section 1792.3(c), the Department has agreed to waive the debt service reserve for CLC.

Please note that CLC is required to notify the Department and obtain its approval prior to closing any transaction that results in an encumbrance or lien on LCGC's property. At which time, CLC will be required to comply with the debt service reserve requirement for the new debt.

If you have any questions, you may contact Allison Nakatomi, your new continuing care program analyst, at (916) 657-2592.

Sincerely,

JOHN R. RODRIQUEZ, Chief  
Continuing Care Contracts Branch

c: Robert Thompson  
Attorney for Continuing Care Contracts

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

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$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:** La Costa Glen Carlsbad CCRC, LLC

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

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

**PROVIDER:** La Costa Glen Carlsbad CCRC, LLC

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

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$50,854,976</u>
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	<u>\$0</u>	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	<u>\$0</u>	
	c. Depreciation	<u>\$7,762,663</u>	
	d. Amortization	<u>\$282,890</u>	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$196,267</u>	
	f. Extraordinary expenses approved by the Department	<u>\$0</u>	
3	Total Deductions		<u>\$8,241,820</u>
4	Net Operating Expenses		<u>\$42,613,156</u>
5	Divide Line 4 by 365 and enter the result.		<u>\$116,748</u>
6	<b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount.		<u><u>\$8,756,128</u></u>

**PROVIDER:** La Costa Glen Carlsbad CCRC, LLC

**COMMUNITY:** La Costa Glen Carlsbad

**FORM 5-4**  
**CALCULATION OF NET OPERATING EXPENSES**  
**Supporting Explanation for Line 2e**

Line 2e is made up of the following line from the audited statement of cash flows:

Reimbursements for services to non-residents \$ 196,267

Categories included in the above revenues:

\$	8,929	Guest Meals
	28,130	Employee Meals
	7,627	Catering
	57,981	Guest Room
	93,600	Space Rental
	<u>196,267</u>	
<u>\$</u>	<u>196,267</u>	

**PROVIDER:** La Costa Glen Carlsbad CCRC, LLC  
**COMMUNITY:** La Costa Glen Carlsbad



**FORM 5-5**  
**Description of Reserves under SB 1212**

**Total Qualifying Assets as Filed:**

Cash and Cash Equivalents	\$ 6,748,901
Investment Securities	\$ 8,695,494
Total Qualifying Assets as Filed:	\$ 15,444,395

**Reservations and Designations:**

Reserved for Debt Service	\$ -
Reserved for Operating Expenses	\$ 8,756,128
Total Reservations and Designations:	\$ 8,756,128
Remaining Liquid Reserves	\$ 6,688,267

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**Per Capita Cost of Operations**

Operating Expenses (Form 5-4 line # 1)	\$ 50,854,976
Mean # of CCRC Residents (Form 1-1 line 10)	887.0
Per Capita Cost of Operations	\$ 57,334

**PROVIDER:** La Costa Glen Carlsbad CCRC, LLC

**COMMUNITY:** La Costa Glen Carlsbad

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

- |  | <b>RESIDENTIAL<br/>LIVING</b> | <b>ASSISTED<br/>LIVING</b> | <b>SKILLED<br/>LIVING</b> |
|--|-------------------------------|----------------------------|---------------------------|
| [1] Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)  | \$3,853 - \$8,542             |                            |                           |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)   | 3.4%                          |                            |                           |
| <input type="checkbox"/> Check here if monthly care fees at this community were <u>not</u> 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: <u>1/1/2020</u><br>(If more than one (1) increase was implemented, indicate the dates for each increase.)  |                               |                            |                           |
| [4] Check each of the appropriate boxes:   |                               |                            |                           |
| <input checked="" type="checkbox"/> Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.  |                               |                            |                           |
| <input checked="" type="checkbox"/> All affected residents were given written notice of this fee increase at least 30 days prior to its implementation. <b>Date of Notice:</b> <u>10/29/20</u> <b>Method of Notice:</b> <u>In-house and US Mail</u>  |                               |                            |                           |
| <input checked="" type="checkbox"/> At least 30 days prior to the increase in fees, the designated representative of the provider convened a meeting that all residents were invited to attend. <b>Date of Meeting:</b> <u>11/19/20</u>  |                               |                            |                           |
| <input checked="" type="checkbox"/> 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.  |                               |                            |                           |
| <input checked="" type="checkbox"/> The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases. <b>Date of Notice:</b> <u>10/30/20</u>   |                               |                            |                           |
| <input checked="" type="checkbox"/> 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. <b>Date of Posting:</b> <u>10/30/20</u><br><b>Location of Posting:</b> <u>In house mail &amp; online resident portal</u> |                               |                            |                           |
| [5] On an attached page, provide a concise explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code. See <b><u>PART 7 REPORT ON CCRC MONTHLY CARE FEE</u></b> in the <b>Annual Report Instruction</b> booklet for further instructions.   |                               |                            |                           |

**PROVIDER:** La Costa Glen Carlsbad CCRC LLC  
**COMMUNITY:** La Costa Glen

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**  
**Supporting Explanation for Line 5**

The regular first person monthly fee increase for 2020 was 3.40% and the second person fee increase is reflected at 3.4% in fiscal year 2020. The cost drivers for the increase are minimum wage, raw food cost 3%, Employee Health Insurance 8%, General Insurance 13%, Property Taxes 2%, Utilities 1.5% and all other ancillary expenses 3%. Purchase Health Care 7.5% increase driven by increase in cost. These figures is arrived at by using economic indicators and estimating future cost increases, which information was derived from suppliers, government mandate, and industry periodicals. The budgeted NOI, which is basically flat with the prior year's budget, does not include capital expenditures of \$3.5 million. Economic indicators driving these capital projects include the updating of residences that turnover in order to keep current with market expectations. Other capital projects include cooling towers, bocce ball court upgrades, common area renovations, kitchen equipment, and various IT upgrades. These projects and future projects that economic indicators may require will be paid from future cash flow. NOI surplus will also be used as a return to owners for the risk of operating the community.

**Form 7-1 Attachment  
Monthly Care Fee Increase  
Annual Reporting Fiscal Year 2020**

<b>Line</b>	<b>Fiscal Years</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
1	F/Y 2018 Operating Expenses (less depreciation and amortization)	(41,012,486.00)		
2	F/Y 2019 Operating Expenses (less depreciation and amortization)		(41,464,454.00)	
3	Projected F/Y 2020 Results of Operations (budgeted expenses)			(42,809,426.00)
4	F/Y 2020 Anticipated MCF Revenue Based on Current and Projected Occupancy and Other WITHOUT MCFI			48,104,901.81
5	Projected F/Y 2020 (Net) Operating Results without MCFI (Line 3 plus Line 4)			5,295,475.81
6	Projected F/Y 2020 Anticipated Revenue Based on Current and Projected Occupancy and Other with MCFI			49,798,035.00
7	Grand Total - Projected FY 2020 Net Operating Activity After 3.4% MCFI (Line 3 plus Line 6)			6,988,609.00
<b>Monthly Care Fee Increase</b>				<b>3.40%</b>

**Adjustment Explained:**

Non-cash expenses of depreciation and amortization have been removed for all fiscal years presented.

F/Y 2020

Minimum wage, raw food cost and ancillary expenses increased by 3%

Employee health insurance increased by 8%

General liability insurance increased by 13%

All other insurance lines increased by approximately 7%

Purchased health care increased by 7.5%

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,  
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

