

# **MEADOW RIDGE**

**ANNUAL FINANCIAL FILING FOR  
FISCAL YEAR ENDED DECEMBER 31, 2014**

**May 29, 2015**

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**MEADOW RIDGE  
Redding, Connecticut**

Certified Audited Financial Statements of Redding Life Care LLC  
Years ended December 31, 2014 and 2013

(Attached)

**REDDING LIFE CARE LLC D/B/A MEADOW RIDGE**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**



Beers, Hamerman, Cohen & Burger, P.C.

Certified Public Accountants and Business Consultants

Audit  
Tax  
Advisory  
Assurance  
Valuation  
Litigation Support

## INDEPENDENT AUDITOR'S REPORT

To the members of  
Redding Life Care LLC d/b/a Meadow Ridge  
Redding, Connecticut

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

We have audited the accompanying financial statements of Redding Life Care LLC d/b/a Meadow Ridge ("Company"), which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of income and changes in members' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

### **Auditor's 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 audits 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 auditor's 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 Redding Life Care LLC d/b/a Meadow Ridge as of December 31, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Beers, Hamerman, Cohen & Burger, P.C.*

New Haven, Connecticut  
April 29, 2015

REDDING LIFE CARE LLC

BALANCE SHEETS

	December 31,	
<u>Assets</u>	<u>2014</u>	<u>2013</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 6,320,587	\$ 7,737,500
Accounts receivable, net of allowance for doubtful accounts of \$36,090 and \$17,047, respectively	1,013,962	1,334,016
Notes receivable, residents	34,452	811,881
Prepaid expenses	294,485	313,778
Inventory of supplies	<u>43,272</u>	<u>46,162</u>
Total current assets	<u>7,706,758</u>	<u>10,243,337</u>
Restricted cash and investments	<u>9,752,458</u>	<u>10,055,842</u>
<b>Property and equipment:</b>		
Buildings and improvements	155,202,016	154,309,950
Land	7,018,216	7,018,216
Land improvements	9,052,067	9,067,888
Furniture and equipment	7,514,312	7,459,376
Vehicles	<u>500,203</u>	<u>533,270</u>
	179,286,814	178,388,700
Less - accumulated depreciation	<u>59,940,244</u>	<u>54,482,939</u>
	<u>119,346,570</u>	<u>123,905,761</u>
<b>Other assets:</b>		
Deferred financing fees, net of accumulated amortization of \$561,297 and \$392,908, respectively	1,122,590	1,290,979
Other assets	<u>9,216</u>	<u>9,216</u>
	<u>1,131,806</u>	<u>1,300,195</u>
	<u>\$ 137,937,592</u>	<u>\$ 145,505,135</u>

See accompanying notes to the financial statements.

REDDING LIFE CARE LLC  
BALANCE SHEETS - (CONTINUED)

	December 31,	
	<u>2014</u>	<u>2013</u>
<u>Liabilities and Members' Deficit</u>		
Current liabilities:		
Loans payable, residents	\$ 11,146,165	\$ 15,566,921
Accounts payable	2,450,952	1,967,596
Accrued expenses	1,770,006	1,657,986
Deposits on unoccupied units	196,860	1,152,480
Current portion of term loan payable, bank	994,081	927,064
Current portion of long term debt	-	6,351
Current portion of capital lease obligations	10,076	20,671
Total current liabilities	<u>16,568,140</u>	<u>21,299,069</u>
Other liabilities:		
Loans payable, residents	129,815,134	129,070,530
Term loan payable, bank	74,215,083	75,209,164
Deferred revenue from entrance fees	19,271,767	18,698,319
Long term debt, less current portion	-	3,270
Capital lease obligations	-	10,349
Deposits	36,897	36,878
Total other liabilities	<u>223,338,881</u>	<u>223,028,510</u>
	239,907,021	244,327,579
Members' deficit -		
Members' deficit	<u>(101,969,429)</u>	<u>(98,822,444)</u>
	<u>\$ 137,937,592</u>	<u>\$ 145,505,135</u>

See accompanying notes to the financial statements.



REDDING LIFE CARE LLC  
STATEMENTS OF INCOME AND  
CHANGES IN MEMBERS' DEFICIT

	Year Ended December 31,	
	<u>2014</u>	<u>2013</u>
Operating revenues:		
Independent living services	\$ 19,128,819	\$ 19,415,680
Health center services	6,506,785	6,890,926
Assisted living services	1,326,018	1,151,224
Capital reserve assessment	150,000	171,157
Interest and dividends	13,565	23,342
Other revenue	1,267	33,898
Total operating revenues	<u>27,126,454</u>	<u>27,686,227</u>
Operating expenses:		
General and administrative	7,096,806	6,508,513
Building operations	3,777,297	3,768,720
Food and beverage	4,037,465	4,038,910
Health center services	4,904,433	4,891,215
Environmental services	1,576,823	1,647,467
Assisted living services	765,317	734,773
Resident services	1,086,952	1,140,999
Total operating expenses	<u>23,245,093</u>	<u>22,730,597</u>
Operating income	<u>3,881,361</u>	<u>4,955,630</u>
Other revenues:		
Entrance fees	3,673,791	3,678,367
Administration fees	443,582	451,390
Interest earned	2,129	10,099
Garage rental fees	35,981	61,758
Cancellation penalties	4,000	1,000
Gain on sale of equipment	-	750
Total other revenues	<u>4,159,483</u>	<u>4,203,364</u>
Other expenses:		
Depreciation	6,062,941	6,002,544
Interest	4,390,047	4,483,948
Amortization of financing costs	168,389	168,389
General and administrative	505,583	422,938
Loss on sale of equipment	41,689	-
Marketing	19,180	77,064
Total other expenses	<u>11,187,829</u>	<u>11,154,883</u>
Net loss	(3,146,985)	(1,995,889)
Members' deficit - beginning	(98,822,444)	(95,576,555)
Member distributions	-	(1,250,000)
Members' deficit - ending	<u>\$ (101,969,429)</u>	<u>\$ (98,822,444)</u>

See accompanying notes to the financial statements.

REDDING LIFE CARE LLC  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net loss	\$ (3,146,985)	\$ (1,995,889)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,231,330	6,170,933
Allowance for uncollectable accounts receivable	44,942	-
Deferred revenue recognized	(3,673,791)	(3,678,367)
Cancellation penalties	-	(1,000)
Loss (gain) on disposal of fixed assets	41,689	(750)
(Increase) decrease in operating assets:		
Accounts receivable	(56,700)	(87,137)
Prepaid expenses	19,293	(45,629)
Inventory of supplies	2,890	(8,940)
Increase (decrease) in operating liabilities:		
Accounts payable	483,356	703,913
Accrued expenses	112,020	(611,413)
Deposits	19	(37)
Net cash provided by operating activities	<u>58,063</u>	<u>445,684</u>
Cash flows from investing activities:		
Decrease in restricted cash	55,384	(5,419)
Proceeds from maturity/disposition of investments	1,242,000	1,986,402
Proceeds from sale of fixed assets	-	750
Purchase of investments	(994,000)	-
Purchase of furniture, equipment, and vehicles	<u>(1,545,439)</u>	<u>(1,249,120)</u>
Net cash (used) provided by investing activities	<u>(1,242,055)</u>	<u>732,613</u>
Cash flows from financing activities:		
Proceeds from resident loans	12,154,321	12,199,123
Entrance fees received	3,605,489	3,263,691
Deposits received	-	911,700
Repayment of term loan	(927,064)	(794,800)
Repayment of long term debt and capital leases	(30,565)	(50,545)
Entrance deposits returned	(302,300)	(132,300)
Distribution to members	-	(1,250,000)
Repayment of resident loans	<u>(14,732,802)</u>	<u>(12,527,578)</u>
Net cash (used) provided by financing activities	<u>(232,921)</u>	<u>1,619,291</u>
(Decrease) increase in cash and cash equivalents	(1,416,913)	2,797,588
Cash and cash equivalents, beginning	<u>7,737,500</u>	<u>4,939,912</u>
Cash and cash equivalents, ending	<u>\$ 6,320,587</u>	<u>\$ 7,737,500</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 4,015,164</u>	<u>\$ 4,109,065</u>

See accompanying notes to the financial statements.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 1 – ORGANIZATION AND RELATED MATTERS

Redding Life Care LLC (a limited liability company) was organized to develop and operate a continuing care retirement community (Meadow Ridge) in Redding, Connecticut. The community consists of 332 independent living apartments, 20 assisted living apartments, and a 62-bed skilled nursing facility. The Company has a contract with Life Care Services LLC of Des Moines, Iowa to manage the retirement community.

The members are not liable for any obligations of Redding Life Care LLC, except where noted. Differences in members' status are for management and profit and loss allocation purposes only.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company maintains an allowance for doubtful accounts due from third-party providers on behalf of individuals within the skilled nursing facility. This allowance is based on historical experience as well as a review of the existing receivables. Balances still outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes that all receivables due from its independent and assisted living apartments are fully collectable.

Advertising

The Company expenses all advertising costs when incurred. Advertising expense for the years ended December 31, 2014 and 2013 was \$499,340 and \$337,628, respectively.

Inventory of Supplies

Inventory of supplies is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES - (CONTINUED)

Deferred Financing Fees

Fees paid in connection with the refinancing of the Company's debt are capitalized and amortized over the terms of the financing agreements.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Buildings	27.5 - 39
Land improvements	15
Furniture and equipment	5 - 12
Vehicles	5

Deposits on Unoccupied Apartments

Prospective residents wanting to reserve an independent living apartment must make a 10% deposit. This deposit is held in the Entrance Fee Escrow account until various statutory requirements are met and is applied to the Entrance Fee due at the time of closing.

Health Center Service Revenue

Health center service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Obligation to Provide Future Services

Annually, the Company calculates the present value of the net cost of future services and use of facilities to be provided to current residents, and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a liability for the obligation to provide future services is recorded with a corresponding charge to income. The Company has concluded that there is no liability as of December 31, 2014 and 2013 using a discount rate of 4.5%.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES - (CONTINUED)

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts payable, other accrued expenses, loans payable to residents, notes payable to banks and financing companies. The fair value of the financial assets approximates their carrying costs.

Deferred Revenue from Entrance Fees

Entrance fees paid by residents upon entering into a continuing care contract are recorded as deferred revenue. Income is recognized on a straight-line basis over the estimated remaining life expectancy of each resident.

Income Taxes

Redding Life Care LLC is classified as a partnership for income tax purposes. Accordingly, income or loss from the Company is reported by the members on their individual income tax returns, and no provision for income taxes is required in the financial statements.

The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2011 - 2013.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of the following:

	December 31,	
	<u>2014</u>	<u>2013</u>
Debt service and operating reserve	\$ 5,177,174	\$ 4,961,615
Reserve for repair and replacement	2,370,827	2,317,260
Entrance deposit escrow	476,287	1,142,026
Reserve for patient care	515,387	594,547
Real estate taxes and insurance	1,212,783	1,040,394
	<u>\$ 9,752,458</u>	<u>\$10,055,842</u>

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 3 – RESTRICTED CASH - (CONTINUED)

Debt Service and Operating Reserve

The Connecticut Department of Social Services requires the Company to maintain a reserve account sufficient to cover one month's operating expenses and a portion of the principal and interest due on the Company's long-term debt.

Reserve for Repair and Replacement

The Company has established a Reserve for Repair and Replacement. These funds can be used for repairs, replacements and capital improvements to the Community.

Entrance Deposit Escrow

The Company maintains an entrance deposit escrow as required by the Connecticut Department of Social Services. This account holds entrance deposits made by prospective residents until various statutory requirements have been met.

Reserve for Patient Care

The Company maintains a reserve for patient care as required by the Connecticut Department of Social Services. This reserve is available to residents to cover expenses for the continuum of care which may not be covered by residents' assets, income, or insurance.

Real Estate Tax and Insurance Escrow

The Company has established a reserve for the payment of real estate taxes and casualty insurance on the Company's property as required under the Term Loan.

NOTE 4 – INVESTMENTS

At December 31, 2014, the Company maintained two certificates of deposit (CDs) for \$496,456 which have interest rates ranging from 0.5% to 0.6% with maturity dates between June 2015 and July 2015. At December 31, 2013, the Company maintained three certificates of deposit (CDs) for \$747,757 which have interest rates ranging from 1.25% to 1.4% with maturity dates between September 2014 and October 2014.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 4 – INVESTMENTS - (CONTINUED)

The certificates of deposit are classified as available for sale. Return on the certificates is reported as interest earned. At December 31, 2014 and 2013, \$496,456 and \$744,000, respectively, of CDs are included in restricted cash and investments.

NOTE 5 – FAIR VALUE MEASUREMENT

The Company has characterized their financial assets into a three-level fair value hierarchy, based on the priority of the inputs used to value these assets. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the financial assets fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment. Financial assets recorded in the combined statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1: These are assets where values are based on unadjusted quoted prices for identical assets in an active market where the Company has the ability to access.

Level 2: These are assets where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments such as interest rate and yield curves that are observable at commonly quoted intervals.

Level 3: These are assets where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the assumptions of management about assumptions market participants would use in pricing the investments.

The Company's financial assets at December 31, 2014 and 2013 are its investment in certificates of deposit which are valued at \$496,456 and \$747,757 respectively, and categorized as Level 2. The fair values of the certificates of deposit are the estimated market values which are determined using market information and valuation methodologies.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 6 – TERM LOAN

On August 31, 2011, the Company refinanced its then existing bank debt in exchange for a 10 year \$78,000,000 term loan secured by the Company's assets. Interest on the term loan from inception through August 31, 2016 is fixed at 5.80%. Beginning on September 1, 2016 through the end of the term loan, interest will be a variable rate of LIBOR plus 3.75%, but not less than 5.80%. Outstanding principal is calculated using a thirty year amortization schedule and an interest rate constant of 7.00%. The loan may not be prepaid within the first five years. The term loan is secured by a mortgage on the real and personal property of the Company and various assignments executed in connection with the mortgage. One of the members of the Company has guaranteed the payment of the term loan under certain limited conditions.

Aggregate principal payments of the term loan are:

<u>Year Ending</u> <u>December 31,</u>	
2015	\$ 994,081
2016	1,065,944
2017	1,143,000
2018	1,225,628
2019	1,314,229
Thereafter	<u>69,466,282</u>
	<u>\$ 75,209,164</u>

NOTE 7 – VEHICLE LOAN

The Company financed the purchase of vehicles through Ford Motor Credit. The balance of the notes at December 31, 2013 was \$9,621. The notes are secured by the vehicles acquired and were paid off during 2014.

NOTE 8 – OPERATING LEASES

The Company leases medical equipment, office equipment, and vehicles under non-cancelable operating leases which expire at various times over the next four years. Annual rental expense for non-cancelable operating leases was \$43,682 and \$42,415 for the years ended December 31, 2014 and 2013, respectively.



REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 8 – OPERATING LEASES - (CONTINUED)

The future minimum payments under operating leases are:

<u>Year Ending</u> <u>December 31,</u>	
2015	\$ 24,024
2016	18,487
2017	13,930
2018	<u>9,735</u>
	<u>\$ 66,176</u>

NOTE 9 – LOANS PAYABLE, RESIDENTS

Upon occupancy of the independent living apartments, residents loan the Company an amount ranging from 50% to 90% of their total admission payment. These loans are secured by a subordinate mortgage on the property held by a trustee for the benefit of all the residents. This mortgage is subordinated to the Company's term loan and any other related obligations. Upon termination of the residency agreement, the loans become payable on the earlier of 90 days after the date the apartment is reoccupied, or 18 to 36 months after release of the apartment by the resident. If the apartment has been previously released in connection with admittance to the health center or an assisted living apartment and a new admission payment has been received from re-occupancy of the apartment, the loan is payable six months after the date the resident moves out of the health center or assisted living apartment. If not repaid sooner, the loan is due and payable 30 years from the inception date of the residency agreement, the first of which would be in 2031.

NOTE 10 – OBLIGATIONS UNDER CAPITAL LEASES

The Company financed the acquisition of two vehicles with capital leases. The assets and liabilities under the capital lease obligations are recorded at the lower of the net present value of the minimum lease payments or fair market value. The assets are depreciated over their estimated useful life.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 10 – OBLIGATIONS UNDER CAPITAL LEASES - (CONTINUED)

The assets held under capital leases at December 31, 2014 are shown as property and equipment on the balance sheet as:

Vehicles	\$ 105,236
Less - accumulated depreciation	<u>94,530</u>
	<u>\$ 10,706</u>

Future minimum payments under capital leases are \$10,304 which are due in 2015, of which \$228 is interest.

NOTE 11 – CASH CONCENTRATION

The Company maintains their cash in bank deposit accounts at financial institutions. The balances from time to time exceed the federally insured limits.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Company has agreed to pay the managing member a monthly management fee for administrative services plus reimbursement of costs and expenses associated with any employees of the manager. For the years ended December 31, 2014 and 2013, the Company paid management fees of \$120,000 and expenses of \$180,000.

The Company is also reimbursed for services provided to the managing member by certain employees. The amount of reimbursement receivable at December 31, 2013 was \$136,661.

NOTE 13 – PROFIT SHARING PLAN

The Company maintains a salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code. The plan covers substantially all full-time employees who have completed one year of service and attained age 21. Contributions to the plan by the Company equal 50% of the salary reduction elected by each employee, up to a maximum reduction of 6% of annual salary. Employer contributions to the plan for 2014 and 2013 were \$64,255 and \$70,313, respectively.

REDDING LIFE CARE LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 14 – CONTINGENCIES

Utilities

The Company was a defendant in a lawsuit filed by a utility provider for allegedly failing to pay certain amounts in accordance with their service agreement. The Company filed counterclaims alleging that the utility misrepresented certain facts used to determine the fees. A settlement agreement between the Company and the utility provider was reached in January 2012 and all terms and conditions of the settlement have been satisfied as of the date of these financial statements. At December 31, 2014 and 2013, \$50,000 and \$100,000, respectively, has been included in accounts payable.

Medical Malpractice and Other Claims

The Company purchases professional and general liability insurance to cover medical malpractice claims as well as general liability claims. Management believes the insurance coverage is sufficient to cover the ultimate settlement costs of asserted claims as well as any unasserted claims arising from services provided and general liability claims known or unknown against the Company.

NOTE 15 – SUBSEQUENT EVENTS

Management reviewed subsequent events through April 29, 2015 which is the date the financial statements were available to be issued. There were no subsequent events for events requiring recording or disclosure in the financial statements for the year ended December 31, 2014.

**MEADOW RIDGE - OPERATIONS DIVISION**  
Redding, Connecticut

**CASH FLOW PROJECTION - OPERATIONS DIVISION**  
For the Period Beginning January 1, 2015

	Year 1 2015	Year 2 2016	Year 3 2017	Year 4 2018	Year 5 2019
Beginning Cash (1)	1,064,668	1,201,645	1,234,981	1,246,081	1,198,481
Additions:					
Apartment Service Fees (2)	17,935,292	19,141,902	20,070,336	21,153,936	22,329,930
Double occupancy Fees (3)	1,403,213	1,344,224	1,407,471	1,500,224	1,608,121
Health Center & Assisted Living Revenue (4)	13,870,770	14,267,180	14,670,734	15,084,883	15,511,041
Miscellaneous Income (5)	411,252	423,590	436,298	449,387	462,868
Interest Income (excluding HC Escrow) (6)	0	3,629	3,723	3,796	3,813
Disbursements:					
Operating Expenses (7)	(23,480,612)	(24,185,043)	(24,910,607)	(25,657,938)	(26,427,690)
AL Owner's Supervision Fee (8)	(100,410)	(86,184)	(89,379)	(97,734)	(104,562)
Life Care Discount (9)	(5,672,407)	(5,824,820)	(5,961,364)	(6,102,063)	(6,253,298)
Capital Expenses - funded from Operations (10)	(900,000)	(950,000)	(1,000,000)	(1,050,000)	(1,100,000)
Funding of Operating Reserve (11)	0	(58,703)	(60,464)	(62,278)	(64,146)
Debt Service (12)	(5,330,120)	(5,342,440)	(5,355,649)	(5,369,813)	(5,385,002)
Contribution From Net Admission Payments (13)	2,000,000	1,300,000	800,000	100,000	0
Net Change	136,977	33,336	11,100	(47,600)	581,075
Ending Cash	1,201,645	1,234,981	1,246,081	1,198,481	1,779,556

**MEADOW RIDGE  
Redding, Connecticut**

**PRO FORMA CASH FLOW ASSUMPTIONS**

- (1) Beginning Cash represents the Operations cash and reserve accounts at the beginning of the year.

Petty Cash	\$	600
Checking - Operating		1,018,879
Assisted Living Deposits		36,897
Checking - Employee Fund		8,125
Savings		167
Total		1,064,668

- (2) Apartment Service Fees represents the total of first-person monthly Service Fees for all apartments based on an assumed average occupancy of:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
260.38	268.50	272.00	277.00	282.50

- (3) Double Occupancy Fees represents revenue from monthly Service Fees required under the Residency Agreement for a second person occupying an apartment. The amount of second-person fees was projected based on apartment occupancy assumptions and the population projections prepared by the consulting actuarial firm, Milliman, of Omaha, Nebraska. The average number of apartments occupied by more than one person is projected to be:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
65.29	60.42	61.12	62.95	65.18

- (4) Health Center and Assisted Living Income assumes a 2015 daily rate of \$440.00 for semiprivate beds, \$565.00 for private beds, and \$343.20 for assisted living apartments. There are 62 total SNF beds (44 semiprivate beds and 18 private beds), the average census is projected to be:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
56.75	56.75	56.75	56.75	56.75

Out of 20 assisted living apartments, the average census is projected to be:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
19.0	19.0	19.0	19.0	19.0

- (5) Miscellaneous Income represents projected income from meals, garage rentals, guest rooms, and beauty and barber shop.

- (6) Interest Income is assumed to be earned at an annual rate of 0.2 percent.

- (7) Operating Expenses includes the expenses for staffing, materials, and services for the entire project. Expenses are projected to increase at 3.0% in each projection year.
- (8) Assisted Living Owner's Supervision Fee represents the difference between the AL per diem rate paid by private pay AL patient's and the Two Bedroom "B" rate retained by Meadow Ridge. This difference is paid to the owner.
- (9) Life Care Discount is considered an expense. It represents the income never realized when residents become patients in the health center or assisted living center. Both "temporary assignments" and "permanent assignments" to the health center and assisted living center, projected based upon experience at Meadow Ridge and other Milliman and LCS communities, are considered in determining life-care discount. Both temporary and permanent assignments are based upon the total number of life-care residents. The number of residents assigned temporarily to the health center is projected at 3.0 percent of the life-care residents (1.2% non-Medicare plus 1.8% Medicare). The average number of residents assigned permanently to the Health Center is projected based on apartment occupancy assumptions and rates of transfer developed from experience at Meadow Ridge and other Milliman and LCS communities and is shown in the following table:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
35.94	35.81	35.66	35.49	35.28

The average number of residents assigned permanently to the Assisted Living Unit is projected based on apartment occupancy assumptions and rates of transfer developed from experience at Meadow Ridge and other Milliman and LCS communities and is shown in the following table:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
17.26	17.55	17.54	17.45	17.39

- (10) Net Funding of Capital Reserves represents the funding of the Capital Replacement Reserve Fund by the residents.
- (12) Funding of Operating Reserve represents the increase in the operating reserve fund. Operating reserve is one twelfth of annual operating expenses and is funded by the residents.
- (13) Debt Service represents the portion of annual principal and interest payments paid by the residents.
- (14) Contribution From Net Admission Payments represents Admission Payments received by the Owner and used for operating expenses.

**MEADOW RIDGE - OPERATIONS DIVISION**

Redding, Connecticut

**FORECASTED STATEMENT OF REVENUES AND EXPENSES**

	Year 1 2015	Year 2 2016	Year 3 2017	Year 4 2018	Year 5 2019
<b>OPERATING INCOME</b>					
Monthly Service Fees	19,338,505	20,486,126	21,477,807	22,654,160	23,938,051
Health Center & Assisted Living Revenues - Net	8,198,363	8,442,360	8,709,370	8,982,820	9,257,743
Interest Income	0	3,629	3,723	3,796	3,813
Other Income	411,252	423,590	436,298	449,387	462,868
<b>TOTAL INCOME</b>	<b>27,948,120</b>	<b>29,355,705</b>	<b>30,627,198</b>	<b>32,090,163</b>	<b>33,662,475</b>
<b>EXPENSES:</b>					
G&A	(7,075,833)	(7,288,108)	(7,506,751)	(7,731,953)	(7,963,912)
Plant	(3,833,584)	(3,948,592)	(4,067,049)	(4,189,061)	(4,314,733)
Housekeeping	(1,597,937)	(1,645,875)	(1,695,251)	(1,746,109)	(1,798,492)
Dietary	(4,078,555)	(4,200,911)	(4,326,938)	(4,456,746)	(4,590,448)
Resident Care	(6,894,704)	(7,101,558)	(7,314,618)	(7,534,070)	(7,760,105)
Debt Service	(5,330,120)	(5,342,440)	(5,355,649)	(5,369,813)	(5,385,002)
<b>TOTAL OPERATING EXPENSES</b>	<b>(28,810,732)</b>	<b>(29,527,483)</b>	<b>(30,266,256)</b>	<b>(31,027,752)</b>	<b>(31,812,692)</b>
<b>NET OPERATING INCOME</b>	<b>(862,612)</b>	<b>(171,778)</b>	<b>360,942</b>	<b>1,062,411</b>	<b>1,849,783</b>

**MEADOW RIDGE  
Redding, Connecticut**

**AMORTIZATION ASSUMPTIONS**

The basis for amortization assumptions for the provider's capital costs includes the following:

- a. Forecasted Statement of Revenues and Expenses does not include depreciation of fixed assets or amortization of development expenses and organization costs, as these are non-cash items.



**MEADOW RIDGE  
Redding, Connecticut**

**RATE SCHEDULE  
January 1, 2015**

ADMISSION PAYMENTS – 80% ROC PLAN

A1	AVON	One Bedroom	\$463,500
A	ESSEX	One Bedroom	535,600
A2	FAIRFELD	One Bedroom with Den	602,550
B	GREENWICH	Two Bedroom	628,300
C	SAUGATUCK	Two Bedroom with Den	741,600
D	WINDSOR	Two Bedroom Deluxe	1,287,500
Second Person Admission Fee			25,000

The Admission Payments represent the total of the Entrance Fee and the Loan. Additional pricing plans offered are:

A 50% Refundable plan, priced at 85% of the ROC80 rates.

A Declining Balance plan, priced at 65% of the ROC80 rates.

MONTHLY FEES

A1	AVON	One Bedroom	\$4,306
A	ESSEX	One Bedroom	4,794
A2	FAIRFELD	One Bedroom with Den	5,241
B	GREENWICH	Two Bedroom	5,627
C	SAUGATUCK	Two Bedroom with Den	6,454
D	WINDSOR	Two Bedroom Deluxe	8,012
Second Person Monthly Fee			1,791

In addition to the Monthly Fee, all first persons pay a monthly supervision fee of \$90 that does not flow to the Operations Division.

**MEADOW RIDGE  
Redding, 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 fiscal year, and anticipated for the next five years, are as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
14.87%	13.60%	13.69%	13.69%	13.61%	13.50%

**MEADOW RIDGE  
Redding, Connecticut**

**AVERAGE AGE OF RESIDENTS**

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

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
88.05	88.14	88.20	88.22	88.26

**MEADOW RIDGE  
Redding, 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 fiscal year, 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 2014	43.96%	34.14%	3,981
FY 2015	46.14%	34.11%	4,397
FY 2016	46.27%	34.32%	4,361
FY 2017	46.20%	34.38%	4,313
FY 2018	46.10%	34.48%	4,244
FY 2019	45.99%	34.57%	4,167

\* Skilled Nursing Only

**MEADOW RIDGE  
Redding, Connecticut**

**OCCUPANCY RATES**

Occupancy rates for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
81.05%	78.43%	80.87%	81.93%	83.43%	85.09%

**MEADOW RIDGE  
Redding, Connecticut**

**NUMBER OF HEALTH CARE ADMISSIONS\***

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

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
130	129	131	133	135	138

\* Skilled Nursing Only

**MEADOW RIDGE  
Redding, Connecticut**

**DAYS OF CARE\***

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

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
15,125	16,659	16,671	16,662	16,673	16,684

\* Skilled Nursing Only

**MEADOW RIDGE  
Redding, Connecticut**

**NUMBER OF PERMANENT TRANSFERS\***

The number of permanent transfers to the health center in fiscal year ended December 31, 2014 was thirteen (13) residents.

\* Skilled Nursing Only



**MEADOW RIDGE**  
**Redding, Connecticut**

**STATEMENT OF CASH FLOWS**

For a statement of cash flows for Meadow Ridge 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, 2014 financial filing for Meadow Ridge. The items I 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 I reviewed on exhibit B include only apartment service fees, double occupancy fees, health center and assisted living income, and life care discount. I 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 Meadow Ridge as of December 31, 2014, were prepared under my direction and to the best of my knowledge and belief, are substantially accurate and complete.

Christie Buckrop, Actuarial Financial Analyst

May 27, 2015

**EXHIBIT M**