

# Sunrise Carlisle, LP

Financial Statements as of and for the  
Years Ended December 31, 2017 and 2016,  
Other Financial Information, and  
Independent Auditors' Reports

# SUNRISE CARLISLE, LP

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## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Sunrise Carlisle, LP:

We have audited the accompanying financial statements of Sunrise Carlisle, LP (the "Partnership"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' capital, 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.

### 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 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 Carlisle, LP as of December 31, 2017 and 2016, 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.

*Deloitte & Touche LLP*

April 20, 2018

<b>SUNRISE CARLISLE, LP</b>		
<b>BALANCE SHEETS</b>		
<b>AS OF DECEMBER 31, 2017 AND 2016</b>		
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Accounts receivable—net of allowance for doubtful accounts of \$4,654 and \$3,891 for 2017 and 2016, respectively	\$ 267,915	\$ 50,076
Prepaid expenses and other assets	<u>345,483</u>	<u>52,643</u>
Total current assets	<u>613,398</u>	<u>102,719</u>
UTILITY DEPOSIT	<u>36,200</u>	<u>36,200</u>
PROPERTY AND EQUIPMENT:		
Condominium units	391,442	391,442
Furniture, fixtures, and equipment	157,282	154,038
Construction in progress	<u>5,300</u>	<u>1,513</u>
Total property and equipment	554,024	546,993
Less accumulated depreciation	<u>(253,498)</u>	<u>(232,607)</u>
Property and equipment—net	<u>300,526</u>	<u>314,386</u>
MANAGEMENT RIGHTS INTANGIBLE—Net of accumulated amortization of \$2,214,440 and \$2,020,475 for 2017 and 2016, respectively	<u>3,604,526</u>	<u>3,798,491</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,554,650</u>	<u>\$ 4,251,796</u>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 480,612	\$ 390,823
Deferred revenue	<u>99,921</u>	<u>142,396</u>
Total current liabilities	<u>580,533</u>	<u>533,219</u>
<b>TOTAL LIABILITIES</b>	580,533	533,219
<b>PARTNERS' CAPITAL</b>	<u>3,974,117</u>	<u>3,718,577</u>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<u>\$ 4,554,650</u>	<u>\$ 4,251,796</u>
See notes to financial statements.		

<b>SUNRISE CARLISLE, LP</b>		
<b>STATEMENTS OF OPERATIONS</b>		
<b>FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016</b>		
	<b>2017</b>	<b>2016</b>
OPERATING REVENUE:		
Resident revenue	\$ 5,666,176	\$ 5,582,329
Other revenue	<u>330,500</u>	<u>315,095</u>
Total operating revenue	<u>5,996,676</u>	<u>5,897,424</u>
OPERATING EXPENSES:		
Labor	3,666,007	3,492,702
General and administrative	626,897	693,256
Food	469,693	484,934
Management fees to affiliate	359,801	353,845
Utilities	269,583	276,829
Depreciation and amortization	214,856	217,771
Insurance	145,118	131,812
Advertising and marketing	118,531	120,411
Repairs and maintenance	109,759	118,893
Taxes and licenses	28,661	36,388
Ancillary expenses	16,815	18,514
Bad debt expense	<u>1,525</u>	<u>3,891</u>
Total operating expenses	<u>6,027,246</u>	<u>5,949,246</u>
NET LOSS	<u>\$ (30,570)</u>	<u>\$ (51,822)</u>
See notes to financial statements.		

<b>SUNRISE CARLISLE, LP</b>	
<b>STATEMENTS OF CHANGES IN PARTNERS' CAPITAL</b>	
<b>FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016</b>	
PARTNERS' CAPITAL—January 1, 2016	\$ 3,849,359
Net loss	(51,822)
Distributions—net	<u>(78,960)</u>
PARTNERS' CAPITAL—December 31, 2016	3,718,577
Net loss	(30,570)
Distributions—net	<u>286,110</u>
PARTNERS' CAPITAL—December 31, 2017	<u>\$ 3,974,117</u>
See notes to financial statements.	

<b>SUNRISE CARLISLE, LP</b>		
<b>STATEMENTS OF CASH FLOWS</b>		
<b>FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016</b>		
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (30,570)	\$ (51,822)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provisions for bad debt	1,525	3,891
Depreciation and amortization	214,856	217,771
Change in operating assets and liabilities:		
Accounts receivable	(219,364)	(32,843)
Prepaid expenses and other assets	(292,840)	(41,441)
Accounts payable and accrued expenses	90,421	15,212
Deferred revenue	<u>(42,475)</u>	<u>(14,097)</u>
Net cash (used in) provided by operating activities	<u>(278,447)</u>	<u>96,671</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES—</b>		
Purchases of property and equipment	<u>(7,663)</u>	<u>(17,711)</u>
Net cash used in investing activities	<u>(7,663)</u>	<u>(17,711)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Distribution—net	-	(78,960)
Contributions—net	<u>286,110</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>286,110</u>	<u>(78,960)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>SUPPLEMENTAL DISCLOSURE FOR NONCASH ITEM—</b>		
Accrued capital expenditures	<u>\$ 632</u>	<u>\$ 6,868</u>
See notes to financial statements.		

# SUNRISE CARLISLE, LP

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 1. ORGANIZATION

**Organization**—On August 1, 2006, Sunrise Carlisle, LP (the “Partnership”), a Delaware limited partnership, acquired all easements and rights for The Carlisle (“Carlisle”), a licensed residential care facility for the elderly, and title to 10 of the building’s 102 condominium units from Raiser Resources, LLC. Sunrise Senior Living Investments, Inc. (“SSLII”) held a 99% interest in the Partnership. Sunrise Carlisle GP, LLC, (the “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 the 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 Services, Inc. funds the Partnership through its capital account for operation shortfalls.

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%.

Carlisle filed a declaration as a condominium and a continuing care retirement community (CCRC) in San Francisco City and County, California, on August 28, 1992. As a condition of ownership, each owner of a condominium is required to enter into a continuing care agreement (“CCRC Agreement”) with St. Mary’s Community Care Corporation, St Mary’s Hospital and Medical Center, and Catholic Healthcare West (collectively, “St. Mary’s”). In 1998, the interests held by St. Mary’s were transferred to Raiser Senior Services, LLC, an affiliate of Raiser Resources, LLC, and were subsequently transferred to the Partnership. The Partnership manages Carlisle and markets vacant units on behalf of the owners. The Partnership is entitled to transfer fees on the sale of a condominium unit in accordance with the CCRC Agreements.

Residents of the community are required to sign a CCRC Agreement with the Partnership. The CCRC Agreements stipulate, among other things, monthly fees, the terms of resale of condominiums, transfer fees due at resale, and an initial payment to The Carlisle Reserve Fund Trust (the "Trust"). In addition, the CCRC Agreements provide the Partnership with the right to increase future monthly fees.

The Trust was established on April 16, 2011, to assist The Carlisle of San Francisco Homeowners' Association (HOA) in monitoring and having input regarding the uses of the Trust. The Trust is administered in accordance with the declaration of Trust, which requires that the income and principal of the Trust be used to support the Trust for the exclusive benefit of Carlisle and the residents of Carlisle, including—but not limited to—structural upgrades and replacement of fixtures and equipment. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by the HOA.

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, and therefore, 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, recoverability of property and equipment, recoverable amounts of receivables, and amortization rate of deferred revenue. 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.

**Property and Equipment**—Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation expense was \$20,891 in 2017 and \$23,806 in 2016. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Condominium units	
Furniture, fixtures, and equipment	30 years
	3-10 years

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 2017 or 2016.

**Management Rights**—The Partnership acquired all easements and rights for Carlisle as a part of the acquisition from Raiser Resources, LLC. The rights included the right to manage Carlisle 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. 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 \$193,965 for both years ended December 31, 2017 and 2016.

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 2017 and 2016.

**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 transaction costs. These fees are recognized when received and are recorded in other revenue.

**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 taxes 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 both December 31, 2017 and 2016.

The statute of limitations for the State of California to perform audits on the Partnership is four years and expires on December 31, 2022. The Partnership is currently not under an audit by any tax authorities. Tax years December 31, 2013, through December 31, 2017, are open and subject to California state audit.

**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 ASC 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 principles-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. While 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 FASB and FASB Transition Group) will have on our consolidated financial position, results of operations, cash flows, and disclosures, we do not expect its adoption will have a significant impact on our financial statements.

**Subsequent Events**—The Partnership evaluated subsequent events for disclosure from the balance sheet date through April 20, 2018, the date at which the financial statements were available to be issued and determined that there are no items to disclose.

### **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 6% of gross operating revenue. Total management fees incurred were \$359,801 and \$353,845 in 2017 and 2016, respectively.

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 \$145,118 and \$131,812 in 2017 and 2016, respectively.

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 both years 2017 and 2016 has been included in contributions and distributions in the statements of changes in partners' capital for the years ended December 31, 2017 and 2016.

### **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.

On November 10, 2016, the Company was served with an action titled *The Carlisle of San Francisco Homeowners' Association v. Sunrise Carlisle, LP., Sunrise Senior Living Management, Inc., Thomas R. Berry, Docs 1 through 50, inclusive*. In the Superior Court of

the State of California in and for the County of San Francisco Case No. CGC-16-555221, alleging eight causes of action, as follows: (1) breach of written contract; (2) breach of oral contract; (3) breach of the covenant of good faith and fair dealing; (4) enforcement of governing documents pursuant to the Davis-Stirling Common Interest Development Act; (5) negligence; (6) negligent misrepresentation; (7); breach of fiduciary duty; and (8) intentional misrepresentation. On January 9, 2017, Sunrise filed a demurrer to four counts in the Complaint: breach of the covenant of good faith and fair dealing, negligence, negligent misrepresentation, and intentional misrepresentation. On March 3, 2017, the Court granted the Company's demurrer and dismissed these causes of action with leave to amend. Thereafter, plaintiff amended the complaint alleging (1) breach of written contract; (2) breach of the covenant of good faith and fair dealing; (3) enforcement of governing documents pursuant to the Davis-Stirling Common Interest Development Act; (4) Negligence; (5) breach of fiduciary duty; and (6) fraud. The Company again issued a demurrer and on September 29, 2017, the Court sustained the Company's demurrer as to the negligence count without leave to amend, but allowed the remaining counts to remain. On April 2, 2018, plaintiff filed a second amended complaint adding a claim for fraudulent accounting practices. The parties are engaged in discovery and trial is scheduled for October 2018. The Company believes that plaintiff's claims are not meritorious and intends to defend itself vigorously. Because of the early stage of this lawsuit, we cannot at this time estimate an amount or range of potential loss in the event of an unfavorable outcome.

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## **OTHER FINANCIAL INFORMATION**

## **INDEPENDENT AUDITORS' REPORT**

To the Partners of  
Sunrise Carlisle, 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 which include 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 Carlisle, LP, as of December 31, 2017, and for the year then ended, and the related notes to the Schedules.

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

Management is responsible for the preparation and fair presentation of the Schedules on the basis of 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 also is 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 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 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 Carlisle, LP as of December 31, 2017, 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. The Schedules are prepared under the instruction from 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. 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 Carlisle, 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 20, 2018





<b>SUNRISE CARLISLE, LP</b>		
<b>FORM 5-3</b>		
<b>CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT</b>		
<b>Line</b>		<b>Total</b>
[1]	Total from Form 5-1 bottom of Column (e)	\$ -
[2]	Total from Form 5-2 bottom of Column (e)	-
[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 CARLISLE, LP****FORM 5-4****CALCULATION OF NET OPERATING EXPENSES**

<b>Line</b>		<b>Amounts</b>	<b>Total</b>
[1]	Total operating expenses from financial statements	\$ -	\$ 6,027,246
[2]	Deductions:		
	a. Interest paid on long-term debt (see instructions)	-	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	-	
	c. Depreciation	20,891	
	d. Amortization	193,965	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	49,013	
	f. Extraordinary expenses approved by the Department	<u>-</u>	
[3]	Total deductions		<u>(263,869)</u>
[4]	Net operating expenses		\$ 5,763,377
[5]	Divide Line 4 by 365 and enter the result		15,790
[6]	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		\$ 1,184,250

<b>SUNRISE CARLISLE, LP</b>				
<b>FORM 5-5</b>				
<b>ANNUAL RESERVE CERTIFICATION</b>				
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>1,184,250</u>
[3]	Total liquid reserve amount			<u>\$ 1,184,250</u>
Qualifying assets sufficient to fulfill the above requirements are held as follows:				
			<b>Amount</b>	
			<b>Debt Service</b>	<b>Operating</b>
	<b>Qualifying Asset Description</b>		<b>Reserve</b>	<b>Reserve</b>
[4]	Cash and cash equivalents		\$ -	\$ 47,650,000
[5]	Investment securities		-	-
[6]	Equity securities		-	-
[7]	Unused/available lines of credit		-	-
[8]	Unused/available letters of credit		-	-
[9]	Deb service reserve		-	-
[10]	Other		-	-
	Total amount of qualifying assets listed for liquid reserve	[11]	<u>\$ -</u>	[12] <u>\$ 47,650,000</u>
	Total amount required	[13]	<u>\$ -</u>	[14] <u>\$ 1,184,250</u>
	Surplus (deficiency)	[15]	<u>\$ -</u>	[16] <u>\$ 46,465,750</u>

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

# SUNRISE CARLISLE, LP

## NOTES TO ANNUAL RESERVE CALCULATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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### 1. ORGANIZATION

**Organization**—On August 1, 2006, Sunrise Carlisle, LP (the “Partnership”), a Delaware limited partnership, acquired all easements and rights for The Carlisle (“Carlisle”), a licensed residential care facility for the elderly, and title to 10 of the building’s 102 condominium units from Raiser Resources, LLC. Sunrise Senior Living Investments, Inc. (“SSLII”) held a 99% interest in the Partnership. Sunrise Carlisle GP, LLC, (the “GP”) a wholly owned subsidiary of SSLII, held a 1% interest in the Partnership. SSLI was a wholly-owned subsidiary of Sunrise Senior Living, Inc. (SSLI). Immediately prior to the conversion of SSLI mentioned below, SSLI distributed its interest in the partnership and in the 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. SSLII funded the Partnership through its capital account for operation shortfalls.

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%.

Carlisle filed a declaration as a condominium and a continuing care retirement community (CCRC) in San Francisco City and County, California, on August 28, 1992. As a condition of ownership, each owner of a condominium is required to enter into a continuing care agreement (“CCRC Agreement”) with St. Mary’s Community Care Corporation, St Mary’s Hospital and Medical Center, and Catholic Healthcare West (collectively, “St. Mary’s”). In 1998, the interests held by St. Mary’s were transferred to Raiser Senior Services, LLC, an affiliate of Raiser Resources, LLC, and were subsequently transferred to the Partnership. The Partnership manages Carlisle and markets vacant units on behalf of the owners. The Partnership is entitled to transfer fees on the sale of a condominium unit in accordance with the CCRC Agreements.

Residents of the community are required to sign a CCRC Agreement with the Partnership. The CCRC Agreements stipulate, among other things, monthly fees, the terms of resale of

condominiums, transfer fees due at resale, and an initial payment to The Carlisle Reserve Fund Trust (the "Trust"). In addition, the CCRC Agreements provide the Partnership with the right to increase future monthly fees.

The Trust was established on April 16, 2011, to assist The Carlisle of San Francisco Homeowners' Association (HOA) in monitoring and having input regarding the uses of the Trust. The Trust is administered in accordance with the declaration of Trust, which requires that the income and principal of the Trust be used to support the Trust for the exclusive benefit of Carlisle and the residents of Carlisle, including—but not limited to—structural upgrades and replacement of fixtures and equipment. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by the HOA.

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, and therefore, 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, 2017. 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.

**Subsequent Events**—The Partnership evaluated subsequent events for disclosure from the balance sheet date through April 20, 2018, the date at which the Schedules were available to be issued and determined that there are no items to disclose.

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

The Partnership has deducted \$49,013 in 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 guest suite rentals and meals for nonresidents.

## **5. LIQUID RESERVE REQUIREMENT**

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 statements of Sunrise.

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