ESSEX MEADOWS

ANNUAL FINANCIAL FILING
For Fiscal Year End December 31, 2014

05/29/15

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Certified Audited Financial Statements of Essex Meadows Properties, Inc.

Years ended December 31, 2014 and 2013

(Attached)

Exhibit A

ESSEX MEADOWS PROPERTIES, INC.

Financial Statements and Supplementary Information

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

KPMG

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, 2014 and 2013, 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, 2014 and 2013, 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 13, 2015

ESSEX MEADOWS PROPERTIES, INC.

Balance Sheets

December 31, 2014 and 2013

Assets		**2014**	**2013**
Current assets:			
Cash	$	2,442,892	777,070
Trade accounts receivable, net		1,121,259	1,141,350
Prepaids and other assets		132,145	145,822
Due from parent		314,313	1,876,892
Total current assets		4,010,609	3,941,134
Assets limited as to use (note 2)		7,243,818	6,233,276
Property and equipment, net (note 4)		23,786,914	24,387,521
Cost of acquiring initial contracts, net of amortization of $776,999 and $768,002 at December 31, 2014 and 2013, respectively		38,234	47,231
Total assets	$	35,079,575	34,609,162
Liabilities and Stockholder's Deficit			
Current liabilities:			
Current installments of long-term debt (note 6)	$	41,094	39,414
Accounts payable		715,847	620,865
Advance deposits – health center		101,741	106,383
Accrued expenses and payroll withholding		859,724	803,281
Total current liabilities		1,718,406	1,569,943
Long-term debt, less current installments (note 6)		730,487	771,577
Mortgage loans and health center loans from residents (note 5)		43,042,653	42,018,873
Other long-term liability – residents' fair share		3,848,852	3,470,098
Refundable deposits – residency agreements		303,675	144,146
Deferred fees		2,835,404	3,514,745
Total liabilities		52,479,477	51,489,382
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		(24,788)	(17,090)
Accumulated deficit		(17,880,362)	(17,368,378)
Total stockholder's deficit		(17,399,902)	(16,880,220)
Total liabilities and stockholder's deficit	$	35,079,575	34,609,162

See accompanying notes to financial statements.

ESSEX MEADOWS PROPERTIES, INC.

Statements of Operations and Accumulated Deficit

Years ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Apartment service fees	$ 10,255,845	9,835,818
Health center and assisted living service fees	4,590,432	4,185,682
Fair share adjustment	(378,754)	(368,256)
Miscellaneous income	41,125	(10,620)
Total operating revenues	14,508,648	13,642,624
Operating expenses:		
General and administrative (notes 3 and 8)	3,427,749	3,393,484
Plant	2,492,056	2,269,845
Environmental services	919,495	866,328
Food and beverage	2,859,219	2,783,310
Medical and resident services	4,708,477	4,565,309
Total operating expenses	14,406,996	13,878,276
Excess (deficit) of operating revenues over expenses	101,652	(235,652)
Other revenues:		
Entrance fees and cancellation penalties	2,554,409	3,139,421
Supervision fees	151,524	146,960
Working capital fees	128,060	233,344
Interest income	13,842	1,460
Miscellaneous income	39,120	28,540
Total other revenues	2,886,955	3,549,725
Other expenses:		
Depreciation and amortization	1,459,212	1,577,044
Interest expense	33,170	45,206
Miscellaneous expense	8,209	97,620
Total other expenses	1,500,591	1,719,870
Net income	1,488,016	1,594,203
Accumulated deficit at beginning of year	(17,368,378)	(16,262,581)
Stockholder distributions paid	(2,000,000)	(2,700,000)
Accumulated deficit at end of year	$ (17,880,362)	(17,368,378)

See accompanying notes to financial statements.

ESSEX MEADOWS PROPERTIES, INC.

Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

		2014	2013
Net income	$	1,488,016	1,594,203
Change in net unrealized losses on securities		(7,698)	50,733
Comprehensive income	$	1,480,318	1,644,936

See accompanying notes to financial statements.

ESSEX MEADOWS PROPERTIES, INC.

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 1,488,016	1,594,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of property and equipment	8,209	—
Depreciation and amortization	1,459,212	1,577,044
Amortization of deferred fees	(2,050,585)	(2,082,482)
Realized losses on sale of assets limited as to use	—	85,011
Changes in assets and liabilities:		
Trade accounts receivable, net	20,091	(369,427)
Prepaids and other assets	13,677	23,731
Accounts payable	(43,169)	349,111
Accrued expenses and payroll withholding	56,443	69,562
Other long-term liability – residents' fair share	378,754	368,256
Net cash provided by operating activities	1,330,648	1,615,009
Cash flows from investing activities:		
Purchases of property and equipment	(719,666)	(611,759)
Proceeds from assets limited as to use	109,750	9,689,359
Purchases of assets limited as to use	(1,127,990)	(9,253,390)
Net cash used in investing activities	(1,737,906)	(175,790)
Cash flows from financing activities:		
Proceeds from (payments of) refundable deposits, net	154,887	(255,483)
Proceeds from loans and entrance fees from residents	5,173,559	8,912,391
Repayments on loans and entrance fees from residents	(2,778,535)	(6,452,273)
Receipts (disbursements) related to due from parent	1,562,579	(660,752)
Payments on long-term debt	(39,410)	(33,980)
Stockholder distributions paid	(2,000,000)	(2,700,000)
Net cash provided by (used in) financing activities	2,073,080	(1,190,097)
Net increase in cash	1,665,822	249,122
Cash at beginning of year	777,070	527,948
Cash at end of year	$ 2,442,892	777,070
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 33,170	45,206
Supplemental disclosure of noncash investing activity:		
Accounts payable incurred for property and equipment	$ 138,151	—

See accompanying notes to financial statements.

(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

Cash equivalents consist primarily of money market accounts with maturities of three months of less at the time of purchase and are carried at cost, which approximates fair value. 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 $1,240,014 and $1,190,983 at December 31, 2014 and 2013, 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.

(Continued)

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

(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

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 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, 2014 and 2013.

There were no transfers between levels during 2014 or 2013.

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, 2014 and 2013:

	December 31, 2014		
	Level 1	**Level 2**	**Total at fair value**
Assets limited as to use – mutual funds and money market and other cash equivalents	$ 7,243,818	—	7,243,818
	$ 7,243,818	—	7,243,818

	December 31, 2013		
	Level 1	**Level 2**	**Total at fair value**
Assets limited as to use – mutual funds and money market and other cash equivalents	$ 6,233,276	—	6,233,276
	$ 6,233,276	—	6,233,276

(i) *Income Taxes*

On January 1, 2003, the Parent filed an election to be taxed under the provisions of the Internal Revenue Code regulating small business corporations (Subchapter S). As the Company is a 100% owned subsidiary of the Parent, the Parent has elected to treat the Company as a qualified Subchapter S subsidiary. Due to this election, the Company is treated as a disregarded entity for income tax purposes and all of its income and expenses are deemed to belong to the Parent. Therefore, no provisions or liabilities for income taxes have been recorded in the financial statements as of December 31, 2014 and 2013. The Company recognized the effect of income tax positions only if those positions are more likely than not of being sustained.

(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, 2014 and 2013 were as follows:

		2014	2013
Operating reserves held to satisfy regulatory requirements	$	1,708,489	1,702,496
Health center loan escrow		2,570,106	1,896,905
Entrance fee and wait list escrows		650,454	596,547
Repair and replacement reserves		2,314,769	2,037,328
	$	7,243,818	6,233,276

The fair value of available-for-sale securities by class of security at December 31, 2014 and 2013 was as follows:

Description		2014	2013
Money market and other cash equivalents	$	1,282,032	861,349
Mutual funds		5,961,786	5,371,927
	$	7,243,818	6,233,276

Gross unrealized gains and losses for each security type at December 31, 2014 and 2013 are as follows:

Description		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
2014:					
Money market and other cash equivalents	$	1,282,032	—	—	1,282,032
Mutual funds		5,986,574	—	(24,788)	5,961,786
	$	7,268,606	—	(24,788)	7,243,818
2013:					
Money market and other cash equivalents	$	861,349	—	—	861,349
Mutual funds		5,389,017	—	(17,090)	5,371,927
	$	6,250,366	—	(17,090)	6,233,276

During 2014 and 2013, no other-than-temporary impairments were recognized.

(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 $533,402 and $504,630 during the years ended December 31, 2014 and 2013, respectively, and are included in general and administrative expenses.

(4) Property and Equipment, Net

A summary of property and equipment at December 31, 2014 and 2013 is as follows:

	Useful lives		2014	2013
Land		$	753,155	753,155
Building and building improvements	5–60 years		42,201,272	41,617,515
Equipment	2–25 years		2,192,328	2,098,004
Furniture and fixtures	5–15 years		3,735,764	3,763,325
			48,882,519	48,231,999
Less accumulated depreciation			25,095,605	23,844,478
Property and equipment, net		$	23,786,914	24,387,521

(Continued)

(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, 2014 and 2013 were $39,923,148 and $39,567,118, 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, 2014 and 2013 were $3,119,505 and $2,451,755, respectively.

(6) Long-Term Debt

Long-term debt at December 31, 2014 and 2013 consists of the following:

		2014	2013
$950,000 term loan with bank due January 1, 2029, principal and interest payments payable monthly, with interest at 4.125%	$	771,581	810,991
Less current installments		(41,094)	(39,414)
Total long-term debt, less current installments	$	730,487	771,577

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:

2015	$	41,094
2016		42,846
2017		44,673
2018		46,578
2019		48,563
Thereafter		547,827
	$	771,581

(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 $93,972 and $89,102 at December 31, 2014 and 2013, 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, 2014 and 2013, the Company's Parent provided certain management and advisory services in exchange for a fee of $104,085 and $111,902, 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 13, 2015, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

KPMG

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, 2014 and 2013, and have issued our report thereon dated April 13, 2015, 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 13, 2015

Schedule 1

ESSEX MEADOWS PROPERTIES, INC. – OPERATIONS DIVISION

Schedule of Assets, Liabilities, and Division Equity Information

December 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash	$ 1,814,792	669,405
Trade accounts receivable, net	608,804	935,901
Prepaids and other assets	162,111	164,692
Due from finance division	—	433,005
Total current assets	2,585,707	2,203,003
Assets limited as to use	3,929,281	3,641,507
	$ 6,514,988	5,844,510
Liabilities and Division Equity		
Current liabilities:		
Accounts payable	$ 701,208	586,456
Accrued expenses and payroll withholding	859,724	803,281
Refundable deposits	135,376	146,547
Due to finance division	131,700	—
Total current liabilities	1,828,008	1,536,284
Due to health center loan escrow	500,000	500,000
Other long-term liability – residents' fair share	1,344,952	1,248,430
Total liabilities	3,672,960	3,284,714
Division equity	2,842,028	2,559,796
	$ 6,514,988	5,844,510

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, 2014 and 2013

	2014	2013
Revenues:		
Apartment service fees	$ 10,255,845	9,835,818
Health center and assisted living service fees	4,590,432	4,185,682
Space rental	3,600	3,600
Investment income (loss)	7,771	(41,802)
Other	157,814	260,927
	15,015,462	14,244,225
Expenses:		
General and administrative	3,029,962	2,936,039
Plant	2,492,056	2,269,845
Environmental services	919,495	866,328
Food and beverage	2,859,219	2,783,310
Medical and resident services	4,708,477	4,565,309
Interest	33,170	45,206
Other	39,410	33,980
	14,081,789	13,500,017
Revenues in excess of expenses, before fair share capital expenditures	933,673	744,208
Fair share capital expenditures	402,484	226,769
Excess of current operating revenues before contribution to and interest earnings on repair and replacement reserves and fair share adjustment	531,189	517,439
Contribution to repair and replacement reserves	(411,723)	(419,297)
Interest (earnings) loss on repair and replacement reserves	(22,944)	7,822
Surplus of fair share operating revenues which may be used to offset future year results	(96,522)	(105,964)
Net operating results	$ —	—

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, 2014 and 2013

Balance at December 31, 2012	$	2,297,503
Losses on the reserves		(7,822)
Funding of the reserves		419,297
Expenditures from the reserves		(149,182)
Balance at December 31, 2013		2,559,796
Earnings on the reserves		22,944
Funding of the reserves		411,723
Expenditures from the reserves		(152,435)
Balance at December 31, 2014	$	2,842,028

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, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Change in:			
Trade accounts receivable, net	$	327,097	(163,978)
Prepaids and other assets		2,581	74,210
Accounts payable		114,752	310,268
Accrued expenses and payroll withholding and refundable deposits		45,272	113,814
Other long-term liability – residents' fair share		96,522	105,964
Net cash provided by operating activities		586,224	440,278
Cash flows from investing activity:			
(Payments to) proceeds from assets limited as to use, net		(5,542)	76,984
Net cash (used in) provided by investing activity		(5,542)	76,984
Cash flows from financing activity:			
Payments from (to) finance division, net		564,705	(286,791)
Net cash provided by (used in) financing activity		564,705	(286,791)
Net increase in cash		1,145,387	230,471
Cash at beginning of year		669,405	438,934
Cash at end of year	$	1,814,792	669,405
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	33,170	45,206

See accompanying independent auditors' report on supplementary information.

Exhibit B

ESSEX MEADOWS PROPERTIES, INC.
Essex, 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)	5,744,073	5,758,466	5,769,988	5,235,451	4,799,352
Additions:	0	0	0	0	0
Apartment Service Fees (2)	10,489,314	10,914,418	11,298,699	11,668,471	12,087,882
Health Center Income - Net (3)	4,243,101	4,287,801	4,346,787	4,432,801	4,544,187
Miscellaneous Income (4)	417,200	417,200	417,200	417,200	417,200
Working Capital Fees (5)	205,851	215,023	202,319	210,971	220,636
Interest Income (excluding HC Escrow) (6)	85,255	85,463	81,569	74,333	66,338
Interest on Health Center Escrow Fund (7)	49,951	47,985	48,054	49,395	51,470
Disbursements:	0	0	0	0	0
Operating Expenses (8)	(14,584,279)	(15,058,268)	(15,547,662)	(16,052,961)	(16,695,079)
Capital Expenses - not paid from fund (9)	(370,000)	(381,100)	(392,533)	(404,309)	(416,438)
Capital Expenses -- paid from Reserve Fund (10)	(450,000)	(445,000)	(916,971)	(760,000)	(840,000)
Debt Service Expense (11)	(72,000)	(72,000)	(72,000)	(72,000)	(72,000)
Net Change	14,393	11,522	(534,538)	(436,099)	(635,805)
Ending Cash	5,758,466	5,769,988	5,235,451	4,799,352	4,163,547

* 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	$1,814,792
Restricted and Escrowed Funds	3,929,281
Total	$5,744,073

(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 2015 through 2019 is as shown in the following table:

2015	2016	2017	2018	2019
55.84	53.70	51.52	49.34	47.55

(3) Health Center Income: assumes average daily rates in 2015 of $411.17 for a private room and $360.70 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 91.1 percent in 2015 through 2019.

(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, 2014 was $2,576,451.

(8) Operating Expenses: includes the expenses for staffing, materials, and services for the entire project. Operating expenses are projected to increase at 3.25% annually in years 2-4 and 4% in year 5.

(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 2015	Year 2 2016	Year 3 2017	Year 4 2018	Year 5 2019
OPERATING INCOME					
Amortization of Non-Refundable Fees	2,559,948	2,761,925	2,583,758	2,638,438	2,726,811
Owner's Supervision Fees	155,976	156,090	155,616	154,470	153,474
Monthly Service Fees	10,489,314	10,914,418	11,298,699	11,668,471	12,087,882
Health Center Revenues - Net	4,243,101	4,287,801	4,346,787	4,432,801	4,544,187
Interest Income	135,206	133,448	129,623	123,728	117,808
Other Income	623,051	632,223	619,519	628,171	637,836
TOTAL INCOME	18,206,596	18,885,905	19,134,001	19,646,079	20,267,998
EXPENSES:	0	0	0	0	0
G&A	(3,209,429)	(3,313,736)	(3,421,432)	(3,532,629)	(3,673,934)
Plant	(2,363,521)	(2,440,335)	(2,519,646)	(2,601,535)	(2,705,596)
Housekeeping	(976,069)	(1,007,791)	(1,040,544)	(1,074,362)	(1,117,337)
Dietary	(2,973,734)	(3,070,380)	(3,170,167)	(3,273,198)	(3,404,126)
Resident Care	(5,061,526)	(5,226,026)	(5,395,871)	(5,571,237)	(5,794,087)
Marketing Expense	(303,772)	(316,000)	(329,000)	(342,000)	(356,000)
Debt Service Expense	(72,000)	(72,000)	(72,000)	(72,000)	(72,000)
Depreciation/Amortization	(1,242,618)	(1,182,891)	(1,131,062)	(1,046,332)	(986,388)
TOTAL OPERATING EXPENSES	(16,202,669)	(16,629,159)	(17,079,724)	(17,513,293)	(18,109,467)
NET INCOME	2,003,928	2,256,746	2,054,278	2,132,786	2,158,530

Exhibit 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 01/01/2015

	ROC Admission Payments	Monthly Service Fees
One-Bedroom Traditional	$197,700	$3,428
One-Bedroom Deluxe	245,000	3,732
One-Bedroom Custom	252,000	3,879
One-Bedroom Extended Custom	263,000	3,879
One-Bedroom Den	294,000	4,043
Two-Bedroom Traditional	294,000	4,043
Two-Bedroom Deluxe	361,000	4,313
Two-Bedroom Custom	361,000	4,313
Two-Bedroom Enhanced	412,000	4,518
Two-Bedroom Deluxe with Den	433,000	4,657
Two-Bedroom Custom with Den	433,000	4,657
Essex Suite	437,000	5,230
Meadows Suite	489,000	5,535
Cascade Suite	539,000	6,299
Three Bedroom Custom	612,000	6,898
Silver Star (Cottage)	618,000	5,739
Columbia (Cottage)	773,500	6,041
Charter Oak (Cottage)	814,000	6,218
Lexington (Cottage)	900,000	6,630
Second Person Fee	0	1,928

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

The monthly Service Fees include the $50 per-person monthly Owner's Supervision Fee.

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:

2014	2015	2016	2017	2018	2019
9.68%	10.40%	10.38%	10.38%	10.43%	10.48%

ESSEX MEADOWS
Essex, Connecticut

AVERAGE AGE OF RESIDENTS

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

2015	2016	2017	2018	2019
86.62	86.80	87.03	87.23	87.41

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:

Year	Utilization Rate	Admission Rate	Days per 100 Residents*
FY 2014	40.67%	27.52%	4,548
FY 2015	43.16%	30.69%	4,596
FY 2016	44.36%	31.65%	4,669
FY 2017	44.50%	31.59%	4,733
FY 2018	44.65%	31.53%	4,799
FY 2019	44.74%	31.47%	4,842

*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:

2014	2015	2016	2017	2018	2019
90.78%	92.05%	94.71%	95.24%	95.24%	95.24%

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:

2014	2015	2016	2017	2018	2019
72	80	82	82	81	81

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:

2014	2015	2016	2017	2018	2019
11,856	11,947	12,145	12,277	12,355	12,384

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, 2014 was six (6) 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.

Milliman

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 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, 2014, were prepared under my direction and to the best of my knowledge and belief, are substantially accurate and complete.

Christie Buckrop

Christie Buckrop, Actuarial Finance Analyst

May 27, 2015

EXHIBIT M