

STONERIDGE

ANNUAL FINANCIAL FILING For Fiscal Year Ending December 31, 2013

Date Submitted: May 30, 2014

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FINANCIAL/ACTUARIAL INFORMATION

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

FINANCIAL REPORT

December 31, 2013

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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, 2013 and 2012, 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, 2013 and 2012, 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.

A handwritten signature in cursive script that reads "Denman & Company, LLP".

DENMAN & COMPANY, LLP

West Des Moines, Iowa
January 20, 2014

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

	December 31	
ASSETS	2013	2012
Current assets		
Cash and cash equivalents	\$ 3,621,483	\$ 4,290,310
Accounts receivable, net of allowance for doubtful accounts (2013, \$31,220; 2012, \$31,220)	545,895	609,123
Prepaid expenses and other	492,032	810,465
Assets whose use is limited or restricted	189,414	164,128
Total current assets	4,848,824	5,874,026
Assets whose use is limited or restricted	5,908,641	5,902,945
Operating property, at cost, net of accumulated depreciation	65,049,382	68,000,714
Development fee, net of accumulated amortization	-	91,173
Financing costs, net of accumulated amortization	209,292	302,312
Cost of acquiring initial contracts, net of accumulated amortization	2,803,782	3,501,770
Refundable deposits	-	14,000
Total assets	\$ 78,819,921	\$ 83,686,940
LIABILITIES AND PARTNERS' (DEFICIT)		
Current liabilities		
Term loans payable, current portion	\$ 1,408,610	\$ 1,353,468
Accounts payable, trade	935,009	855,044
Accounts payable, affiliates	33,106	111,557
Accrued expenses	348,412	429,577
Accrued interest	94,047	96,033
Refundable deposits from prospective residents, escrowed	189,414	164,128
Loans from residents, current portion	3,811,395	2,402,250
Total current liabilities	6,819,993	5,412,057
Resident security deposits	11,500	12,000
Deferred revenue	4,409,897	3,136,244
Term loans payable, less current portion	33,098,857	34,507,467
Loans from residents, less current portion	61,825,880	62,275,730
Total liabilities	106,166,127	105,343,498
Commitments and contingencies	-	-
Partners' (deficit)	(27,346,206)	(21,656,558)
Total liabilities and partners' (deficit)	\$ 78,819,921	\$ 83,686,940

See Notes to Financial Statements.

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

	Year ended December 31	
	2013	2012
REVENUES		
Amortization of nonrefundable entrance payments	\$ 1,082,478	\$ 2,231,603
Nonrefundable entrance payments	-	230,835
Working capital fee	138,286	92,181
Apartment revenues	9,938,728	9,712,536
Health center revenues	7,010,325	6,819,916
Other revenues	11,869	8,896
Total revenues	18,181,686	19,095,967
OPERATING EXPENSES		
General and administrative	3,965,982	3,766,261
Plant	2,396,414	2,298,296
Housekeeping	913,987	933,152
Dietary	2,943,296	2,836,543
Medical and resident care	4,696,926	4,840,165
Depreciation and amortization	4,300,553	4,858,023
Total operating expenses	19,217,158	19,532,440
(Loss) from operations	(1,035,472)	(436,473)
OTHER INCOME (EXPENSES)		
Interest income	21,470	4,670
Interest expense	(1,142,800)	(1,201,533)
Loss on disposal of assets	(37,488)	(33,184)
Total other income (expenses)	(1,158,818)	(1,230,047)
Net (loss)	\$ (2,194,290)	\$ (1,666,520)

See Notes to Financial Statements.

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

	Year ended December 31	
	2013	2012
BALANCE (DEFICIT), beginning	\$ (21,656,558)	\$ (16,655,488)
Contributions from partners	666,960	-
Distributions to partners	(4,162,318)	(3,334,550)
Net (loss)	(2,194,290)	(1,666,520)
BALANCE (DEFICIT), ending	\$ (27,346,206)	\$ (21,656,558)

See Notes to Financial Statements.

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

	Year ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (2,194,290)	\$ (1,666,520)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Depreciation	3,398,779	3,593,593
Amortization	901,774	1,264,430
Amortization of nonrefundable entrance payments	(1,082,478)	(2,231,603)
Loss on disposal of assets	37,488	33,184
Change in operating assets and liabilities		
Accounts receivable	63,228	23,814
Prepaid expenses and other	318,433	(411,407)
Accounts payable	(472)	338,708
Accrued expenses	(81,165)	36,487
Refundable deposits from prospective residents, net	25,286	(114,265)
Resident security deposits	(500)	-
Deferred revenue, net	2,356,131	2,114,435
Net cash provided by operating activities	3,742,214	2,980,856
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in funds escrowed under residency agreement	(25,286)	114,265
(Increase) in assets whose use is limited or restricted	(5,696)	(2,490)
Additions to operating property	(504,528)	(527,156)
Decrease in refundable deposits	14,000	-
Net cash (used in) investing activities	(521,510)	(415,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions from partners	666,960	-
Distributions to partners	(4,162,318)	(3,334,550)
Proceeds from resident loans	6,630,261	6,756,075
Repayment of resident loans	(5,670,966)	(4,576,570)
Repayment of term loan payable	(1,353,468)	(1,300,484)
Net cash (used in) financing activities	(3,889,531)	(2,455,529)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(668,827)	109,946
CASH AND CASH EQUIVALENTS, beginning	4,290,310	4,180,364
CASH AND CASH EQUIVALENTS, ending	\$ 3,621,483	\$ 4,290,310

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, 2013 and 2012 were \$189,414 and \$164,128 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. The amount of the Reserve Fund Escrow at December 31, 2013 and 2012 was \$3,907,918 and \$3,902,222, 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, 2013 and 2012 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, 2013 and 2012 was \$500,723.

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

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Construction of Phase III was finalized and costs were capitalized in 2009.

Development Fee

Development fees incurred in connection with the development of the Project are amortized pro rata as the Entrance Payment revenue is recognized from the initial contracts.

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.

Refundable Deposits

A deposit with the Town of Stonington ensures payment for erosion and sedimentation control measures, landscaping, public improvement, lighting, performance and site completion and drainage and detention facilities required by the building permit or any other ordinance or law binding upon StoneRidge or the site. The Phase I deposit of \$14,000 was returned in 2013.

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.

As required by the Income Taxes Topic of the *FASB Accounting Standards Codification*, management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Partnership is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years before 2010. The Partnership has not been notified of any impending examinations by tax authorities, and no examinations are in process.

**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, refundable deposits, accounts payable, trade, accounts payable, affiliates, refundable deposits from prospective residents, term loans 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 non-refundable First Person Fee (and Second Person Fee, if applicable) and a Loan. For Residency Agreements marketed through December 2011, the First Person Fee (and Second Person Fee, if applicable) is recognized as income at the time of closing. The portion of the Loan subject to amortization is recorded as deferred revenue and amortized to revenue per the terms of the Residency Agreements. In January 2012, the Partnership began to market a new Residency Agreement which redefined 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.

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 development agreement with LCS Development LLC (affiliated through common ownership with LCSSR) to coordinate the planning and development, financing, initial occupancy development, and design and construction of the Project. At December 31, 2013, amounts earned under the agreement totaled \$6,644,596 and are included in the assets of the Project. The amount of development fees that have been paid and capitalized under the agreement relating to Phase I, Phase II and Phase III at December 31, 2013 were \$3,158,755, \$1,695,433 and \$1,790,408, respectively.

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

NOTE 2 RELATED PARTY TRANSACTIONS (continued)

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 \$907,009 and \$869,747 for the years 2013 and 2012, 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 \$1,023 and \$3,777 in 2013 and 2012, respectively.

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, 2013 were \$118,829, \$70,585 and \$0, 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 the 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.

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

NOTE 4 OPERATING PROPERTY

Operating property consists of the following:

	Estimated useful lives	December 31	
		2013	2012
Land	-0-	\$ 1,618,512	\$ 1,618,512
Land improvement	15 years	5,703,983	5,695,190
Buildings and fixed equipment	7 - 39 years	76,760,298	76,690,310
Equipment and furnishings	7 - 10 years	4,909,100	4,633,795
		88,991,893	88,637,807
Less accumulated depreciation		(23,942,511)	(20,637,093)
		<u>\$ 65,049,382</u>	<u>\$ 68,000,714</u>

NOTE 5 TERM LOANS 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. The Loan Agreement matures on March 31, 2016. Principal payments were made on the Loan Agreement of \$1,353,468 and \$1,300,484 in 2013 and 2012, respectively.

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, 2013 was 3.17%.

NOTE 6 LOAN COVENANTS AND MATURITIES

On March 31, 2011, the Partnership entered into a Loan Agreement. The Partnership must meet required levels of occupancy targets, a minimum debt service coverage ratio and a minimum 200 day's cash on hand requirement. Other financial covenants must also be met. The Partnership did not meet its debt service coverage ratio at June 30, 2013. However, per the Loan Agreement, capital contributions were made to resolve the deficiency. At December 31, 2013, the Partnership was in compliance with all covenants.

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

December 31	
2014	1,408,610
2015	1,465,999
2016	<u>31,632,858</u>
Total	<u>\$ 34,507,467</u>

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

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 33 percent and 38 percent of the total health center revenues in 2013 and 2012, respectively. Revenues from the Medicare program accounted for approximately 13 percent and 14 percent of total revenues in 2013 and 2012, 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 \$35,400 and \$37,717 in 2013 and 2012, respectively, to be remitted to the Plan in 2014 and 2013, 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.

Included in cash and cash equivalents and assets whose use is limited or restricted is approximately \$35,000 and \$500,000, respectively, as of December 31, 2013 and 2012, 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 \$1,138,383 and \$1,213,174 during the years ended December 31, 2013 and 2012, 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.

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

NOTE 12 SUBSEQUENT EVENTS

The Partnership has evaluated subsequent events through January 20, 2014, 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, 2014

	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Year 5 2018
Beginning Cash (1)	9,530,124	11,162,524	12,297,977	11,819,530	11,307,162
Additions:					
Apartment Service Fees (2)	10,363,015	11,468,240	12,259,135	12,937,517	13,473,290
Health Center Revenue, Net of Life Care Discount (3)	7,223,874	7,385,841	7,559,567	7,746,015	7,945,955
Miscellaneous Income (4)	27,427	28,525	29,667	30,853	32,086
Working Capital Reserve Fees (5)	324,070	290,246	299,705	273,558	296,577
Entrance Fee Receipts, Net of Refunds (6)	6,840,845	5,992,056	6,245,576	5,762,741	6,229,422
Interest Income (7)	15,513	17,588	18,081	17,338	17,638
Disbursements:					
Operating Expenses (8)	(16,078,611)	(16,549,979)	(17,065,042)	(17,497,428)	(17,929,689)
Phase III Marketing and Debt Service Paid By Partners (9)	215,555	0	0	0	0
Return to Partners (10)	(3,661,000)	(4,100,000)	(6,958,000)	(6,884,000)	(6,196,000)
Capital Expenses - Not Paid From Fund (11)	(1,040,550)	(759,156)	(639,029)	(808,440)	(865,917)
Capital Expenses -- Paid From Reserve Fund (12)	0	0	0	0	0
Debt Service (13)	(2,597,738)	(2,637,909)	(2,228,109)	(2,090,522)	(2,090,398)
Net Change	1,632,400	1,135,453	(478,447)	(512,368)	912,963
Ending Cash	11,162,524	12,297,977	11,819,530	11,307,162	12,220,125

**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, 2014.

Cash	\$3,621,483
Assets whose use is limited:	
Reserve Fund Escrow	3,907,918
Contingency Fund Reserve	1,000,000
Health Center Reserve	500,000
Capital Replacement Reserve	500,723
Total	\$9,530,124

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 one year's 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.

- (2) Apartment Service Fees represents the total of first-person monthly Service Fees for all apartments based on an assumed average occupancy of 229.8 units in Year 1, 243.0 in Year 2, 248.5 in Year 3, 251.0 in Year 4, and 251.5 thereafter.

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 2014 through 2018 is as shown in the following table:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
56.59	60.99	62.66	63.07	62.74

- (3) Health Center Revenue, Net of Life Care Discount assumes a 2014 daily rate of \$405 for semiprivate beds and \$440 for private beds, and \$284 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 49.5 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 2.9% in Year 2, 3.1% in Year 3, and 2.5% in Years 4 and 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 2016. Interest, based on LIBOR, is projected to increase through 2015. The principal and interest amount shown in 2016 is estimated, based on a revised amortization schedule, due to refinancing.

STONERIDGE PHASES I - III

Mystic, Connecticut

FORECASTED STATEMENT OF REVENUES AND EXPENSES

	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Year 5 2018
OPERATING INCOME					
Earned Entrance Fee Income	345,355	821,026	1,321,574	1,795,257	2,260,452
Monthly Service Fees	10,363,015	11,468,240	12,259,135	12,937,517	13,473,290
Working Capital Fees	324,070	290,246	299,705	273,558	296,577
Health Center Revenues - Net	7,223,874	7,385,841	7,559,567	7,746,015	7,945,955
Interest Income	15,513	17,588	18,081	17,338	17,638
Other Income	27,427	28,525	29,667	30,853	32,086
TOTAL INCOME	18,299,254	20,011,466	21,487,729	22,800,538	24,025,998
EXPENSES:					
G&A	(4,297,927)	(4,541,278)	(4,621,255)	(4,792,022)	(4,963,836)
Plant	(2,905,593)	(2,862,664)	(3,017,957)	(3,056,585)	(3,018,666)
Housekeeping	(1,048,674)	(1,085,378)	(1,123,366)	(1,162,684)	(1,203,378)
Dietary	(3,055,132)	(3,162,062)	(3,272,734)	(3,387,280)	(3,505,835)
Resident Care	(4,771,285)	(4,898,598)	(5,029,730)	(5,098,857)	(5,237,975)
Interest Expense	(1,189,127)	(1,171,910)	(1,400,857)	(1,368,781)	(1,335,500)
Depreciation & Amortization	(4,218,053)	(3,934,237)	(3,643,096)	(3,145,876)	(3,122,396)
TOTAL OPERATING EXPENSES	(21,485,792)	(21,656,125)	(22,108,995)	(22,012,084)	(22,387,585)
NET INCOME	(3,186,537)	(1,644,659)	(621,266)	788,454	1,638,413

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

At the time of occupancy the resident pays an Admission Payment consisting of a non-refundable Entrance Fee (10%) and a Loan. The Entrance Fee is recognized as revenue at that time.

Based on the length of occupancy, a portion of the loan is amortized as revenue. After the first ten months of occupancy the Loan refund will be reduced by: 1% of the Admission Payments per month until the Loan has amortized to an amount equal to 75% of the Admission Payments (to 70% for Residency Agreements issued beginning 2014); or for some Phase 3 residency agreements issued in 2009 through 2014, 2% of the Admission Payments per month until the Loan has amortized to an amount equal to 50% of the Admission Payments.

In January 2012, StoneRidge began to market a new Residency Agreement which redefined 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, 2014

ADMISSION PAYMENTS

One Bedroom Traditional	\$212,000
One Bedroom Traditional - Premium	234,000
One Bedroom Deluxe	256,000
One Bedroom Deluxe (Sabino)	277,000
One Bedroom Deluxe - Premium	282,750
One Bedroom Deluxe – Premium (Sabino)	301,000
One Bedroom with Den	320,143
One Bedroom with Den (Morgan)	334,333
One Bedroom with Den – Premium (Morgan)	376,000
One Bedroom with Den (Morgan Phase III)	331,000
One Bedroom with Den – Premium (Morgan Phase III)	376,000
One Bedroom with Den Deluxe	340,846
Two Bedroom Traditional	341,400
Two Bedroom Traditional - Premium	370,000
Two Bedroom Deluxe	395,000
Two Bedroom Deluxe - Premium	424,250
Two Bedroom Deluxe (Conrad)	424,000
Two Bedroom Deluxe (Conrad Phase III)	418,000
Two Bedroom Deluxe – Premium (Conrad Phase III)	463,091
Two Bedroom Corner	460,000
Two Bedroom Corner (La Dunton Phase III)	589,750
Two Bedroom End	503,000
Two Bedroom End (Herreshof)	597,000
Two Bedroom End (Herreshof Phase III)	538,000
Two Bedroom with Den	483,000
Two Bedroom with Den (Heritage)	529,500
Two Bedroom with Den (Heritage Phase III)	493,000
Two Bedroom with Den – Premium (Heritage Phase III)	542,250
Two Bedroom End with Den	590,923
Two Bedroom End with Den (Brilliant)	663,000
Two Bedroom End with Den (Brilliant Phase III)	663,000
Two Bedroom End with Den Deluxe (Eagle Phase III)	703,000

Admission Payments represent the total of the Entrance Fee and the Loan.

Second Person Entrance Fee	10,920
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STONERIDGE PHASES I - III
Mystic, Connecticut

RATE SCHEDULE - Continued
January 1, 2014

MONTHLY SERVICE FEES

One Bedroom Traditional	\$2,838
One Bedroom Traditional - Premium	2,838
One Bedroom Deluxe	3,003
One Bedroom Deluxe (Sabino Phase II)	3,003
One Bedroom Deluxe - Premium	3,003
One Bedroom Deluxe – Premium (Sabino Phase II)	3,003
One Bedroom with Den	3,140
One Bedroom with Den (Morgan Phase II)	3,140
One Bedroom with Den – Premium (Morgan Phase II)	3,140
One Bedroom with Den (Morgan Phase III)	3,140
One Bedroom with Den – Premium (Morgan Phase III)	3,140
One Bedroom with Den Deluxe	3,293
Two Bedroom Traditional	3,293
Two Bedroom Traditional - Premium	3,293
Two Bedroom Deluxe	3,489
Two Bedroom Deluxe - Premium	3,489
Two Bedroom Deluxe (Conrad Phase II)	3,489
Two Bedroom Deluxe (Conrad Phase III)	3,489
Two Bedroom Deluxe – Premium (Conrad Phase III)	3,489
Two Bedroom Corner	3,671
Two Bedroom Corner (La Dunton Phase III)	4,239
Two Bedroom End	3,825
Two Bedroom End (Herreshoff Phase II)	4,019
Two Bedroom End (Herreshoff Phase III)	4,019
Two Bedroom with Den	3,825
Two Bedroom with Den (Heritage Phase II)	3,825
Two Bedroom with Den (Heritage Phase III)	3,825
Two Bedroom with Den – Premium (Heritage Phase III)	3,825
Two Bedroom End with Den	4,157
Two Bedroom End with Den (Brilliant Phase II)	4,323
Two Bedroom End with Den (Brilliant Phase III)	4,323
Two Bedroom End with Den Deluxe (Eagle Phase III)	4,846
Second Person Fee	1,082

**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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
13.07%	12.33%	12.26%	12.20%	12.27%	12.35%

**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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
85.86	86.05	86.24	86.51	86.72

**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 2013	38.87%	32.73%	2,590
FY 2014	38.25%	30.65%	2,852
FY 2015	38.08%	30.42%	2,880
FY 2016	38.28%	30.37%	2,967
FY 2017	38.54%	30.30%	3,064
FY 2018	38.75%	30.24%	3,151

* 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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
85.97%	86.06%	91.01%	93.07%	94.01%	94.19%

**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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
101	97	101	104	105	105

* 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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
7,961	9,050	9,585	10,145	10,614	10,959

* 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, 2013 was fourteen (14) 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, 2013 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, 2013, 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 28, 2014

EXHIBIT M