

# Sunrise Stratford, LP

Financial Statements as of and for the  
Year Ended December 31, 2018,  
Other Financial Information, and  
Independent Auditors' Reports

# SUNRISE STRATFORD, LP

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## **INDEPENDENT AUDITORS' REPORT**

To the Partners of  
Sunrise Stratford, LP:

We have audited the accompanying financial statements of Sunrise Stratford, LP (the "Partnership"), which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Partnership'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 Partnership'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 Sunrise Stratford, LP as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

April 19, 2019

# SUNRISE STRATFORD, LP

## BALANCE SHEET AS OF DECEMBER 31, 2018

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### ASSETS

#### CURRENT ASSETS

Prepaid expenses and other assets \$ 408,065

Total current assets 408,065

UTILITY DEPOSIT 31,137

#### FURNITURE AND EQUIPMENT:

Furniture, fixtures, and equipment 312,917

Construction in progress 2,635

Total property and equipment 315,552

Less accumulated depreciation (176,417)

Property and equipment—net 139,135

MANAGEMENT RIGHTS INTANGIBLE—Net of accumulated  
amortization of \$6,072,990 8,600,007

TOTAL ASSETS \$ 9,178,344

### LIABILITIES AND PARTNERS' CAPITAL

#### CURRENT LIABILITIES:

Accounts payable and accrued expenses \$ 592,364

Deferred revenue 147,543

Total current liabilities 739,907

TOTAL LIABILITIES \$ 739,907

PARTNERS' CAPITAL 8,438,437

TOTAL LIABILITIES AND PARTNERS' CAPITAL \$ 9,178,344

See notes to financial statements.

## SUNRISE STRATFORD, LP

### STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

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OPERATING REVENUE:

Resident revenue	\$ 5,729,919
Other revenue	<u>418,530</u>

Total operating revenue	<u>6,148,449</u>
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OPERATING EXPENSES:

Labor	3,503,633
General and administrative	849,220
Depreciation and amortization	508,549
Management fees to affiliate	440,536
Food	386,128
Insurance	251,235
Utilities	210,024
Repairs and maintenance	191,253
Advertising and marketing	158,984
Ancillary expenses	31,771
Taxes and licenses	25,273
Bad debt expense	<u>2,550</u>

Total operating expenses	<u>6,559,156</u>
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NET LOSS	<u>\$ (410,707)</u>
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See notes to financial statements.

## SUNRISE STRATFORD, LP

### STATEMENT OF CHANGES IN PARTNERS' CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2018

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PARTNERS' CAPITAL—January 1, 2018	\$ 8,959,561
Net loss	(410,707)
Contributions	6,380,536
Distributions	<u>(6,490,953)</u>
PARTNERS' CAPITAL—December 31, 2018	<u>\$ 8,438,437</u>

See notes to financial statements.

## SUNRISE STRATFORD, LP

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from residents who had a continuing care contract	\$ 5,854,320
Cash received from residents who did not have a continuing care contract	97,028
Cash received from other sources	418,530
Cash paid for labor	(3,500,405)
Cash paid for administrative expenses	(1,730,167)
Cash paid for insurance	(111,393)
Cash paid for food	(386,128)
Cash paid for management fee	<u>(440,536)</u>
Net cash provided by operating activities	<u>201,249</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(90,832)</u>
Net cash used in investing activities	(90,832)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions	6,380,536
Distributions	<u>(6,490,953)</u>
Net cash used in financing activities	<u>(110,417)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS—Beginning of year	<u>-</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE FOR NONCASH ITEM	
Accrued capital expenditures	<u>\$ 697</u>

(Continued)

## SUNRISE STRATFORD, LP

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

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RECONCILIATION OF NET LOSS TO NET CASH PROVIDED	
BY OPERATING ACTIVITIES:	
Net loss	\$ (410,707)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Provision for bad debt	2,550
Depreciation and amortization	508,549
Changes in operating assets and liabilities:	
Accounts receivable	157,421
Prepaid expenses and other assets	144,203
Accounts payable and accrued expenses	(210,018)
Deferred revenue	<u>9,251</u>
Net cash provided by operating activities	<u>\$ 201,249</u>

See notes to financial statements.

(Concluded)

# SUNRISE STRATFORD, LP

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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### 1. ORGANIZATION AND PRESENTATION

**Organization**—On August 1, 2006, Sunrise Stratford, LP (the “Partnership”), a Delaware limited partnership, acquired all easements and rights for The Stratford (“Stratford”), a licensed residential care facility for the elderly, from Raiser Resources, LLC. Sunrise Senior Living Investments, Inc. (SSLII) held a 99% interest in the Partnership. Sunrise Stratford GP, LLC (“GP”), a wholly owned subsidiary of SSLII, held a 1% interest in the Partnership. SSLII was a wholly owned subsidiary of Sunrise Senior Living, Inc. (SSLI). Immediately prior to the conversion of SSLI mentioned below, SSLII distributed its interest in the Partnership and in GP to SSLI. SSLI then contributed its interest in the Partnership and in the GP to another wholly owned subsidiary, Sunrise Senior Living Services, Inc.

Sunrise Senior Living, LLC (“Sunrise”) was formed as successor by conversion of SSLI on January 9, 2013. Red Fox Holding Corporation (“Red Fox”) acquired SSLI’s management business through Sunrise on January 9, 2013, from Welltower, Inc., f/k/a Health Care REIT, Inc. (“Welltower”), with Welltower retaining an approximate 20% interest in Red Fox.

On April 21, 2014, pursuant to a unit purchase and merger agreement dated December 20, 2013, Red Fox Acquisition Company, Inc. (RFAC), an entity primarily owned by Revera Health Services, Inc. (“Revera”), and an affiliate of Welltower and a member of Sunrise’s senior management acquired the remaining 80% interest in Red Fox. After the transaction, Welltower owned a 24% indirect interest in Red Fox with Revera owning a 75.3% indirect interest and a member of Sunrise’s senior management owning the remaining 0.7% indirect interest in Red Fox.

On April 28, 2017, Revera sold 12.5% of its interest in RFAC to the Welltower affiliate that already owned a 5% interest. Following this sale of interest, Welltower’s indirect interest in Red Fox increased to 34% and Revera’s indirect interest decreased to 65.3% with Sunrise LLC’s senior management indirect interest in Red Fox remaining unchanged at 0.7%.

Stratford filed declaration as a condominium and a continuing care retirement community (CCRC) in San Mateo City and County, California, on July 29, 1992. As a condition of ownership, each owner of a condominium is required to enter into a continuing care agreement (“CCRC Agreement”) with JHR Trust, an affiliate of Raiser Resources, LLC. The Partnership manages Stratford and markets vacant units on behalf of the condominium owners. The Partnership is entitled to transfer fees on the sale of a condominium unit in accordance with the CCRC Agreements.

The CCRC Agreements stipulate, among other things, monthly fees, the terms of resale of condominiums, transfer fees due at resale, an initial payment to The Laurel Avenue Trust (the “Trust”), and the Partnership’s obligation to provide both health care and nonhealth care services. In addition, the CCRC Agreements provide the Partnership with the right to increase future monthly fees.

Certain resident and admission agreements entitle residents to receive limited amounts of health care up to defined maximums.

The Trust is administered in accordance with the Trust agreement, which requires that the principal and income from investment of the principal be used for the benefit of the residents of Stratford, including—but not limited to—payment for medical and health-related costs, the replacement of fixtures and equipment, structural upgrades, other capital improvements, and interest-bearing loans to residents who become unable to pay their monthly fees or other fees. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by Stratford of San Mateo Homeowners Association. For the year ended December 31, 2018, the Partnership agreed to transfer \$118,798 to the Trust. The transfer is calculated as net operating income adjusted for marketing expense, wages and benefits, bad debt, and commissions received on unit sales and is included in general and administrative expense in the statements of operations.

Because Sunrise has the right to appoint two of the three trustees, it is deemed to control the Trust and consolidates the Trust in its financial statements. The Partnership has no direct interest in the Trust and does not have the right to appoint a trustee. Based on such and other applicable criteria, the Partnership does not consolidate the Trust.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**—The Partnership’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Use of Estimates**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions have been made with respect to the useful lives of assets, recoverability of management rights, recoverable amounts of receivables, amortization rate of deferred revenue, and present value of estimated costs to be incurred under continuing care agreements. Actual results could differ from those estimates.

**Cash and Cash Equivalents**—Cash transactions are processed by Sunrise and balances are maintained in Sunrise’s cash concentration account.

**Allowance for Doubtful Accounts**—The Partnership provides an allowance for doubtful accounts on its outstanding receivables based on an analysis of collectability, including collection history, age of the account, and payer type and generally do not require collateral to support outstanding balances. Write-offs of accounts are made after collection efforts have been exhausted.

**Furniture and Equipment**—Furniture and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 10 years. Depreciation expense was \$19,449 in 2018.

We assess the carrying value of held-for-use assets when events or changes in circumstances indicate that the carrying value may not be recoverable. We test the related assets held for use for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the related assets. The expected future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows

that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate and related assets are greater than their fair values. No impairment charges were recorded in 2018.

**Management Rights**—The Partnership acquired all easements and rights for Stratford as a part of the acquisition from Raiser Resources, LLC. The rights included the right to manage Stratford for a management fee and the right to transfer fees, including a commission of a percentage of the sale price on each condominium unit sold by an owner, plus a percentage of the appreciation in value. Management rights were recorded at fair value at acquisition and are being amortized using the straight-line method over the estimated useful life of 30 years. Amortization expense was \$489,100 for the year ended December 31, 2018.

Management rights are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Partnership measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charges were recorded in 2018.

**Revenue Recognition and Deferred Revenue**—Operating revenue primarily consists of resident fee revenue. Generally, resident fee revenue is recognized when services are rendered. The Partnership bills the residents one month in advance of the services being rendered, and therefore, cash payments received for services are recorded as deferred revenue until the services are rendered and the revenue is earned.

Health care revenue is recognized as basic assisted living, and activities of daily living services are provided and are recorded in resident fee revenue.

Upon sale of a condominium by an owner, the Partnership receives a commission of 7% of the sale price, net of transactions costs, plus a percentage of the appreciation in price of the condominium. These fees are recognized when received and are recorded in other revenue.

**Future Service Obligation on CCRC Agreement**—When the present value of estimated costs to be incurred under CCRC Agreements exceeds estimated revenues, the present values of such excess costs are accrued currently. The estimated future revenues assume a future increase in the monthly revenue commensurate with the monthly cost. The calculations at December 31, 2018, resulted in an expected positive net present value cash flow, and as such, no liability has been recorded in the accompanying financial statements.

**Income Taxes**—No provision has been made for federal or state income taxes, since the liability for such taxes, if any, is that of the partners and not the Partnership. The Partnership is subject to franchise taxes in California. These tax expenses are accrued and are included in taxes and licenses in the accompanying statements of operations.

The Partnership has no uncertain tax positions that require accrual at December 31, 2018.

The statute of limitations for the State of California to perform audits on the Partnership is four years and expires on October 15, 2022. The Partnership is currently not under an audit by any tax authorities. Tax years December 31, 2014, through December 31, 2018, are open and subject to California state audit.

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1), the tax reform bill (the "Act"), was signed into law. The new Act took effect on January 1, 2018. The Act adopts a new territorial tax system and subjects US parent corporation to current tax on its global intangible low-taxed income (GILTI) and imposes a base erosion and anti-abuse tax (BEAT) that taxes certain payments from corporations subject to US tax to related foreign subsidiaries. The new territorial tax system went into effect for tax years beginning after January 1, 2018. We have analyzed the impact of the Act and the Act did not have a material impact on the Partnership for the year 2018. To the extent that we incur tax expense related to GILTI, we will account for GILTI in the year the tax is incurred.

### **New Accounting Standards**

The following Accounting Standards Update (ASU) was issued in 2015:

ASU No. 2015-14, *Revenue from Customers (Topic 606): Deferral of the Effective Date*, deferred the effective date of ASU No. 2014-09 by one year. ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, supersedes the revenue recognition requirements in Accounting Standard Codification Topic 605, *Revenue Recognition*, as well as most industry-specific guidance and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. ASU No. 2014-09 will now be effective for us on January 1, 2019, on a retrospective basis using either a full retrospective or modified retrospective method. We are still in the process of assessing all of the potential impact that ASU No. 2014-09 (and related clarifying guidance issued by the Financial Accounting Standards Board (FASB) and FASB Transition Group) will have on our consolidated financial position, results of operations, cash flows, and disclosures.

### **3. TRANSACTIONS WITH AFFILIATES**

The Partnership has a management agreement with Sunrise Senior Living Management, Inc. (SSLMI) to manage the facility. The agreement provided for a monthly fee of 7.1% of gross operating revenue. Total management fees incurred were \$440,536 in 2018.

The Partnership obtained worker's compensation, professional and general liability, and property coverage through Sunrise Senior Living Insurance, Inc., an affiliate of Sunrise. Related expenses totaled \$251,235 in 2018.

The Partnership and SSLMI do not settle cash received or paid in affiliated transactions at the subsidiary level; therefore, the affiliated activity between SSLMI and the Partnership for the year 2018 has been included in contributions and distributions in the statement of changes in partners' capital for the year ended December 31, 2018. Distributions represent cash collected from residents and subsequently remitted to Sunrise. Contributions represent the net of all other operating activities recorded through intercompany and paid by Sunrise, plus noncash financing activities.

#### **4. CONTINGENCIES**

The Partnership is involved in claims and lawsuits incidental to the ordinary course of business. While the outcome of these claims and lawsuits cannot be predicted with certainty, management of the Partnership does not believe the ultimate resolution of these matters will have a material adverse effect on the Partnership's financial position.

#### **5. SUBSEQUENT EVENTS**

The Partnership evaluated subsequent events for disclosure from the balance sheet date through April 19, 2019, the date at which the financial statements were available to be issued and determined that there are no items to disclose.

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## **OTHER FINANCIAL INFORMATION**

## **INDEPENDENT AUDITORS' REPORT**

To the Partners of  
Sunrise Stratford, LP:

We have audited the accompanying schedules of long-term debt, net operating expenses, and liquid reserve amount in Forms 5-1 through 5-5 (the "Schedules"), which comprise the Long-Term Debt Incurred in a Prior Fiscal Year, Long-Term Debt Incurred During the Fiscal Year, Calculation of Long-Term Debt Reserve Amount, Calculation of Net Operating Expenses, and Annual Reserve Certification, respectively, of Sunrise Stratford, LP (the "Partnership"), as of December 31, 2018, and for the year then ended, and the related notes to the Schedules.

### **Management's Responsibility for the Schedules**

Management is responsible for the preparation and fair presentation of these Schedules in accordance with the financial reporting provisions of the California Health and Safety Code section 1792, as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the Schedules 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 Schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the Schedules 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 Partnership'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 Schedules.

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 Schedules referred to above present fairly, in all material respects, the long-term debt, net operating expenses, and liquid reserve amount in Forms 5-1 through 5-5 of Sunrise Stratford, LP as of December 31, 2018, and for the year then ended, on the basis of financial reporting provisions of the California Health and Safety Code section 1792 as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007.

## **Basis of Accounting**

We draw attention to Note 3 of the Schedules, which describes the basis of accounting. As described in Note 3 to the Schedules, the Schedules are prepared by the Partnership on the basis of the State of California Department of Social Services Annual Report Instructions dated January 1, 2007, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of California Department of Social Services. Our opinion is not modified with respect to this matter.

## **Restriction on Use**

This report is intended solely for the information and use of management and the partners of Sunrise Stratford, LP and the State of California Department of Social Services, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche LLP*

April 19, 2019

**SUNRISE STRATFORD, LP**

**FORM 5-1—LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR  
(Including balloon debt)**

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	(a)	(b)	(c)	(d)	(e)
		Principal Paid	Interest Paid	Credit	Total Paid
Long-Term Debt Obligation	Date Incurred	During Fiscal	During Fiscal	Enhancement	(Columns
		Year	Year	Premiums Paid	(b)+(c)+(d))
				in Fiscal Year	
None		\$ -	\$ -	\$ -	\$ -
TOTAL		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**SUNRISE STRATFORD, LP**

**FORM 5-2—LONG-TERM DEBT INCURRED DURING THE FISCAL YEAR  
(Including balloon debt)**

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	(a)	(b)	(c)	(d)	(e)
<b>Long-Term Debt Obligation</b>	<b>Date Incurred</b>	<b>Total Interest Paid During Fiscal Year</b>	<b>Amount of Most-Recent Payment on the Debt</b>	<b>Number of Payments over Next 12 Months</b>	<b>Reserve Requirement (See Instruction 5) (Columns (c) x (d))</b>
None		\$ -	\$ -	\$ -	\$ -
<b>TOTAL</b>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*(Transfer this amount to Form 5-3, Line 2)*

# SUNRISE STRATFORD, LP

## FORM 5-3—CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

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<b>Line</b>	<b>Total</b>
[1] Total from Form 5-1 bottom of Column (e)	<u>\$ -</u>
[2] Total from Form 5-2 bottom of Column (e)	<u>\$ -</u>
[3] Facility leasehold or rental payment paid by provider during fiscal year (including related payments, such as lease insurance)	<u>\$ -</u>
[4] Total amount required for long-term debt reserve	<u>\$ -</u>

# SUNRISE STRATFORD, LP

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

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Line	Amounts	Total
[1] Total operating expenses from financial statements		\$6,559,156
[2] Deductions		
a. Interest paid on long-term debt (see instructions)	\$ -	
b. Credit enhancement premiums paid for long-term debt (see instructions)	-	
c. Depreciation	19,449	
d. Amortization	489,100	
e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	97,028	
f. Extraordinary expenses approved by the Department	<u>-</u>	
[3] Total deductions		<u>(605,577)</u>
[4] Net operating expenses		<u>5,953,579</u>
[5] Divide Line 4 by 365 and enter the result		<u>16,311</u>
[6] Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u>\$1,223,325</u>

# SUNRISE STRATFORD, LP

## FORM 5-5—ANNUAL RESERVE CERTIFICATION

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Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

[1] Debt service reserve amount	\$ -
[2] Operating expense reserve amount	<u>1,223,325</u>
[3] Total liquid reserve amount	<u>\$ 1,223,325</u>

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<b>Qualifying Asset Description</b>	<b>Amount Debt Service Reserve</b>	<b>Operating Reserve</b>
[4] Cash and cash equivalents	\$ -	\$43,153,201
[5] Investment securities	-	-
[6] Equity securities	-	-
[7] Unused/available lines of credit	-	-
[8] Unused/available letters of credit	-	-
[9] Debt service reserve	-	(not applicable)
[10] Other	-	-
Total amount of qualifying assets listed for liquid reserve	[11] <u>\$ -</u>	[12] <u>\$43,153,201</u>
Total amount required	[13] <u>\$ -</u>	[14] <u>\$ 1,223,325</u>
Surplus/(deficiency)	[15] <u>\$ -</u>	[16] <u>\$41,929,876</u>

Cash and cash equivalents reported in Form 5-5 are held by the parent company, Sunrise (Note 5, Liquid Reserve Requirement).

# SUNRISE STRATFORD, LP

## NOTES TO ANNUAL RESERVE CALCULATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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### 1. ORGANIZATION AND PRESENTATION

**Organization**—On August 1, 2006, Sunrise Stratford, LP (the “Partnership”), a Delaware limited partnership, acquired all easements and rights for The Stratford (“Stratford”), a licensed residential care facility for the elderly, from Raiser Resources, LLC. Sunrise Senior Living Investments, Inc. (SSLII) held a 99% interest in the Partnership. Sunrise Stratford GP, LLC (“GP”), a wholly owned subsidiary of SSLII, held a 1% interest in the Partnership. SSLII was a wholly owned subsidiary of Sunrise Senior Living, Inc. (“SSLI”). Immediately prior to the conversion of SSLI mentioned below, SSLII distributed its interest in the Partnership and in GP to SSLI. SSLI then contributed its interest in the Partnership and in the GP to another wholly owned subsidiary, Sunrise Senior Living Services, Inc.

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On April 28, 2017, Revera sold 12.5% of its interest in RFAC to the Welltower affiliate that already owned a 5% interest. Following this sale of interest, Welltower’s indirect interest in Red Fox increased to 34% and Revera’s indirect interest decreased to 65.3% with Sunrise LLC’s senior management indirect interest in Red Fox remaining unchanged at 0.7%.

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The CCRC Agreements stipulate, among other things, monthly fees, the terms of resale of condominiums, transfer fees due at resale, an initial payment to The Laurel Avenue Trust (the “Trust”), and the Partnership’s obligation to provide both health and nonhealth care services. In addition, the CCRC Agreements provide the Partnership with the right to increase future monthly fees.

Certain resident and admission agreements entitle residents to receive limited amounts of health care up to defined maximums.

The Trust is administered in accordance with Trust Agreement, which requires that the principal and income from investment of the principal be used for the benefit of the residents of Stratford, including—but not limited to—payment for medical and health-related costs, the replacement of fixtures and equipment, structural upgrades, other capital improvements, and interest-bearing loans to residents who become unable to pay their monthly fees or other fees. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by Stratford of San Mateo Homeowners Association. For the year ended December 31, 2018, the Partnership agreed to transfer to the Trust \$118,798. The transfer is calculated as net operating income adjusted for marketing expense, wages and benefits, bad debt, and commissions received on unit sales and is included in general and administrative expense in the statement of operations.

Because Sunrise has the right to appoint two of the three trustees, it is deemed to control the Trust and consolidates the Trust in its financial statements. The Partnership has no direct interest in the Trust and does not have the right to appoint a trustee. Based on such and other applicable criteria, the Partnership does not consolidate the Trust.

## **2. PURPOSE OF THE ANNUAL RESERVE CALCULATION**

As the Partnership operates as a CCRC, the Partnership is required to file Forms 5-1 through 5-5 of the California Health and Safety Code section 1792 (the "Schedules") as instructed under the State of California Department of Social Services (DSS) Annual Report Instructions issued on January 1, 2007, for the year ended December 31, 2018. The purpose of the Schedules is to determine the amount the Partnership must hold in its liquid reserves for debt service and operating expense.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**—The Partnership's Schedules are prepared as instructed under the State of California Department of Social Services Annual Report Instructions issued on January 1, 2007.

**Cash and Cash Equivalents**—Cash transactions are processed by Sunrise and balances are maintained in Sunrise's cash concentration account.

## **4. REVENUE FROM NONCONTINUING CARE RESIDENTS**

The Partnership has deducted \$97,028 on Form 5-4 line 2 (e) for revenues received during the fiscal year for services to persons, who did not have a continuing care contract. The revenue represents service fees received for nonresident revenues and short-term respite stays in assisted living for noncontinuing care residents.

## **5. LIQUID RESERVE AMOUNT**

No cash and cash equivalents are held by the Partnership. Cash is consolidated and held by Sunrise. In order to provide a more complete portrayal of the assets available to meet the required reserves, DSS has requested the Form 5-5 be adjusted to reflect the qualifying assets from the audited financial statement of Sunrise.

## **6. SUBSEQUENT EVENTS**

The Partnership evaluated subsequent events for disclosure from the balance sheet date through April 19, 2019, the date at which the Schedules were available to be issued and determined that there are no items to disclose.

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