

Via Email - rich.wysocki@ct.gov

May 29, 2014

Mr. Rich Wysocki, Project Cost Analyst  
Department of Social Services  
Office of CON & Rate Setting  
55 Farmington Avenue  
Hartford, CT 06105

Re: Annual Financial Filing for Fiscal Year End December 31, 2013  
Essex Meadows Properties, Inc.

Dear Mr. Wysocki:

On behalf of Essex Meadows Properties, Inc., enclosed please find the annual financial filing for fiscal year end December 31, 2013.

If you have any questions or need additional information, please feel free to contact me at (515) 875-4520 or at [johnstonkaren@lcsnet.com](mailto:johnstonkaren@lcsnet.com). Thank you.

Sincerely,

Karen M. Johnston  
Compliance Manager

Enclosures

cc: Jennifer Rannestad (w/ encl.)  
Lisa Grieve (w/ encl.)  
Christie Buckrop (w/ encl.)  
Greg Zebolsky (w/ encl.)

# **ESSEX MEADOWS**

**ANNUAL FINANCIAL FILING  
For Fiscal Year End December 31, 2013**

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**ESSEX MEADOWS PROPERTIES, INC.**  
Financial Statements and Supplementary Information  
December 31, 2013 and 2012  
(With Independent Auditors' Report Thereon)



KPMG LLP  
2500 Ruan Center  
666 Grand Avenue  
Des Moines, IA 50309

## Independent Auditors' Report

The Board of Directors  
Essex Meadows Properties, Inc.:

We have audited the accompanying financial statements of Essex Meadows Properties, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and accumulated deficit, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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



**Opinion**

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Essex Meadows Properties, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Des Moines, Iowa  
April 7, 2014

**ESSEX MEADOWS PROPERTIES, INC.**

Balance Sheets

December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash	\$ 777,070	527,948
Trade accounts receivable, net	1,141,350	771,923
Prepays and other assets	145,822	169,553
Due from parent	<u>1,876,892</u>	<u>1,216,140</u>
Total current assets	<u>3,941,134</u>	<u>2,685,564</u>
Assets limited as to use (note 2)	6,233,276	6,703,523
Property and equipment, net (note 4)	24,387,521	25,343,810
Cost of acquiring initial contracts, net of amortization of \$768,002 and \$759,006 at December 31, 2013 and 2012, respectively	<u>47,231</u>	<u>56,227</u>
Total assets	<u>\$ 34,609,162</u>	<u>34,789,124</u>
<b>Liabilities and Stockholder's Deficit</b>		
Current liabilities:		
Current installments of long-term debt (note 6)	\$ 39,414	31,260
Accounts payable	620,865	271,754
Advance deposits – health center	106,383	67,770
Accrued expenses and payroll withholding	<u>803,281</u>	<u>733,719</u>
Total current liabilities	1,569,943	1,104,503
Long-term debt, less current installments (note 6)	771,577	813,711
Mortgage loans and health center loans from residents (note 5)	42,018,873	42,281,369
Other long-term liability – residents' fair share	3,470,098	3,101,842
Refundable deposits – residency agreements	144,146	438,242
Deferred fees	<u>3,514,745</u>	<u>2,874,613</u>
Total liabilities	<u>51,489,382</u>	<u>50,614,280</u>
Stockholder's deficit:		
Common stock of \$0.10 par value. Authorized, 400,000 shares; issued and outstanding, 155,089 shares	15,509	15,509
Additional paid-in capital	489,739	489,739
Accumulated other comprehensive loss	(17,090)	(67,823)
Accumulated deficit	<u>(17,368,378)</u>	<u>(16,262,581)</u>
Total stockholder's deficit	<u>(16,880,220)</u>	<u>(15,825,156)</u>
Total liabilities and stockholder's deficit	<u>\$ 34,609,162</u>	<u>34,789,124</u>

See accompanying notes to financial statements.

**ESSEX MEADOWS PROPERTIES, INC.**

Statements of Operations and Accumulated Deficit

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Apartment service fees	\$ 9,835,818	9,591,370
Health center and assisted living service fees	4,185,682	3,947,178
Fair share adjustment	(368,256)	(203,305)
Miscellaneous income	<u>(10,620)</u>	<u>193,234</u>
Total operating revenues	<u>13,642,624</u>	<u>13,528,477</u>
Operating expenses:		
General and administrative (notes 3 and 8)	3,393,484	3,196,091
Plant	2,269,845	2,334,847
Environmental services	866,328	833,114
Food and beverage	2,783,310	2,670,818
Medical and resident services	<u>4,565,309</u>	<u>4,424,232</u>
Total operating expenses	<u>13,878,276</u>	<u>13,459,102</u>
Excess of operating revenues over expenses	<u>(235,652)</u>	<u>69,375</u>
Other revenues:		
Entrance fees and cancellation penalties	3,139,421	2,678,677
Supervision fees	146,960	151,235
Working capital fees	233,344	141,646
Interest income	1,460	17,964
Miscellaneous income	<u>28,540</u>	<u>27,250</u>
Total other revenues	<u>3,549,725</u>	<u>3,016,772</u>
Other expenses:		
Depreciation and amortization	1,577,044	1,558,676
Interest expense	45,206	54,710
Miscellaneous expense	<u>97,620</u>	<u>97,811</u>
Total other expenses	<u>1,719,870</u>	<u>1,711,197</u>
Net income	1,594,203	1,374,950
Accumulated deficit at beginning of year	(16,262,581)	(13,837,531)
Stockholder distributions paid	<u>(2,700,000)</u>	<u>(3,800,000)</u>
Accumulated deficit at end of year	\$ <u><u>(17,368,378)</u></u>	\$ <u><u>(16,262,581)</u></u>

See accompanying notes to financial statements.

**ESSEX MEADOWS PROPERTIES, INC.**

Statements of Comprehensive Income  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Net income	\$ 1,594,203	1,374,950
Change in net unrealized gains on securities	50,733	23,659
Comprehensive income	<u>\$ 1,644,936</u>	<u>1,398,609</u>

See accompanying notes to financial statements.

**ESSEX MEADOWS PROPERTIES, INC.**

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	\$ 1,594,203	1,374,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,577,044	1,558,676
Amortization of deferred fees	(2,082,482)	(1,958,837)
Realized losses on sale of assets limited as to use	85,011	2,566
Changes in assets and liabilities:		
Trade accounts receivable, net	(369,427)	50,601
Prepays and other assets	23,731	34,701
Accounts payable	349,111	104,152
Accrued expenses and payroll withholding	69,562	58,873
Other long-term liability – residents’ fair share	368,256	203,305
Net cash provided by operating activities	<u>1,615,009</u>	<u>1,428,987</u>
Cash flows from investing activities:		
Purchases of property and equipment	(611,759)	(739,993)
Proceeds from assets limited as to use	9,689,359	4,025,380
Purchases of assets limited as to use	(9,253,390)	(4,062,820)
Net cash used in investing activities	<u>(175,790)</u>	<u>(777,433)</u>
Cash flows from financing activities:		
Payments of refundable deposits, net	(255,483)	(132,149)
Proceeds from loans and entrance fees from residents	8,912,391	5,243,617
Repayments on loans and entrance fees from residents	(6,452,273)	(3,322,396)
(Disbursements) receipts related to due from parent	(660,752)	1,837,844
Payments on long-term debt	(33,980)	(29,194)
Stockholder distributions paid	(2,700,000)	(3,800,000)
Net cash used in financing activities	<u>(1,190,097)</u>	<u>(202,278)</u>
Net increase in cash	249,122	449,276
Cash at beginning of year	<u>527,948</u>	<u>78,672</u>
Cash at end of year	\$ <u><u>777,070</u></u>	\$ <u><u>527,948</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 45,206	54,709

See accompanying notes to financial statements.

## ESSEX MEADOWS PROPERTIES, INC.

Notes to Financial Statements

December 31, 2013 and 2012

### (1) Summary of Significant Accounting Policies and Related Matters

Essex Meadows Properties, Inc. (the Company) was incorporated on November 14, 1985 in the state of Iowa. The Company was formed to develop and operate a life care retirement community in Essex, Connecticut. The Company is a wholly owned subsidiary of Essex Meadows, Inc. (the Parent).

The Company is comprised of two divisions – the Operations Division and the Finance Division. The Operations Division is responsible for the day-to-day operations of the facility, including the receipt of monthly service fees and skilled nursing facility revenues from residents and patients, and the payment of the costs of providing services to the residents and maintaining the facility. The Finance Division is responsible for matters relating to the sale of units and net asset management. These financial statements present both divisions.

#### (a) Description of Business

The Company owns and operates a life care retirement community designed for senior adults located in Essex, Connecticut. The community, known as Essex Meadows, is intended to address the needs of individuals aged 62 or older who are in good health but no longer desire to reside in their own homes or apartments. The facility is designed to create a total living environment specifically adapted to the requirements of senior adults. The Company conducts business in only one business segment, service enhanced housing for senior adults.

#### (b) Cash Equivalents

Money market accounts and other cash equivalents included in assets limited as to use are not considered cash equivalents for purposes of the statements of cash flows.

#### (c) Trade Accounts Receivable, Net

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Allowance for doubtful accounts are based on historical experience and management's analysis of past-due accounts.

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

Assets limited as to use are funds held in accordance with contractual requirements with the residents. In addition, approximately \$1,190,983 and \$1,172,709 at December 31, 2013 and 2012, respectively, is required to be held in accordance with regulatory requirements. All investment securities are classified as available-for-sale. Available-for-sale securities are recorded at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of accumulated other comprehensive loss until realized.

#### (e) Property and Equipment, Net

Property and equipment are carried at cost. Depreciation is computed over the estimated useful lives of the respective assets using the straight-line method.

The cost of maintenance and repairs is expensed as incurred and renewals and betterments are capitalized.

## ESSEX MEADOWS PROPERTIES, INC.

Notes to Financial Statements

December 31, 2013 and 2012

**(f) *Cost of Acquiring Initial Contracts***

The costs of acquiring initial continuing-care contracts include those costs incurred to originate a contract that result from and are essential to acquiring initial contracts. These costs are amortized using the straight-line method over the average expected remaining lives of the initial residents under contract.

**(g) *Revenue***

Entrance fees are received to undertake the project's risk and planning and are not fees in return for future services and use of the facilities. A portion of the entrance fees is deferred and is recognized as revenue when the right to access a housing unit is established through the closing of a transaction and when the fees are no longer refundable under the terms of the residency agreement and are included in entrance fees and cancellation penalties on the statements of operations and accumulated deficit. Deferred fees, classified as noncurrent liabilities, include entrance fees and are refundable if the residency agreement is terminated. A supervision fee established upon occupancy for each resident is paid and earned monthly. These fees are unrestricted as to use by the Company.

Residents pay a monthly apartment or health center fee, determined annually. The service fees are earned monthly, and relate to operating expenses, debt service for nonresident debt, repairs and replacements, and working capital. A one-time working capital fee is paid and earned upon occupancy of a housing unit. These fees may only be used for purposes specified in the residency agreement.

A limited number of residents have entered into flex plan residency agreements under which loans are not made by the residents (note 5). In lieu of the loan, a lesser amount is paid as an entrance fee and is nonrefundable over a period of time. These fees are recognized as revenue over a period of 48 months when the fees are no longer refundable under the terms of the residency agreement and are included in entrance fees and cancellation penalties on the statements of operations and accumulated deficit. Other fees under these flex plan agreements are consistent with the fees described in the preceding paragraphs.

Operating revenues are adjusted annually by a fair share adjustment, which represents the operations division's excess of current year operating revenues (expenses) and includes fair share capital and repair and replacement reserve expenditures. The fair share adjustment equitably apportions the cost of operating the community among its residents. The residents' fair share is classified in other long-term liabilities.

**(h) *Fair Value of Financial Instruments***

Financial instruments include cash, assets limited as to use, long-term debt, and mortgage loans and health center loans from residents. Management believes the fair value of each of these financial instruments approximate their carrying value as of the balance sheet date.

The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include the Company's assets limited as to use. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. The fair value of the assets limited as to use is determined based on readily

**ESSEX MEADOWS PROPERTIES, INC.**

Notes to Financial Statements

December 31, 2013 and 2012

available quoted prices in active markets. The Company is required to group its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

**Level 1** – Valuation is based upon quoted prices for identical instruments traded in active markets.

**Level 2** – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

**Level 3** – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques. The Company did not hold any Level 3 investments at December 31, 2013 and 2012.

There were no transfers between levels during 2013 or 2012.

The following tables show the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2013 and 2012:

	<b>December 31, 2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total at fair value</b>
Assets limited as to use – mutual funds and money market and other cash equivalents	\$ 6,233,276	—	6,233,276
	<u>\$ 6,233,276</u>	<u>—</u>	<u>6,233,276</u>
	<b>December 31, 2012</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total at fair value</b>
Assets limited as to use – mutual funds and money market and other cash equivalents	\$ 6,703,523	—	6,703,523
	<u>\$ 6,703,523</u>	<u>—</u>	<u>6,703,523</u>

**(i) Income Taxes**

On January 1, 2003, the Parent (and in turn, the Company) filed an election to be taxed under the provisions of the Internal Revenue Code regulating small business corporations (Subchapter S). Under the provisions of Subchapter S, certain income and loss related tax liabilities and benefits arising after the date of conversion to Subchapter S flow through to the stockholders of the Parent; therefore, no provisions or liabilities have been recorded in the financial statements as of December 31, 2013 and 2012.

**ESSEX MEADOWS PROPERTIES, INC.**

Notes to Financial Statements

December 31, 2013 and 2012

*(j) Use of Estimates*

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

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

Assets limited as to use on the balance sheet at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Operating reserves held to satisfy regulatory requirements	\$ 1,702,496	1,591,779
Health center loan escrow	1,896,905	2,440,825
Entrance fee and wait list escrows	596,547	756,396
Repair and replacement reserves	<u>2,037,328</u>	<u>1,914,523</u>
	\$ <u>6,233,276</u>	<u>6,703,523</u>

The fair value of available-for-sale securities by class of security at December 31, 2013 and 2012 was as follows:

<u>Description</u>		<u>2013</u>	<u>2012</u>
Money market and other cash equivalents	\$	861,349	1,420,399
Mutual funds		<u>5,371,927</u>	<u>5,283,124</u>
	\$	<u>6,233,276</u>	<u>6,703,523</u>

<u>Description</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
2013:				
Money market and other cash equivalents	\$ 861,349	—	—	861,349
Mutual funds	<u>5,389,017</u>	—	<u>(17,090)</u>	<u>5,371,927</u>
	\$ <u>6,250,366</u>	—	<u>(17,090)</u>	<u>6,233,276</u>
2012:				
Money market and other cash equivalents	\$ 1,420,399	—	—	1,420,399
Mutual funds	<u>5,350,947</u>	—	<u>(67,823)</u>	<u>5,283,124</u>
	\$ <u>6,771,346</u>	—	<u>(67,823)</u>	<u>6,703,523</u>

During 2013 and 2012, no other-than-temporary impairments were recognized.

## ESSEX MEADOWS PROPERTIES, INC.

Notes to Financial Statements

December 31, 2013 and 2012

### (3) Management Agreement

The Company has a management agreement with Life Care Services, LLC (LCS), which provides for general management and related services. The agreement may be terminated by either party if the other party files, or has a petition or complaint in receivership or bankruptcy filed against it, or if the other party fails to properly perform its obligations, in accordance with the terms of the agreement. Management fees paid to LCS totaled \$504,630 and \$479,799 during the years ended December 31, 2013 and 2012, respectively, and are included in general and administrative expenses.

### (4) Property and Equipment, Net

A summary of property and equipment at December 31, 2013 and 2012 is as follows:

	<u>Useful lives</u>	<u>2013</u>	<u>2012</u>
Land		\$ 753,155	753,155
Building and building improvements	5–60 years	41,617,515	41,087,773
Equipment	2–25 years	2,098,004	2,050,128
Furniture and fixtures	5–15 years	3,763,325	3,729,185
		<u>48,231,999</u>	<u>47,620,241</u>
Less accumulated depreciation		<u>23,844,478</u>	<u>22,276,431</u>
Property and equipment, net		<u>\$ 24,387,521</u>	<u>25,343,810</u>

### (5) Mortgage Loans and Health Center Loans from Residents

Upon occupancy, residents who have not entered into flex plan residency agreements make loans to the Company, which are secured by a Mortgage and Indenture of Trust, subject to certain permitted encumbrances. The loans will be repaid upon termination of residency and satisfaction of the terms of the loan agreement. The residents agree to look solely to the assets, which secure the loan for repayment of the loan. Any amounts due to the Company may be offset against loan repayments. The loan becomes due and payable in full upon the date the Company receives the next admission fee for the residence, or 24 months after the residence is released for reoccupancy, whichever is earlier. Mortgage loans classified as noncurrent at December 31, 2013 and 2012 were \$39,567,118 and \$39,342,014, respectively.

When a resident moves to the health center, the resident's loan amount, as described in the residency agreement, is transferred to the health center reserve escrow fund, which is included in assets limited as to use. Health center reserves are held for repayment of the related loans and are not secured by the Mortgage and Indenture of Trust. Health center loans classified as noncurrent at December 31, 2013 and 2012 were \$2,451,755 and \$2,939,355, respectively.

**ESSEX MEADOWS PROPERTIES, INC.**

Notes to Financial Statements

December 31, 2013 and 2012

**(6) Long-Term Debt**

Long-term debt at December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
\$950,000 term loan with bank due January 1, 2029, principal and interest payments payable monthly, with interest at 4.125%	\$ 810,991	—
\$950,000 term loan with bank due January 1, 2029, principal and interest payments payable monthly, with interest at 6.25%	—	844,971
Less current installments	<u>(39,414)</u>	<u>(31,260)</u>
Total long-term debt	\$ <u>771,577</u>	\$ <u>813,711</u>

The term loan was modified to reduce the interest rate on July 1, 2013. The term loan is collateralized by property and equipment and may be prepaid in part or in whole, along with an additional fee as described in the agreement. The annual aggregate maturities of the term loan are as follows:

2014	\$ 39,414
2015	41,094
2016	42,846
2017	44,673
2018	46,578
Thereafter	<u>596,386</u>
	\$ <u>810,991</u>

**(7) Employee Retirement Benefit Plan**

The Company has a defined contribution employee benefit plan covering all eligible employees. Matching contributions made by the Company totaled \$89,102 and \$84,508 at December 31, 2013 and 2012, respectively. The Company does not provide postretirement healthcare or life insurance benefits for its employees.

**(8) Related-Party Transactions**

For the years ended December 31, 2013 and 2012, the Company's Parent provided certain management and advisory services in exchange for a fee of \$111,902 and \$108,962, respectively. This fee is classified as a general and administrative expense in the statements of operations and accumulated deficit.

**(9) Subsequent Events**

The Company has evaluated subsequent events from the balance sheet date through April 7, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.



KPMG LLP  
2500 Ruan Center  
666 Grand Avenue  
Des Moines, IA 50309

## Independent Auditors' Report on Supplementary Information

The Board of Directors  
Essex Meadows Properties, Inc.:

We have audited the financial statements of Essex Meadows Properties, Inc. as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated April 7, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedules 1 through 4 is presented for the purposes 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 the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

Des Moines, Iowa  
April 7, 2014

## Schedule 1

**ESSEX MEADOWS PROPERTIES, INC. – OPERATIONS DIVISION**

## Schedule of Assets, Liabilities, and Division Equity Information

December 31, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash	\$ 669,405	438,934
Trade accounts receivable, net	935,901	771,923
Prepays and other assets	164,692	238,902
Due from finance division	433,005	146,214
Total current assets	<u>2,203,003</u>	<u>1,595,973</u>
Assets limited as to use	<u>3,641,507</u>	<u>3,456,198</u>
	<u>\$ 5,844,510</u>	<u>5,052,171</u>
<b>Liabilities and Division Equity</b>		
Current liabilities:		
Accounts payable	\$ 586,456	276,188
Accrued expenses and payroll withholding	803,281	733,719
Refundable deposits	146,547	102,295
Total current liabilities	<u>1,536,284</u>	<u>1,112,202</u>
Due to health center loan escrow	500,000	500,000
Other long-term liability – residents' fair share	<u>1,248,430</u>	<u>1,142,466</u>
Total liabilities	<u>3,284,714</u>	<u>2,754,668</u>
Division equity	<u>2,559,796</u>	<u>2,297,503</u>
	<u>\$ 5,844,510</u>	<u>5,052,171</u>

See accompanying independent auditors' report on supplementary information.

## Schedule 2

## ESSEX MEADOWS PROPERTIES, INC. – OPERATIONS DIVISION

## Schedule of Operating Revenues and Expenses Information

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Apartment service fees	\$ 9,835,818	9,591,370
Health center and assisted living service fees	4,185,682	3,947,178
Space rental	3,600	3,600
Investment (loss) income	(41,802)	143,966
Other	260,927	187,314
	<u>14,244,225</u>	<u>13,873,428</u>
Expenses:		
General and administrative	2,936,039	2,802,658
Plant	2,269,845	2,334,847
Environmental services	866,328	833,114
Food and beverage	2,783,310	2,670,818
Medical and resident services	4,565,309	4,424,232
Interest	45,206	54,710
Other	33,980	29,194
	<u>13,500,017</u>	<u>13,149,573</u>
Revenues in excess of expenses, before fair share capital expenditures	744,208	723,855
Fair share capital expenditures	<u>226,769</u>	<u>244,232</u>
Excess of current operating revenues before contribution to and interest earnings on repair and replacement reserves and fair share adjustment	517,439	479,623
Contribution to repair and replacement reserves	(419,297)	(403,872)
Interest earnings on repair and replacement reserves	7,822	(51,037)
Surplus of fair share operating revenues which may be used to offset future year results	<u>(105,964)</u>	<u>(24,714)</u>
Net operating results	<u>\$ —</u>	<u>—</u>

See accompanying independent auditors' report on supplementary information.

## Schedule 3

**ESSEX MEADOWS PROPERTIES, INC. – OPERATIONS DIVISION**

## Schedule of Changes in Division Equity Information

Years ended December 31, 2013 and 2012

Balance at December 31, 2011	\$	2,118,912
Earnings on the reserves		51,037
Funding of the reserves		403,872
Expenditures from the reserves		<u>(276,318)</u>
Balance at December 31, 2012		2,297,503
Losses on the reserves		(7,822)
Funding of the reserves		419,297
Expenditures from the reserves		<u>(149,182)</u>
Balance at December 31, 2013	\$	<u><u>2,559,796</u></u>

See accompanying independent auditors' report on supplementary information.

## Schedule 4

## ESSEX MEADOWS PROPERTIES, INC. – OPERATIONS DIVISION

## Schedule of Cash Flows Information

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in:		
Trade accounts receivable, net	\$ (163,978)	50,601
Prepays and other assets	74,210	(34,649)
Accounts payable	310,268	(17,813)
Accrued expenses and payroll withholding and refundable deposits	113,814	74,677
Other long-term liability – residents' fair share	105,964	24,714
Net cash provided by operating activities	<u>440,278</u>	<u>97,530</u>
Cash flows from investing activity:		
Proceeds from assets limited as to use, net	<u>76,984</u>	<u>334,958</u>
Net cash provided by investing activity	<u>76,984</u>	<u>334,958</u>
Cash flows from financing activity:		
Payments to finance division, net	<u>(286,791)</u>	<u>(33,342)</u>
Net cash used in financing activity	<u>(286,791)</u>	<u>(33,342)</u>
Net increase in cash	230,471	399,146
Cash at beginning of year	<u>438,934</u>	<u>39,788</u>
Cash at end of year	<u>\$ 669,405</u>	<u>438,934</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 45,206	54,709

See accompanying independent auditors' report on supplementary information.

**ESSEX MEADOWS PROPERTIES, INC.**  
Essex, Connecticut

**CASH FLOW PROJECTION - OPERATIONS DIVISION \***

For the Period Beginning January 1, 2014

	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Year 5 2018
Beginning Cash (1)	4,310,911	4,356,408	4,442,074	4,023,420	3,731,857
Additions:	0	0	0	0	0
Apartment Service Fees (2)	10,201,594	10,682,263	11,063,122	11,464,118	11,885,836
Health Center Income - Net (3)	3,993,574	4,144,200	4,305,852	4,471,224	4,635,933
Miscellaneous Income (4)	452,671	470,778	489,609	509,196	529,564
Working Capital Fees (5)	230,488	199,434	205,973	214,840	223,783
Interest Income (excluding HC Escrow) (6)	64,265	65,278	62,810	57,518	52,327
Interest on Health Center Escrow Fund (7)	34,420	29,431	27,998	28,669	30,448
Disbursements:	0	0	0	0	0
Operating Expenses (8)	(14,081,412)	(14,650,612)	(15,236,636)	(15,846,102)	(16,479,946)
Capital Expenses - not paid from fund (9)	(333,500)	(343,505)	(353,810)	(364,424)	(375,357)
Capital Expenses -- paid from Reserve Fund (10)	(450,000)	(445,000)	(916,971)	(760,000)	(840,000)
Debt Service Expense (11)	(66,602)	(66,602)	(66,602)	(66,602)	(66,602)
Net Change	45,497	85,666	(418,654)	(291,563)	(404,014)
Ending Cash	4,356,408	4,442,074	4,023,420	3,731,857	3,327,843

\* The term "Operations Division" is defined on page 7 under note (1) of the audit report for Essex Meadows Properties, Inc.

Note: The negative cash flows in years 3 through 5 are due to large planned capital expenditures to be paid from the Capital Reserve Fund

**ESSEX MEADOWS**  
**Essex, Connecticut**

**PRO FORMA CASH FLOW ASSUMPTIONS**

- (1) Beginning Cash: represents the cash and reserves on hand of the Operations Division for the account of Essex Meadows at the beginning of the fiscal year.

Cash and Cash Equivalents	\$669,405
Restricted and Escrowed Funds	<u>3,641,506</u>
Total	\$4,310,911

- (2) Apartment Service Fees: represents the total of first and second-person monthly Service Fees for all apartments. The Fair Share sets the monthly Service Fees equal to the sum of total expenses plus any increase in reserves. The number of second persons was projected using the population projections prepared by a consulting actuarial firm, Milliman, Inc. of Omaha, Nebraska. The number of apartments occupied by more than one person projected for 2014 through 2018 is as shown in the following table:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
53.69	52.34	50.36	48.65	47.21

- (3) Health Center Income: assumes average daily rates in 2014 of \$398.19 for a private room and \$350.19 for a semiprivate room. The 45-bed health center is designed for 33 private rooms and 6 semiprivate rooms. Private rooms may be converted to semiprivate, with total beds not to exceed 45. The average census has been projected to be 91.4 percent in 2014 increasing to 98.1 percent in 2018.
- (4) Miscellaneous Income: represents revenue from meals, garage rentals, guest rooms, and beauty and barber shops.
- (5) Working Capital Fees: represents a non-refundable one-time fee equal to two times the then-current monthly service fee. The Working Capital Fee was implemented December, 2005 and is paid by each resident upon closing on an apartment.
- (6) Interest Income: on cash balances is assumed to be at an annual average rate of 1.5 percent.
- (7) Interest on Health Center Escrow: represents interest earnings on the Finance Division's Health Center Resident Loans Escrow account. Deposits are made to the Escrow account when a resident has moved to The Community health center. Such deposits are applied towards repayment of a health center resident's Loan amount due upon termination of the Residency Agreement. Interest earned on these funds is for the use of the Operations division. The net balance of this fund at December 31, 2013 was \$1,900,260.

- (8) Operating Expenses: includes the expenses for staffing, materials, and services for the entire project. Operating expenses are projected to increase 4.0 percent annually.
- (9) Capital Expenses – not paid from fund: represents the total cost to the Operations Division for the repair or replacement of interior finishes and elements of the buildings and equipment and of other portions of the buildings and equipment that are not paid from the Repair and Replacement Reserve Fund. Capital expenditures not paid from the Repair and Replacement Fund are included in the Fair Share Allocation Formula used to establish the monthly Service Fees paid by the residents.
- (10) Capital Expenses – paid from reserve fund: represents the total cost to the Operations Division for the repair or replacement of interior finishes and elements of the buildings and equipment and of other portions of the buildings and equipment that are paid from the Repair and Replacement Reserve Fund.
- (11) Debt Service Expense: represents annual principal and interest payments to Essex Savings Bank on a 15 year loan fixed rate loan of \$950,000.

**ESSEX MEADOWS PROPERTIES, INC.**

Essex, Connecticut

**FORECASTED STATEMENT OF REVENUES AND EXPENSES**

	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Year 5 2018
<b>OPERATING INCOME</b>					
Amortization of Non-Refundable Fees	2,959,920	3,215,350	2,817,574	2,846,348	2,908,503
Owner's Supervision Fees	156,771	157,821	157,182	156,552	155,934
Monthly Service Fees	10,201,594	10,682,263	11,063,122	11,464,118	11,885,836
Health Center Revenues - Net	3,993,574	4,144,200	4,305,852	4,471,224	4,635,933
Interest Income	98,685	94,709	90,808	86,187	82,775
Other Income	683,159	670,212	695,582	724,036	753,347
<b>TOTAL INCOME</b>	<b>18,093,702</b>	<b>18,964,555</b>	<b>19,130,120</b>	<b>19,748,465</b>	<b>20,422,328</b>
<b>EXPENSES:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
G&A	(3,004,520)	(3,124,701)	(3,249,689)	(3,379,677)	(3,514,864)
Plant	(2,430,308)	(2,527,520)	(2,628,621)	(2,733,766)	(2,843,117)
Housekeeping	(928,725)	(965,874)	(1,004,509)	(1,044,689)	(1,086,477)
Dietary	(2,881,223)	(2,996,472)	(3,116,331)	(3,240,984)	(3,370,624)
Resident Care	(4,836,636)	(5,036,044)	(5,237,486)	(5,446,986)	(5,664,865)
Marketing Expense	(294,924)	(307,000)	(319,000)	(332,000)	(345,000)
Debt Service Expense	(66,602)	(66,602)	(66,602)	(66,602)	(66,602)
Depreciation/Amortization	(1,433,742)	(1,144,118)	(1,087,563)	(1,034,303)	(970,917)
<b>TOTAL OPERATING EXPENSES</b>	<b>(15,876,680)</b>	<b>(16,168,332)</b>	<b>(16,709,801)</b>	<b>(17,279,006)</b>	<b>(17,862,465)</b>
<b>NET INCOME</b>	<b>2,217,022</b>	<b>2,796,224</b>	<b>2,420,319</b>	<b>2,469,459</b>	<b>2,559,863</b>

**ESSEX MEADOWS**  
**Essex, Connecticut**

**CAPITAL COST AMORTIZATION ASSUMPTIONS**

The basis for amortization assumptions for the provider's capital costs pertaining to the account of Essex Meadows includes the following:

- a. Fixed Assets: Estimated depreciation expense for the forecasted period was computed on the straight-line method using an estimated 60-year life for the building and a 5 - 25 year life for building improvements, land improvements, and equipment additions.
- b. Amortization Expense: Certain costs associated with marketing and start-up of the project known as Essex Meadows are deferred and amortized over the assumed building life of 60 years. The costs of acquiring initial contracts are amortized over the average resident's life expectancy.

**ESSEX MEADOWS**  
**Essex, Connecticut**  
**CURRENT RATE SCHEDULE**  
**As of 01/01/2014**

ADMISSION PAYMENTS (ROC)

One-Bedroom Traditional	197,700
One-Bedroom Deluxe	245,000
One-Bedroom Custom	252,000
One-Bedroom Custom End Unit	263,000
One-Bedroom Den	294,000
Two-Bedroom Traditional	294,000
Two-Bedroom Deluxe	361,000
Two-Bedroom Custom	361,000
Two-Bedroom Enhanced	412,000
Two-Bedroom Deluxe with Den	433,000
Two-Bedroom Custom with Den	433,000
Essex Suite	437,000
Meadows Suite	489,000
Three Bedroom Custom	612,000
Silver Star (Cottage)	618,000
Columbia (Cottage)	773,500
Charter Oak (Cottage)	814,000
Lexington (Cottage)	900,000

The Admission Payments represent the total of the Entrance Fee and the Loan. Flex Contract prices are 65% of the ROC rates listed above.

MONTHLY SERVICE FEES

One-Bedroom Traditional	3,323
One-Bedroom Deluxe	3,618
One-Bedroom Custom	3,760
One-Bedroom Custom End Unit	3,760
One-Bedroom Den	3,919
Two-Bedroom Traditional	3,919
Two-Bedroom Deluxe	4,181
Two-Bedroom Custom	4,181
Two-Bedroom Enhanced	4,379
Two-Bedroom Deluxe with Den	4,514
Two-Bedroom Custom with Den	4,514
Essex Suite	5,069
Meadows Suite	5,365
Three Bedroom Custom	6,686
Silver Star (Cottage)	5,563
Columbia (Cottage)	5,855
Charter Oak (Cottage)	6,027
Lexington (Cottage)	6,426
Second Person Fee	1,870

The monthly Service Fees include the per-person monthly Owner's Supervision Fee (\$50 as of this print date).

**ESSEX MEADOWS**  
**Essex, Connecticut**

**RESIDENTIAL TURNOVER RATES**

The residential turnover rate is calculated by dividing the number of apartments released by the average number of occupied apartments.

The residential turnover rates for the most recently completed 12-month period, and anticipated for the next five years, are as follows:

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
12.52%	10.87%	10.77%	10.69%	10.72%	10.73%

**ESSEX MEADOWS**  
**Essex, Connecticut**

**AVERAGE AGE OF RESIDENTS**

The projected average age of residents for the next five years is as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
86.30	86.57	86.81	87.02	87.21

**ESSEX MEADOWS**  
**Essex, Connecticut**

**HEALTH CARE UTILIZATION RATES**

Health care utilization rates, including admission rates and days per 100 residents by level of care for the most recently completed 12-month period, and anticipated for the next five years, are as follows:

<u>Year</u>	<u>Utilization Rate</u>	<u>Admission Rate</u>	<u>Days per 100 Residents*</u>
FY 2013	45.20%	32.40%	4,313
FY 2014	44.43%	32.22%	4,540
FY 2015	44.52%	31.94%	4,660
FY 2016	44.80%	31.80%	4,799
FY 2017	45.04%	31.70%	4,905
FY 2018	45.21%	31.62%	4,977

\*Only one level of care -- skilled nursing.

**ESSEX MEADOWS**  
**Essex, Connecticut**

**OCCUPANCY RATES**

Occupancy rates for the most recently completed 12-month period, and anticipated for the next five years, are as follows:

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
91.95%	94.82%	94.82%	94.82%	94.82%	94.82%

**ESSEX MEADOWS**  
**Essex, Connecticut**

**NUMBER OF HEALTH CARE ADMISSIONS**

The number of health care admissions pursuant to continuing-care contracts for the most recently completed 12-month period, and anticipated for the next five years, is as follows:

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
82	84	84	83	83	82

**ESSEX MEADOWS**  
**Essex, Connecticut**

**DAYS OF CARE**

The days of care per year for the most recently completed 12-month period, and anticipated for the next five years, are as follows:

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
10,885	11,862	12,259	12,572	12,799	12,936

**ESSEX MEADOWS**  
**Essex, Connecticut**

**NUMBER OF PERMANENT TRANSFERS**

The number of permanent transfers to the health center in the 12-month period ending December 31, 2013 was ten (10) residents.

**ESSEX MEADOWS**  
**Essex, Connecticut**

**STATEMENT OF CASH FLOWS**

For a statement of cash flows for The Community see Exhibit B of this annual financial filing.



## Statement of Actuarial Opinion

I, Gregory T. Zebolsky, am associated with the firm Milliman and am a Member of the American Academy of Actuaries and meet its qualification standards to issue statements of Actuarial Opinion for Continuing Care Retirement Communities. I have been retained by Life Care Services to develop resident population projections and to review certain items in the financial projections contained in the December 31, 2013 financial filing submitted by Essex Meadows and as required by section 17 of the regulations implementing the Connecticut Continuing Care Statutes. The items we reviewed include exhibits E through K and the projection of selected items in exhibit B, all of which relate to the actuarial population projections. The items we reviewed on exhibit B include only apartment service fees, health center income - net, non-refundable fees, working capital fees, and interest on the health center escrow fund. We have not reviewed other items in exhibit B.

This is the actuarial certification as described in Section 17a-373-6(i)(2) of the regulations implementing the Connecticut Continuing Care Statutes. The actuarial methodology used in these projections conforms to Actuarial Standard of Practice No. 3, "Practices Relating to Continuing Care Retirement Communities" adopted September, 2007 by the Actuarial Standards Board.

In performing my review and developing the population projections, I have relied on resident data, financial statements, and the residency agreements provided by Life Care Services. I performed no audit or independent verification of the information furnished. I have reviewed the resident data furnished for reasonableness and consistency.

I have examined the data, actuarial assumptions, and actuarial methods used in determining the population projections, the related numbers in exhibits E through K, and the specific items on exhibit B referred to above. In my opinion, these projections and other items:

- i. are based on data and actuarial assumptions that are reasonable and appropriate under the circumstances, and
- ii. are computed using methods consistent with sound actuarial principles and practices.

Gregory T. Zebolsky, F.S.A., M.A.A.A.

I, Christie Buckrop, Actuarial Finance Analyst of Life Care Services, hereby affirm that the resident data, financial projection worksheet, and other summaries and analyses relating to data prepared for and submitted to Gregory T. Zebolsky, Consulting Actuary with Milliman, in support of his actuarial opinion for Essex Meadows as of December 31, 2013, were prepared under my direction and to the best of my knowledge and belief, are substantially accurate and complete.

Christie Buckrop, Actuarial Finance Analyst

May 27, 2014

**EXHIBIT M**