

# **STONERIDGE**

**ANNUAL FINANCIAL FILING  
For Fiscal Year Ending December 31, 2014**

**Date Submitted: May 29, 2015**

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**LCS-Westminster Partnership I LLP  
d/b/a StoneRidge  
Des Moines, Iowa**

**FINANCIAL REPORT**

**December 31, 2014**

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**INDEPENDENT AUDITOR'S REPORT**

To the Partners  
LCS-Westminster Partnership I LLP  
Des Moines, Iowa

We have audited the accompanying financial statements of LCS-Westminster Partnership I LLP, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, partners' (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 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 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 LCS-Westminster Partnership I LLP 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.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
January 26, 2015

**LCS-Westminster Partnership I LLP**  
**d/b/a StoneRidge**  
**BALANCE SHEETS**

ASSETS	December 31	
	2014	2013
Current assets		
Cash and cash equivalents	\$ 1,767,250	\$ 3,621,483
Accounts receivable, net of allowance for doubtful accounts (2014, \$31,220; 2013, \$31,220)	659,811	545,895
Prepaid expenses and other	432,218	492,032
Assets whose use is limited or restricted	212,925	189,414
Total current assets	3,072,204	4,848,824
Assets whose use is limited or restricted	5,661,135	5,908,641
Operating property, at cost, net of accumulated depreciation	61,833,339	65,049,382
Financing costs, net of accumulated amortization	212,861	209,292
Cost of acquiring initial contracts, net of accumulated amortization	2,105,794	2,803,782
Total assets	\$ 72,885,333	\$ 78,819,921
<b>LIABILITIES AND PARTNERS' (DEFICIT)</b>		
Current liabilities		
Term loan payable, current portion	\$ 1,465,999	\$ 1,408,610
Accounts payable, trade	425,849	935,009
Accounts payable, affiliates	29,860	33,106
Accrued expenses	455,901	348,412
Accrued interest	92,846	94,047
Refundable deposits from prospective residents, escrowed	212,925	189,414
Loans from residents, current portion	2,839,650	3,811,395
Total current liabilities	5,523,030	6,819,993
Resident security deposits	11,500	11,500
Deferred revenue	6,293,780	4,409,897
Term loan payable, less current portion	31,632,858	33,098,857
Loans from residents, less current portion	61,921,021	61,825,880
Total liabilities	105,382,189	106,166,127
Commitments and contingencies	-	-
Partners' (deficit)	(32,496,856)	(27,346,206)
Total liabilities and partners' (deficit)	\$ 72,885,333	\$ 78,819,921

See Notes to Financial Statements.

**LCS-Westminster Partnership I LLP**  
**d/b/a StoneRidge**  
**STATEMENTS OF OPERATIONS**

	<b>Year ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Amortization of nonrefundable entrance payments	\$ 623,492	\$ 1,082,478
Working capital fee	204,180	138,286
Apartment revenues	10,282,315	9,938,728
Health center revenues	7,180,249	7,010,325
Other revenues	7,594	11,869
Total revenues	<u>18,297,830</u>	<u>18,181,686</u>
<b>OPERATING EXPENSES</b>		
General and administrative	4,253,405	3,965,982
Plant	2,636,193	2,396,414
Housekeeping	909,067	913,987
Dietary	2,951,256	2,943,296
Medical and resident care	4,733,730	4,696,926
Depreciation and amortization	4,199,798	4,300,553
Total operating expenses	<u>19,683,449</u>	<u>19,217,158</u>
(Loss) from operations	(1,385,619)	(1,035,472)
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	3,684	21,470
Interest expense	(1,079,581)	(1,142,800)
Loss on disposal of assets	(14,487)	(37,488)
Total other income (expenses)	<u>(1,090,384)</u>	<u>(1,158,818)</u>
Net (loss)	<u>\$ (2,476,003)</u>	<u>\$ (2,194,290)</u>

See Notes to Financial Statements.

**LCS-Westminster Partnership I LLP**  
**d/b/a StoneRidge**  
**STATEMENTS OF PARTNERS' (DEFICIT)**

	<b>Year ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>BALANCE (DEFICIT), beginning</b>	\$ (27,346,206)	\$ (21,656,558)
Contributions from partners	1,159,219	666,960
Distributions to partners	(3,833,866)	(4,162,318)
Net (loss)	(2,476,003)	(2,194,290)
<b>BALANCE (DEFICIT), ending</b>	<b>\$ (32,496,856)</b>	<b>\$ (27,346,206)</b>

See Notes to Financial Statements.



**LCS-Westminster Partnership I LLP**  
**d/b/a StoneRidge**  
**STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss)	\$ (2,476,003)	\$ (2,194,290)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Depreciation	3,430,259	3,398,779
Amortization	769,539	901,774
Amortization of nonrefundable entrance payments	(623,492)	(1,082,478)
Loss on disposal of assets	14,487	37,488
Change in operating assets and liabilities		
Accounts receivable	(113,916)	63,228
Prepaid expenses and other	59,814	318,433
Accounts payable	(513,607)	(472)
Accrued expenses	107,489	(81,165)
Refundable deposits from prospective residents, net	23,511	25,286
Resident security deposits	-	(500)
Deferred revenue, net	2,507,375	2,356,131
Net cash provided by operating activities	<u>3,185,456</u>	<u>3,742,214</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) in funds escrowed under residency agreement	(23,511)	(25,286)
(Increase) decrease in assets whose use is limited or restricted	247,506	(5,696)
Additions to operating property	(228,703)	(504,528)
Decrease in refundable deposits	-	14,000
Net cash (used in) investing activities	<u>(4,708)</u>	<u>(521,510)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions from partners	1,159,219	666,960
Distributions to partners	(3,833,866)	(4,162,318)
Proceeds from resident loans	5,678,168	6,630,261
Repayment of resident loans	(6,554,772)	(5,670,966)
Debt issuance costs	(75,120)	-
Repayment of term loan payable	(1,408,610)	(1,353,468)
Net cash (used in) financing activities	<u>(5,034,981)</u>	<u>(3,889,531)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,854,233)	(668,827)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<u>3,621,483</u>	<u>4,290,310</u>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<u>\$ 1,767,250</u>	<u>\$ 3,621,483</u>

See Notes to Financial Statements.

**LCS-Westminster Partnership I LLP  
d/b/a StoneRidge  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

LCS-Westminster Partnership I LLP, an Iowa limited liability partnership (the Partnership), was formed on December 27, 2000. LCS Stoneridge LLC (LCSSR), an Iowa limited liability company (the Managing Partner) owns a 15 percent interest and Westminster-LCS LLC, an Illinois limited liability company (WLCS) owns an 85 percent interest in the Partnership. LCSSR and WLCS, collectively the Capital Balance Partners, formed the Partnership to acquire, develop, manage, own and operate a continuing care retirement community in Mystic, Connecticut (Project).

**Use of Estimates**

Due to normal business uncertainties, management must estimate some information included in financial statements presented in conformity with generally accepted accounting principles. Actual results could, and probably will, differ from those estimates.

**Cash and Cash Equivalents**

The Partnership considers investments with maturities of three months or less when purchased to be cash equivalents.

**Accounts Receivable**

Accounts receivable are stated net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by reviewing each account for its potential for collection. Accounts are routinely reviewed and written off when deemed uncollectible.

**Assets Whose Use is Limited or Restricted**

Entrance Payments, prior to occupancy, are held in escrow and invested in shares of a money market fund investing in short-term United States Treasury obligations and in commercial paper that at the time of investment is rated at least A-1 by Standard & Poor's Corporation or Prime-I by Moody's Investor's Service, Inc. These funds remain the property of the prospective occupants unless and until available to be released to the Partnership as provided for in the escrow agreement. The amount of the escrowed Entrance Payments at December 31, 2014 and 2013 were \$212,925 and \$189,414 and were classified as current assets, respectively.

The Reserve Fund Escrow, as required by the State of Connecticut, is to be equal to at least one month's cash operating costs of the Project, plus one year's debt service. In 2014, the Partnership received approval from the State to reduce this to one month's cash operating costs, plus six month's debt service. The amount of the Reserve Fund Escrow at December 31, 2014 and 2013 was \$2,660,412 and \$3,907,918, respectively.

The Contingency Fund Reserve, under the provisions of the Certificate of Need law, is required to provide for payment of the resident's monthly fee or per diem charge, should the resident not have adequate financial resources and become a hardship to the Project. The amount of the Contingency Fund Reserve at December 31, 2014 and 2013 was \$1,000,000.

The Health Center Reserve, established by the Partnership in 2007 in the amount of \$500,000, is to secure a portion of the loans of the residents who are permanently assigned to the health center.

The Capital Asset Replacement Reserve, established by the Partnership in 2011, pursuant to the Loan Agreement (see Note 5), will be used for improving or replacing significant capital items. The amount of the Capital Asset Replacement Reserve at December 31, 2014 and 2013 was \$500,723.

**LCS-Westminster Partnership I LLP  
d/b/a StoneRidge  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Assets Whose Use is Limited or Restricted (continued)**

The Timed Out Refund Reserve, established by the Partnership in 2014, pursuant to the Loan Agreement (see Note 5), will be used for the payment of refunds that under the terms of the Residency Agreements, become due by reason of the passage of time, rather than be reason of re-occupancy of the unit. The amount of the Timed Out Refund Reserve at December 31, 2014 was \$1,000,000.

**Operating Property**

Costs incurred for the acquisition of land and the design, development, construction, marketing and interest of the Project have been capitalized and are being depreciated or amortized over the life of the respective assets or the period of anticipated benefits.

The Project began operations in November 2004 when the initial occupancy of the Project occurred. Phase I of the Project consists of 166 residential units and a 40 bed health center. Phase II of the Project began operations in 2007 and consists of 51 residential units, a pool, and common area expansion. Phase III of the Project began operations in 2008 and consists of 53 residential units and common area expansion, as well as a 12 bed assisted living facility.

**Development Fee**

Development fees incurred in connection with the development of the Project were amortized pro rata as the Entrance Payment revenue was recognized from the initial contracts. These fees were fully amortized during 2013.

**Deferred Financing Costs**

Financing costs represent expenses incurred in obtaining long-term financing. These costs are being amortized over the term of the related debt by the straight-line method.

**Cost of Acquiring Initial Contracts**

Costs incurred to originate a resident contract that result from and are essential to acquire initial contracts for each unit are capitalized until the Project Phase achieves 90 percent occupancy or one year from initial occupancy, whichever occurs first. Otherwise, these costs are expensed as incurred. Capitalized costs are being amortized on a straight-line basis over the average expected remaining lives of the residents under contract.

**Income Taxes**

The Partnership is not subject to income taxes. Each Partner is taxed on its share of the Partnership's taxable income, whether or not distributed, and reports on its tax return, its share of any net income or loss of the Partnership. As a consequence, no provision is made in these financial statements for income taxes, or penalties and interest thereon.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Partnership and recognize a tax liability (or asset) for an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated their material tax positions and determined there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Partnership is subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress. The Partnership is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years before 2011.

**LCS-Westminster Partnership I LLP  
d/b/a StoneRidge  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair Value of Financial Instruments**

Financial instruments include cash and cash equivalents, accounts receivable, assets whose use is limited or restricted, accounts payable, trade, accounts payable, affiliates, refundable deposits from prospective residents, resident security deposits, term loan payable, and loans from residents. See further discussion regarding the fair value of these financial instruments in Note 9 of the financial statements.

**Revenues and Expenses**

The resident pays an Entrance Payment, net of funds previously escrowed, consisting of a First Person Fee (and Second Person Fee, if applicable) and a Loan. The First Person Fee is recorded as deferred revenue and is amortized into income over the estimated life expectancy of the residents, adjusted annually based on the actuarially determined life expectancy of the individuals occupying the unit.

The resident pays a working capital fee equal to the then-current monthly fee (described below). When the right to access a residential unit is established, this one-time non-refundable fee is recognized as income. Its use is restricted for purposes specified in the Residency Agreements.

Residents pay a monthly fee, determined annually. The Residency Agreements provide that residents pay the funds required to operate the Project, which includes all operating expenses, debt service for nonresident debt, repairs and replacements, capital improvements, and working capital. The monthly fee may only be used for purposes specified in the Residency Agreements.

**Health Center Revenues**

The Partnership has agreements with third-party payors that provide for payments to the Partnership at amounts different from the Partnership's established rates. Payment arrangements include prospectively determined per diem payments. Health center revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. See Note 7 for additional information on health center revenues.

**NOTE 2 RELATED PARTY TRANSACTIONS**

The Partnership has a client services agreement with Life Care Services LLC (affiliated through common ownership with LCSSR) to provide management services relating to the operations of the Project. Amounts expensed under the agreement amounted to \$919,346 and \$907,009 for the years 2014 and 2013, respectively.

In the normal course of operations, the Partnership purchases from affiliates of LCSSR services for group purchasing, insurance, computing technology and related ancillary matters.

Home Health Care Services LLC (HHCS), an entity affiliated through common ownership, has been retained to provide various consulting and staff support services on an as-needed basis. Fees earned by HHCS for these services were \$39,157 and \$94,716 in 2014 and 2013, respectively.

**LCS-Westminster Partnership I LLP  
d/b/a StoneRidge  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 RESIDENCY AGREEMENTS**

The Partnership has entered into Residency Agreements (Agreements) with occupants and prospective occupants of the Project. The Agreements provide for the lifetime use, under certain conditions, of a living unit upon receipt of an Entrance Payment consisting of a First Person Fee (and Second Person Fee, if applicable) and a Loan. The Entrance Payment is deposited in an escrow account and will be released to the Partnership only after the occurrence of certain events as described in the Agreements. Prior to occupancy, Entrance Payments are refundable, subject to limitations in the Agreements. The amount of Entrance Payments that were escrowed relating to Phase I, Phase II, and Phase III and refundable at December 31, 2014 were \$86,360, \$45,390 and \$81,175, respectively.

At the time of occupancy, the portion of the Entrance Payment that is ultimately non-refundable is recorded as deferred revenue and is amortized to revenue as described in Note 1.

The Agreements also provide that at occupancy or within a period of time as defined in the Agreements, the resident will make a Loan to the Partnership. The Loans bear no interest and shall be repaid per the terms of the Agreements. The Loans of all residents will be secured by a mortgage on the real estate owned by the Partnership and will be subject to certain permitted encumbrances.

The Agreements also provide for the occupants to pay a monthly fee.

**NOTE 4 OPERATING PROPERTY**

Operating property consists of the following:

	Estimated useful lives	December 31	
		2014	2013
Land	-0-	\$ 1,618,512	\$ 1,618,512
Land improvement	15 years	5,711,857	5,703,983
Buildings and fixed equipment	7 - 39 years	76,748,623	76,760,298
Equipment and furnishings	7 - 10 years	4,981,158	4,909,100
		<u>89,060,150</u>	<u>88,991,893</u>
Less accumulated depreciation		<u>(27,226,811)</u>	<u>(23,942,511)</u>
		<u>\$ 61,833,339</u>	<u>\$ 65,049,382</u>

**NOTE 5 TERM LOAN PAYABLE**

**Loan Agreement**

On March 31, 2011, the Partnership entered into a Loan Agreement for a term loan of \$38,000,000. The Loan Agreement is secured by substantially all assets of the Partnership. On June 30, 2014, the Loan Agreement was amended to extend the maturity date to March 31, 2019. Under the Loan Agreement, borrowings will bear interest at the British Bankers Association (BBA) LIBOR rate plus 3.00% per annum. The base rate borrowings will accrue interest at the higher of the latest Federal Funds Rate plus 1.50% per annum, or the Prime Rate for such day plus 1.50% per annum. The interest rate on the Loan Agreement at December 31, 2014 and 2013 was 3.16% and 3.17%, respectively.

**LCS-Westminster Partnership I LLP**  
**d/b/a StoneRidge**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 LOAN COVENANTS AND MATURITIES**

On March 31, 2011, the Partnership entered into a Loan Agreement. The Loan Agreement was amended on June 30, 2014 changing the day's cash on hand requirement. The Partnership must meet required levels of occupancy targets, a minimum debt service coverage ratio and a minimum 120 day's cash on hand requirement in addition to maintaining a Timed Out Refund Reserve Fund. Other financial covenants must also be met. The Partnership did not meet its debt service coverage ratio at September 30, 2014. However, per the Loan Agreement, capital contributions were made to resolve the deficiency. At December 31, 2014, the Partnership was in compliance with all covenants.

Approximate aggregate maturities of long-term debt are as follows:

December 31	
2015	\$ 1,465,999
2016	1,525,726
2017	1,587,886
2018	1,652,579
2019	<u>26,866,667</u>
Total	<u>\$ 33,098,857</u>

**NOTE 7 HEALTH CENTER REVENUES**

The Partnership has agreements with third-party payors that provide for payments to the Partnership at amounts different from its established rates. A summary of the payment arrangements with the major third-party payor follows:

- Medicare. Skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined per diem rates. The prospective rate is based upon a classification system called Resource Utilization Groups (RUGS), with reimbursement based upon resident acuity.

Health center revenues from the Medicare program accounted for approximately 39 percent and 33 percent of the total health center revenues in 2014 and 2013, respectively. Revenues from the Medicare program accounted for approximately 16 percent and 13 percent of total revenues in 2014 and 2013, respectively.

**NOTE 8 EMPLOYEE RETIREMENT BENEFIT PLAN**

Available to all eligible employees of the Partnership is a defined contribution employee retirement benefit plan (the Plan). The Partnership accrued matching contributions of \$39,122 and \$35,400 in 2014 and 2013, respectively, to be remitted to the Plan in 2015 and 2014, respectively, which were equal to 50% of the participant's eligible contributions up to 3% of the participant's compensation for the plan year.

**NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Partnership measures the fair value of financial instruments as required by the Fair Value Measurements and Disclosures Topic of the FASB *Accounting Standards Codification*, using a fair value hierarchy consisting of three input levels, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date. Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

**LCS-Westminster Partnership I LLP  
d/b/a StoneRidge  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Included in cash and cash equivalents is approximately \$35,000 as of December 31, 2014 and 2013, and included in assets whose use is limited or restricted is approximately \$500,000 as of December 31, 2014 and 2013, subject to fair value measurements. These have quoted prices in active markets, and therefore are measured using Level 1 inputs.

**NOTE 10 STATEMENTS OF CASH FLOWS INFORMATION**

The Partnership made cash payments for interest of \$1,080,782 and \$1,138,383 during the years ended December 31, 2014 and 2013, respectively.

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

The Partnership in the normal course of operations is exposed to risk and involvement in legal actions and proceedings. To the extent available at costs believed reasonable by the Partnership, it maintains insurance coverages for various types of risk. Based on the Partnership's past experience, management believes that any legal actions or proceedings will not have a material effect on the financial position of the Partnership.

Because of the various regulations surrounding government reimbursed medical costs, there can be no assurance that the reimbursements will be equal to or exceed costs to provide such services.

**NOTE 12 SUBSEQUENT EVENTS**

The Partnership has evaluated subsequent events through January 26, 2015, the date which the financial statements were available to be issued. There were no subsequent events requiring accrual or disclosure.

**STONERIDGE PHASES I - III**

Mystic, Connecticut

**CASH FLOW PROJECTION**

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)	7,428,385	7,267,294	6,745,605	8,878,229	9,943,103
Additions:					
Apartment Service Fees (2)	10,801,817	11,585,587	12,320,805	13,206,544	13,993,490
Health Center Revenue, Net of Life Care Discount (3)	7,429,970	7,492,187	7,564,960	7,693,867	7,814,732
Miscellaneous Income (4)	176,815	182,119	187,583	193,209	199,005
Working Capital Reserve Fees (5)	297,921	280,125	330,282	350,843	349,241
Entrance Fee Receipts, Net of Refunds (6)	3,133,075	3,612,326	6,730,779	7,072,630	6,948,226
Interest Income (7)	11,017	10,505	11,712	14,110	15,252
Disbursements:					
Operating Expenses (8)	(16,297,840)	(16,789,949)	(17,267,592)	(17,819,153)	(18,424,185)
Phase III Marketing and Debt Service Paid By Partners (9)	211,596	211,596	211,596	211,596	211,596
Return to Partners (10)	(2,475,000)	(3,398,000)	(3,987,000)	(5,504,000)	(6,376,000)
Capital Expenses - Not Paid From Fund (11)	(846,100)	(950,000)	(920,000)	(1,044,419)	(996,560)
Capital Expenses -- Paid From Reserve Fund (12)	0	0	0	0	0
Debt Service (13)	(2,604,362)	(2,758,185)	(3,050,500)	(3,310,353)	(3,276,352)
Net Change	(161,091)	(521,689)	2,132,624	1,064,873	458,445
Ending Cash	7,267,294	6,745,605	8,878,229	9,943,103	10,401,548



**STONERIDGE PHASES I - III**  
**Mystic, Connecticut**

**PRO FORMA CASH FLOW ASSUMPTIONS**

- (1) Beginning Cash represents the Operations cash and Assets whose use is limited that are required to meet debt and statutory covenants at the beginning of each year. Below is the beginning balance at January 1, 2015.

Cash	\$1,767,250
Assets whose use is limited:	
Reserve Fund Escrow	2,660,412
Contingency Fund Reserve	1,000,000
Health Center Reserve	500,000
Capital Replacement Reserve	500,723
Timed Out Refund Reserve	<u>1,000,000</u>
Total	<u>\$7,428,385</u>

The Reserve Fund Escrow, as required by the State of Connecticut, is equal to at least one month's cash operating costs of the project, plus six months' debt service.

The Contingency Fund Reserve provides a reserve for payment of the resident's monthly service fee or per diem charge, should the resident exhaust his or her financial resources and become a hardship to the project.

The Health Center Reserve is fully funded at \$500,000 as required for CON licensing.

The Capital Replacement Reserve fund will be used for asset purchases that are greater than \$50,000.

The Timed Out Refund Reserve fund will be used for the payment of refunds that under the terms of the Residency Agreements, become due by reason of the passage of time, rather than be reason of re-occupancy of the unit.

- (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>
231.2	237.0	241.0	247.0	252.0

Also included in Apartment Service Fees are double occupancy fees that 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 use of the mortality tables prepared by the consulting actuarial firm, Milliman, Inc. of Omaha, Nebraska. The average number of apartments occupied by more than one person projected for 2015 through 2019 is:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
51.54	54.77	57.18	60.05	62.24

- (3) Health Center Revenue, Net of Life Care Discount assumes a 2015 daily rate of \$418 for semiprivate beds and \$453 for private beds, and \$293 for ALU. Out of 40 total SNF beds (22 semiprivate beds and 18 private beds) and 12 Dementia beds (all Private), the average census is projected to be 48.5 in all five projection years.

The Life Care Discount 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, based upon Milliman, Inc. population projections and LCS-generated data, 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 2.5 percent of the life-care residents (1.0% non-Medicare plus 1.5% Medicare).

- (4) Miscellaneous Income represents projected income from meals, garage rentals, guest rooms, and beauty and barber shop.
- (5) Working Capital Reserve Fee represents a one-time non-refundable working capital fee due at closing which will be used for purposes related to StoneRidge.
- (6) Entrance Fee Receipts, Net of Refunds represents Admission Payments received from residents for apartments being occupied for the first time and/or units turning over due to health center assignment, death or move-out.
- (7) Interest Income is assumed to be earned at an annual rate of 0.15 percent in all years.
- (8) Operating Expenses includes the expenses for staffing, materials, and services for the entire project. Expenses are projected to increase at 3.0% in Year 2, 2.8% in Year 3, and 3.2% in Years 4 and 3.4% in Year 5.
- (9) Phase III Marketing and Debt Service Paid By Partners represents Phase III Marketing-related costs that are being GAAP-expensed to the Community through General & Administrative Expense and thus included in Operating Expenses. It also includes the Phase III portion of principal and interest expense. The cash for these expenses is being funded separately through the partnership and not the community through 90% initial occupancy.
- (10) Return to Partners represents cash eligible for distribution in accordance with the partnership agreement.
- (11) Capital Expenses – not paid from fund represents the cost for replacement of interior finishes and elements of the buildings and equipment.

- (12) Capital Expenses – paid from Capital Replacement Reserve Fund represents the cost for replacement of interior finishes and elements of the buildings and equipment that are paid from the Capital Replacement Reserve Fund.
- (13) Debt Service is based on the current loan which matures in March 2019 (per First Amendment to Loan Agreement dated 06/30/2014). The principal amounts are set forth in the amended loan documents. The interest portions are based on estimated LIBOR rates.

**STONERIDGE PHASES I - III**  
Mystic, 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>					
Earned Entrance Fee Income	839,801	1,250,687	1,683,209	2,155,495	2,623,134
Monthly Service Fees	10,801,817	11,585,587	12,320,805	13,206,544	13,993,490
Working Capital Fees	297,921	280,125	330,282	350,843	349,241
Health Center Revenues - Net	7,429,970	7,492,187	7,564,960	7,693,867	7,814,732
Interest Income	11,017	10,505	11,712	14,110	15,252
Other Income	176,815	182,119	187,583	193,209	199,005
<b>TOTAL INCOME</b>	<b>19,557,341</b>	<b>20,801,210</b>	<b>22,098,551</b>	<b>23,614,068</b>	<b>24,994,854</b>
<b>EXPENSES:</b>					
G&A	(4,281,437)	(4,477,611)	(4,639,320)	(4,808,071)	(4,989,637)
Plant	(3,075,655)	(3,183,303)	(3,294,719)	(3,410,034)	(3,529,385)
Housekeeping	(1,054,726)	(1,086,368)	(1,118,959)	(1,152,528)	(1,187,103)
Dietary	(2,950,710)	(3,053,985)	(3,160,874)	(3,271,505)	(3,386,008)
Resident Care	(4,935,312)	(4,988,682)	(5,053,721)	(5,177,016)	(5,332,052)
Interest Expense	(1,138,363)	(1,232,459)	(1,462,614)	(1,657,774)	(1,556,444)
Depreciation & Amortization	(3,983,057)	(3,911,111)	(3,557,638)	(3,693,954)	(3,669,525)
<b>TOTAL OPERATING EXPENSES</b>	<b>(21,419,260)</b>	<b>(21,933,519)</b>	<b>(22,287,844)</b>	<b>(23,170,881)</b>	<b>(23,650,154)</b>
<b>NET INCOME</b>	<b>(1,861,919)</b>	<b>(1,132,309)</b>	<b>(189,294)</b>	<b>443,186</b>	<b>1,344,700</b>

**STONERIDGE PHASES I - III**  
**Mystic, Connecticut**

**AMORTIZATION ASSUMPTIONS**

Development Fee

Development fees incurred in connection with the development of the project are amortized pro rata as the entrance fee revenue is recognized.

Deferred Financing Costs

Financing costs represent expenses incurred in obtaining long-term financing. These costs are being amortized over the term of the related debt by the straight-line method.

Cost of Acquiring Initial Contracts

Cost incurred to originate a resident contract that result from and are essential to acquire initial contracts for each unit, were capitalized. These costs are being amortized on a straight-line basis over the average expected remaining lives of the residents under contract.

**ENTRANCE FEE REVENUE RECOGNITION**

Effective January 2012, the Residency Agreement defines the First Person Fee as the portion of the Entrance Payment that is ultimately nonrefundable. For these Residency Agreements, the First Person Fee is recorded as deferred revenue and is amortized into income over the estimated life expectancy of the residents, adjusted annually based on the actuarially determined life expectancy of the individuals occupying the unit.

**STONERIDGE PHASES I - III**  
**Mystic, Connecticut**

**70% ROC RATE SCHEDULE**  
**January 1, 2015**

	Admission Payments	Monthly Service Fee
One Bedroom Traditional	\$221,000	\$2,963
One Bedroom Traditional - Premium	244,000	2,963
One Bedroom Deluxe	266,036	3,135
One Bedroom Deluxe (Sabino)	288,000	3,135
One Bedroom Deluxe - Premium	293,750	3,135
One Bedroom Deluxe – Premium (Sabino)	313,000	3,135
One Bedroom with Den	333,143	3,278
One Bedroom with Den (Morgan)	348,333	3,278
One Bedroom with Den – Premium (Morgan)	391,000	3,278
One Bedroom with Den (Morgan Phase III)	345,000	3,278
One Bedroom with Den – Premium (Morgan Phase III)	391,000	3,278
One Bedroom with Den Deluxe	354,846	3,438
Two Bedroom Traditional	355,400	3,438
Two Bedroom Traditional - Premium	385,000	3,438
Two Bedroom Deluxe	411,000	3,643
Two Bedroom Deluxe - Premium	441,250	3,643
Two Bedroom Deluxe (Conrad)	441,500	3,643
Two Bedroom Deluxe (Conrad Phase III)	435,000	3,643
Two Bedroom Deluxe – Premium (Conrad Phase III)	481,000	3,643
Two Bedroom Corner	478,000	3,833
Two Bedroom Corner (La Dunton Phase III)	613,500	4,426
Two Bedroom End	523,000	3,993
Two Bedroom End (Herreshof)	621,000	4,196
Two Bedroom End (Herreshof Phase III)	560,000	4,196
Two Bedroom with Den	502,000	3,993
Two Bedroom with Den (Heritage)	551,500	3,993
Two Bedroom with Den (Heritage Phase III)	513,000	3,993
Two Bedroom with Den – Premium (Heritage Phase III)	564,250	3,993
Two Bedroom End with Den	615,000	4,340
Two Bedroom End with Den (Brilliant)	689,000	4,513
Two Bedroom End with Den (Brilliant Phase III)	689,000	4,513
Two Bedroom End with Den Deluxe (Eagle Phase III)	731,000	5,059
Second Person Fee	11,250	1,130

The Admission Payment represents the total of the Entrance Fee and the Loan. Ten percent (10%) of new sales are expected to be under a 50% ROC plan, which is priced at 83% of the above rates. Twenty percent (20%) of new sales are expected to be under a Traditional plan, which is priced at 60% of the above rates.

**STONERIDGE PHASES I - III  
Mystic, 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>
10.57%	13.20%	13.11%	12.99%	12.93%	12.84%

**STONERIDGE PHASES I - III**  
**Mystic, 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>
86.25	86.43	86.50	86.56	86.67



**STONERIDGE PHASES I - III  
Mystic, 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	44.65%	36.53%	2,568
FY 2015	40.66%	33.75%	2,627
FY 2016	38.08%	30.83%	2,787
FY 2017	38.52%	30.72%	2,960
FY 2018	38.78%	30.63%	3,060
FY 2019	38.96%	30.56%	3,128

\* Skilled Nursing Only

**STONERIDGE PHASES I - III**  
**Mystic, 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>
85.05%	86.60%	88.76%	90.26%	92.51%	94.38%

**STONERIDGE PHASES I - III  
Mystic, 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>
111	105	99	101	104	106

\* Skilled Nursing Only

**STONERIDGE PHASES I - III  
Mystic, 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>
7,808	8,136	8,906	9,714	10,370	10,870

\* Skilled Nursing Only

**STONERIDGE PHASES I - III**  
**Mystic, Connecticut**

**NUMBER OF PERMANENT TRANSFERS\***

The number of permanent transfers to the health center in fiscal year ended December 31, 2014 was nine (9) residents.

\* Skilled Nursing Only

**STONERIDGE PHASES I - III**  
**Mystic, Connecticut**

**STATEMENT OF CASH FLOWS**

For a statement of cash flows for StoneRidge 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 StoneRidge. 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 revenue (net of life care discount), and entrance fee receipts, net of refunds. 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 StoneRidge 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 Finance Analyst

May 27, 2015

**EXHIBIT M**