

FILED
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance

May 1, 2018

Commissioner of Insurance

BY: *Daryl Hepler*

SUNRISE CONTINUING CARE, LLC

THE COLONNADES

DISCLOSURE STATEMENT

2018

(for fiscal year ending December 31, 2017)

This Disclosure Statement, including the cover page and exhibits, is provided to furnish information about The Colonnades, a continuing care community (the "Community") in Albemarle County, Virginia, operated by Sunrise Continuing Care, LLC, whose sole member is Sunrise Senior Living Services, Inc., a wholly-owned subsidiary of Sunrise Senior Living, LLC (f/k/a Sunrise Senior Living, Inc.).

The Disclosure Statement has been filed with the State Corporation Commission of the Commonwealth of Virginia, pursuant to the Continuing Care Provider Registration and Disclosure Act, Virginia Code § 38.2 – 4900 – 4917 (2004). The filing of this Disclosure Statement with the State Corporation Commission does not constitute approval, recommendation or endorsement of the Community by the State Corporation Commission.

DISCLOSURE STATEMENT

TABLE OF CONTENTS

	<u>Page</u>
<u>CONTINUING CARE PROVIDER</u>	4
<u>OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS AND CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS</u>	4
<u>BUSINESS EXPERIENCE OF; ACQUISITION OF GOODS AND SERVICES FROM; AND CRIMINAL, CIVIL AND REGULATORY PROCEEDINGS AGAINST THE PROVIDER; ITS OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS; CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS; AND THE MANAGEMENT</u>	5
<u>OWNERSHIP OF REAL PROPERTY</u>	7
<u>LOCATION AND DESCRIPTION OF REAL PROPERTY</u>	7
<u>AFFILIATIONS WITH RELIGIOUS, CHARITABLE OR OTHER NON-PROFIT ORGANIZATIONS; TAX STATUS OF PROVIDER</u>	8
<u>SERVICES PROVIDED UNDER CONTINUING CARE CONTRACTS</u>	8
<u>FEES REQUIRED OF RESIDENTS</u>	10
<u>RESERVE FUNDING</u>	17
<u>CERTIFIED FINANCIAL STATEMENTS</u>	17
<u>PRO FORMA INCOME STATEMENT</u>	17
<u>ADMISSION OF NEW RESIDENTS</u>	18
<u>ACCESS TO COMMUNITY BY NON-RESIDENTS</u>	18
<u>PROCEDURE FOR RESIDENT TO FILE A COMPLAINT OR DISCLOSE CONCERN</u>	18

CONTINUING CARE AGREEMENT..... EXHIBIT A

RESERVATION AGREEMENT..... EXHIBIT B

PROVIDER’S AUDITED FINANCIAL STATEMENTS..... EXHIBIT C

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY
SUNRISE SENIOR LIVING, LLC’S AUDITED CONSOLIDATED
FINANCIAL STATEMENTS..... EXHIBIT D

PROVIDER’S SUMMARY OF FINANCIAL INFORMATION AND PRO FORMA
INCOME STATEMENT..... EXHIBIT E

**SUNRISE CONTINUING CARE, LLC
THE COLONNADES
DISCLOSURE STATEMENT**

CONTINUING CARE PROVIDER

Sunrise Continuing Care, LLC (“Provider”), a wholly-owned subsidiary of Sunrise Senior Living Services, Inc. (“SSLS”), whose address is 7902 Westpark Drive, McLean, Virginia 22102, was formed in the State of Delaware and is qualified to do business in the Commonwealth of Virginia. The Provider is a for-profit corporation and is not exempt from the payment of income taxes under the U.S. Internal Revenue Code of 1986. The Provider’s President is Felipe Mestre. SSLS is a wholly-owned subsidiary of Sunrise Senior Living, LLC (“Sunrise”).

On April 21, 2014, a transaction took place affecting the indirect ownership of Sunrise. Prior to the transaction, Sunrise was owned indirectly by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P. and Beecken Petty O’Keefe & Company, LLC, and by Health Care REIT, Inc. (On September 30, 2015, Health Care REIT, Inc. changed its name to Welltower, Inc.) As a result of the transaction, Sunrise is owned jointly, through subsidiaries, by Revera Inc., a wholly-owned subsidiary of the Public Sector Pension Investment Board, by Welltower, Inc. (f/k/a Health Care REIT), and by individual shareholders. SSLS continues to be a subsidiary of Sunrise, and the Provider continues to be a subsidiary of SSLS. There have been no material changes to the business or management of the Community as a result of the foregoing transaction.

There is a pending purchase transaction under which a Welltower affiliate will become the new provider and will assume the current Provider’s obligations under the continuing care agreements entered into with current residents. This transaction is expected to be finalized and approved in 2018.

OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS, AND CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS

(a) Officers and Directors: The Provider’s officers are listed below:

Marc Roder	President and Manager
David Painter	Treasurer
Edward Frantz	Secretary and Vice President
Louis Barbiera	Vice President (Resident)
Michael Stein	Vice President and Manager
Wendy Sekel	Vice President

The business address for all of the officers is 7902 Westpark Drive, McLean, Virginia 22102. During the fiscal year ending December 31, 2017, all membership interests in the Provider were held by SSLS. The officers and director of SSLS are listed below:

Marc Roder	President and Director
Edward Frantz	Vice President and Secretary and Director
David Painter	Vice President and Treasurer
Andrew Coelho	Vice President
Michael Stein	Vice President
Wendy Sekel	Vice President

The business address for all of SSLS's officers and director is 7902 Westpark Drive McLean, Virginia 22102. There are no Trustees or Managing or General Partners associated with the Provider.

Equity or Beneficial Interests: During the fiscal year ended December 31, 2017, all of the issued and outstanding shares of the Provider's stock were owned by SSLS. SSLS was incorporated in the State of Delaware in 1986. SSLS's principal business address is 7902 Westpark Drive, McLean, VA 22102. All of the issued and outstanding shares of SSLS's stock currently are owned by Sunrise.

The Provider has entered into a management agreement with SSLS for the day-to-day operation of the Community. The amount of consideration under the management contract is tied to the financial performance of the Provider. Therefore, SSLS has a "beneficial interest" in the provider, in addition to its equity interest described above. SPTMRT has a beneficial interest to the extent the rental payments under the sublease referenced in the Real Property section of this Disclosure Statement can be construed as a beneficial interest.

BUSINESS EXPERIENCE OF; ACQUISITION OF GOODS AND SERVICES FROM; AND CRIMINAL, CIVIL AND REGULATORY PROCEEDINGS AGAINST THE PROVIDER; ITS OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS; CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS; AND THE MANAGEMENT;

(a) Business Experience

In addition to The Colonnades, the Provider operates the senior living facility called The Fairfax in Fort Belvoir, Virginia. The Fairfax is a Continuing Care Community under the Continuing Care Provider Registration and Disclosure Act, Virginia Code § 38.2-4900-4917 (1986) ("the Act"). The Provider holds continuing care provider licenses or similar permits at four (4) other senior living communities throughout the United States.

The Provider has contracted with SSLS to provide day-to-day management of the Community. As of April 1, 2018, SSLS also operated or managed thirty-one (31) senior living communities in fourteen (14) states including: Maryland, Florida, Georgia, Illinois, North Carolina, New Jersey, Connecticut, Ohio, Kansas, Michigan, Nebraska, Virginia, Tennessee and Pennsylvania. Sunrise, through its operating subsidiaries, has extensive experience in the senior living business. Sunrise offers assisted living, Alzheimer's care, skilled nursing and independent living units at senior living communities throughout the United States and internationally. As of February 1, 2018, Sunrise employed approximately 32,000 people to service 322 communities in the United States, Canada and the United Kingdom.

The business experience of the aforementioned officers, directors, and persons holding equity or beneficial interests is set forth below:

Marc Roder is President of the Provider and SSLS. Mr. Roder joined Sunrise in 2003 and currently serves as Controller and Chief Accounting Officer.

Michael Stein, Vice President of the Provider and SSLS joined Sunrise in 1988 and currently serves as Senior Vice President and Associate General Counsel of Sunrise.

Andy Coelho is Vice President of the Sunrise Construction, Development, Facilities Management, and Design Departments. Mr. Coelho joined Sunrise as a Construction Manager in 2004 and became Vice President of Construction Management in 2006. Prior to Sunrise, Andy worked for BeeryRio Architects and Interiors, focusing on Sunrise Senior Living projects. He is a registered architect.

David Painter is Treasurer. Mr. Painter joined Sunrise as a director of Treasury in 2007, was promoted to Assistant Treasurer in 2008 and became its Treasurer in September 2010. Prior to joining the Company, Mr. Painter worked for ten years in various positions, including director of corporate finance for what is now Host Hotels and Resorts, a premium lodging real estate investment trust.

Louis Barbiera is a resident at Bedford Court, another Sunrise Continuing Care community located in Silver Spring, Maryland.

Edward Frantz, Vice President and Secretary of the Provider and SSLS first joined Sunrise in 2007 and returned in 2015. He currently serves as Associate General Counsel.

Wendy Sekel is a Vice President in the Tax Department. She joined Sunrise in 2010.

(b) Acquisition of Goods and Services

It is not anticipated that goods, leases or services valuing \$500.00 or more will be obtained from any professional service, firm, association, foundation, trust, partnership or corporation or any other business or legal entity in which the Provider or any of its officers, directors or trustees has, a ten percent or greater interest.

The Provider obtains management services from SSLS in the same manner as any other similarly situated Sunrise subsidiary. Similarly, the Provider will obtain food and other supplies through Sunrise's procurement and distribution system in the same manner. The probable or anticipated actual cost of food and supplies purchased in this fashion for The Colonnades will approximate the total budgeted amount for 2017, which is \$841,596.

Marriott International, Inc. ("Marriott"), a prior owner of the Provider and SSLS, is party to Agreements of Undertaking, whereby Marriott agreed to furnish the Provider with all necessary assistance and support, including financial support, required to enable the Provider to fulfill its obligations to residents of the Community. On March 28, 2003, Sunrise Senior Living, Inc. acquired all of the stock of SSLS, formerly known as Marriott Senior Living Services, Inc. (the "Sunrise Transaction"). As part of the Sunrise Transaction, the Provider, SSLS, Marriott International and Sunrise entered into an Assumption and Reimbursement Agreement ("Assumption Agreement"). Under the Assumption Agreement, Sunrise agreed to (i) assume Marriott's obligations under the Agreements of Undertaking and (ii) reimburse Marriott in the event Marriott is required to perform under the Agreements of Undertaking. The Assumption Agreement does not, however, release Marriott from its obligations under the Agreements of Undertaking. In the event Sunrise fails to satisfy such obligations under the Agreements of Undertaking with respect to individuals who, as of March 28, 2003, (i) hold a Lifecare Bond or (ii) are party to a Continuing Care Agreement, Marriott will remain secondarily liable to the Provider for financial obligations arising under the Agreements of Undertaking. The Agreements of Undertaking between the Provider and Marriott do not pertain to new residents signing continuing care agreements after March 28, 2003.

(c) Absence of Criminal, Civil or Regulatory Proceedings

(1) Neither the Provider, SSLS, Sunrise, nor any person identified above has been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable or enjoined by final judgment in a civil action involving fraud, embezzlement, fraudulent conversion, misappropriation of property or moral turpitude.

(2) Neither the Provider, SSLS, Sunrise, nor any person identified above is subject to an injunctive or restrictive order of a court of record, or within the past five years had any State or Federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, arising out of or relating to business activity or health care, including, without limitation, actions affecting a license to operate a foster care facility, nursing home, retirement home, home for the aged or facility registered under Virginia Code § 38.2-4900-4917 (2004) or similar laws in any other State.

(3) Neither the Provider, SSLS, Sunrise, nor any person identified above is currently the subject of any State or Federal prosecution, or administrative investigation involving allegations of fraud, embezzlement, fraudulent conversion, or misappropriation of property.

OWNERSHIP OF REAL PROPERTY

The Community is located on land owned by the UREF Retirement Corporation (“UREF”), a wholly owned subsidiary of The University of Virginia Real Estate Foundation. A ground lease (the “Ground Lease”) was in place whereby UREF is the Lessor and SPTMRT (“Sublandlord”), a Maryland real estate investment trust was the Lessee. A sublease is also in place, whereby the Provider has exclusive possession and control of the Community for an initial term of twenty years with options to renew for four additional five year terms. All improvements are owned by the Lessee under the Ground Lease until termination of the Ground Lease. At that time, title automatically vests in the Lessor. Under the Sublease, the Provider shall pay to the Sublandlord a fixed yearly rental of \$2,892,000 throughout the term of the Sublease (including renewal terms). In addition, the Sublandlord is entitled to a “percentage rental” equal to 4.5% of that portion of operating revenues of the Community exceeding \$6,434,000.

On or about March 29, 2018, SPTMRT’s interest in the Ground Lease was transferred to an affiliate of Welltower, Inc., Welltower TRS Jefferson PropCo, LLC, which entity is now the Sublandlord. The sublease with the Provider remains in effect under the same terms.

LOCATION AND DESCRIPTION OF REAL PROPERTY

The Community is located on a 59 acre section of the Westover estate, a 325-acre parcel of land in Albemarle County about two miles northwest of the Barracks Road-Emmet Street intersection. The site has been re-zoned PRD (Planned Residential Development) by the Albemarle County Board of Supervisors to permit its use for a lifecare community.

The Community contains 218 individual living units, a two-story pavilion and a health center in a campus setting. The independent living units are in a variety of one and two bedroom styles in 3 three-story apartment buildings and 40 attached cottages. The apartments and cottages include full kitchens, emergency call systems and illuminated parking.

The pavilion houses the reception area, main dining and private dining areas, lounge, library, mail room, assembly hall, health club, game room, activity room, beauty and barber shop, enclosed swimming pool and administrative offices.

The Health Center is a two-story building consisting of 41 assisted living suites and 34 licensed nursing care beds in 17 semi-private rooms. In addition, the Health center opened specialized memory care units (referred to as "Reminiscence Units) in 2007 which consist of 16 beds in 4 private rooms and 6 semi-private rooms. The Health Center contains a medical clinic, a recreation room, physical therapy room, beauty shop, dining rooms and lounges.

AFFILIATIONS WITH RELIGIOUS, CHARITABLE OR OTHER NON-PROFIT ORGANIZATIONS; TAX STATUS OF PROVIDER

(a) Affiliations – The Provider is not affiliated with any religious, charitable or other non-profit organization. The Provider is, however, a party to separate agreements with three organizations affiliated with the University of Virginia:

- The Provider is party to a sublease, which is subject to a ground lease with UREF Retirement Corporation, a subsidiary of the University of Virginia Real Estate Foundation. The Foundation was established for the purpose of acquiring, developing and managing real property for the benefit of the University of Virginia. UREF will have no responsibility for the financial and contractual obligations of the Provider.
- The Provider is party to a sponsorship agreement with the University of Virginia Alumni Association (UVAA) to facilitate the marketing of the Community to alumni of the University of Virginia. The UVAA will have no responsibility for the financial and contractual obligations of the Provider.
- The Provider is party to an agreement with the University of Virginia and the University of Virginia Health Services Foundation (UVHSF) regarding the operation of the Community's medical clinic and the use of the Health Center as a teaching and research facility for the University's medical and nursing programs. The UVHSF will be responsible for operating the medical clinic at the Community. Otherwise, the UVHSF will have no responsibility for the financial and contractual obligations of the Provider.

(b) Tax Status – The Provider is a for-profit corporation and is not exempt from the payment of income taxes under the U.S. Internal Revenue Code of 1986.

SERVICES PROVIDED UNDER CONTINUING CARE CONTRACTS

The Provider's sample Continuing Care Agreement is attached as Exhibit A. In addition to providing the Residents with individual living units, the Provider will furnish the residents with assisted living care and licensed nursing services for as long as the services are needed. (Based on availability and as long as the care needs can be met.)

Payment for care in the Health Center will be separate from the monthly fee under a supplemental Health Center per diem fee and ancillary charge schedule. Residents, therefore, will be paying only for services they actually use. The per diem fee schedule will be adjusted, at most, annually. If they wish, residents may purchase long-term care insurance policies from any insurance company of their choice.

The Provider will furnish the following facilities and services under the terms of the Continuing Care Agreements at no additional charge:

- 30 or 31 meals per month (depending on the number of days in the month) for residents in apartments and 15 or 16 meals per month (depending on whether there are 28/30, or 31 days in the month) for residents in cottages with tray service for ill Residents with medical certification;
- Weekly housekeeping, including vacuuming, light dusting, cleaning bathroom fixtures, kitchen and entry floors, counters, appliance faces and sink;
- Window washing, oven cleaning, carpet shampooing and other similar heavy cleaning will be done annually;
- Security personnel as the Provider deems appropriate;
- Maintenance of building and appliances in living units;
- Groundskeeping and landscaping;
- Property taxes, electricity, water and sewer bills, garbage collection;
- Scheduled transportation to shopping and other locations in the surrounding areas;
- Emergency call system in each living unit;
- Use of recreational and craft facilities;

Pursuant to the Continuing Care Agreements, there are additional charges for some services, including:

- Tray service in addition to the 30 or 31 meals per month specified above or without medical certification
- Guest meals;
- Extra meals in the dining facility;
- Covered parking;
- Extra housekeeping or maintenance services;
- Grocery store services;
- Barber shop/beauty parlor;
- Guest room.

The following are examples of services not furnished under the Continuing Care Agreements. This is not a comprehensive list:

- Physical examinations and medical tests;
- Eyeglasses or refractions;
- X-rays;
- Hearing aids;
- Dentistry, dentures and inlays;
- Orthopedic appliances;
- Podiatric services;
- Private duty nursing care;

- Treatment for psychiatric disorders or alcoholism;
- Surgical, hospital, or physician services;
- Home health care.

FEES REQUIRED OF RESIDENTS

As required by Virginia Code § 38.2 – 4905.B., the resident has the right to rescind the Continuing Care Agreement, without penalty or forfeiture, within seven days after executing the Contract and also shall not be required to move into the Community before the expiration of the seven day period

The Provider is offering five payment plans, four of which require a non-refundable entrance payment (“Entrance Fee Plan”), and a third plan that requires no Entrance Payment but higher monthly fees (the “Zero Entrance Fee Plan”). Two payment plans that called for a refund of ninety percent (90%) of the Entrance Fee have been discontinued as of December 1, 2008.

Residents will have both recurring and non-recurring fees and payments. The non-recurring fees and payments are (i) the \$1,000 Application Fee (which will be credited against the Community Fee upon signing a Continuing Care Agreement) (ii) a Community Fee equal to one Monthly Fee under the Zero Entrance Payment plan for the Resident’s specific style of unit, to cover the costs associated with maintenance of the Community’s common areas and grounds as well as refurbishment of Resident units as a result of normal wear and tear and, (iii) for two of the three payment plans offered at the Community, an entrance payment which is based upon the type and size of the living unit selected by the Resident and upon the type of payment plan selected by the Resident.

(a) Entrance Fee Payments – For the four plans with entrance payments, the entrance payments for living units range as follows:

	<u>Non-Refundable Plan 1</u>	<u>Non-Refundable Plan 2</u>
1 Bedroom	\$26,000 - \$31,000	\$51,000 - \$61,000
2 Bedroom	\$36,000 - \$52,000	\$69,000 - \$101,000
Cottages	\$51,000 - \$52,000	\$101,000 - \$109,000
	<u>Non-Refundable Plan 3</u>	<u>Non-Refundable Plan 4</u>
1 Bedroom	\$72,000 - \$78,000	\$98,000 - \$103,000
2 Bedroom	\$95,000 - \$132,000	\$117,000 - \$164,000
Cottages	\$132,000 - \$139,000	\$164,000 - \$170,000
Second Person Apartment/Cottage	\$14,000 - \$27,000	

(b) Payment Schedule – If resident leaves The Colonnades permanently during the first 12 months after the Occupancy Date, resident, or resident’s estate, will receive a refund equal to 100% of the Entrance Fee, minus 4% for each month of residency. After 12 months, there will be no refund of the Entrance Fee. The Second Person Entrance Fee is 100% non-refundable, unless terminated during the 7-day “right to rescind” period.

Application of Entrance Payment Funds – The Entrance Fee is non-refundable.

The Provider uses Entrance Fees to meet various operational and financial objectives.

(c) Recurring Fees (Current Residents only)

(1) Monthly Fees – Residents will pay “Monthly Fees” based upon the type of living unit and payment plan selected. The current Fee Schedule is as follows:

	<u>Zero Entrance Payment</u>	<u>Modified 90% Refundable</u> (for current residents only)	<u>Standard 90% Refundable</u> (for current residents only)
1 Bedroom	\$3,591 - \$5,955	\$2,756 - \$5,283	\$2,476 - \$4,931
2 Bedroom	\$4,470 - \$7,816	\$3,501 - \$6,884	\$3,240 - \$6,017
Cottages	\$6,887 - \$8,646	\$5,893 - \$7,082	\$3,568 - \$6,266
Second Person			
Apartments	\$763 - \$1,504	\$ 995 - \$1,461	\$1,033 - \$1,409
Cottages	\$702 - \$1,350	\$1,033 - \$1,238	\$ 918 - \$1,342

Non-Refundable Entrance Fee Plans

	<u>Zero Entrance Payment</u>	<u>Non-Refundable Plan 1</u>	<u>Non-Refundable Plan 2</u>
1 Bedroom	\$5,350 - \$6,225		
2 Bedroom	\$6,600 - \$8,550		
Cottages	\$8,550 - \$8,975		
Second Person			
Apartments	\$1550		
1 Bedroom	\$4,700 - \$5,450	\$4,075 - \$4,700	
2 Bedroom	\$5,800 - \$7,400	\$5,075 - \$6,300	
Cottages	\$7,400 - \$7,850	\$6,300 - \$6,550	
Second Person			
Apartments	\$700 - \$1,150		

	Non-Refundable <u>Plan 3</u>	Non-Refundable <u>Plan 4</u>
1 Bedroom	\$3,600 - \$4,325	\$2,975 - \$3,750
2 Bedroom	\$4,550 - \$5,625	\$4,000 - \$4,900
Cottages	\$5,625 - \$5,900	\$4,900 - \$5,200
 Second Person		
Apartments	\$700 - \$1,150	
Cottages	\$700 - \$1,150	

- (2) Other Fees – If a resident is sixty-five (65) years of age or older, he must obtain and maintain in force, at his own expense, Medicare Part A and Part B, or equivalent insurance coverage under a public or private insurance plan. In addition, the resident must obtain and maintain a supplemental insurance policy with coverage acceptable to the Provider. If the resident is less than sixty-five (65) years of age, he must obtain medical insurance coverage equivalent to the coverage described above.

Residents may have other recurring fees including a Reservation Fee to secure their unit upon signing the Reservation Agreement and fees for Health Center usage and long term care insurance costs.

- (3) Adjustments – The Provider may adjust the Monthly Fee and the Health Center Fees under certain limited circumstances, as provided in Sections IV.H and IV.J of the Continuing Care Agreement.

If a resident is transferred to the Health Center from his residence his fees will be adjusted in accordance with Section III.E of the Continuing Care Agreement (attached as Exhibit A). The Health Center fees will be commensurate with the level of care provided, in accordance with Section IV.L. of the Continuing Care Agreement. The resident will be notified upon admission to the Health Center of the level of care he is to receive and the fee required. Similarly, she/he will be notified of any changes in the level of care she/he is provided at the Health Center and the corresponding Health Center fee adjustments.

If a resident participating in an entrance payment plan moves from a lower priced living unit to a higher priced unit she/he will pay the difference between the entrance payment already made on the old unit and the entrance payment associated with the new unit. The difference in Entrance Fees will be payable in a lump sum. The monthly fee in the new unit will be the fee then in effect for a unit of that size and style.

If a resident participating in an entrance payment plan moves from a higher priced unit to a lower priced unit she/he will **not** receive a refund of the difference between the entrance payment on the old unit and the entrance payment associated with the

new unit. The monthly fee in the new unit will be the fee then in effect for a unit of that size and style.

A resident may switch from a straight monthly fee payment plan to an Entrance Fee Payment plan on the resident’s anniversary date of residency in the Community. Upon the change, the resident will pay the then current Entrance Fee Payment and fees associated with the plan the resident has selected.

(d) Table of Increase in Periodic Rates – The following tables show the increase in periodic rates for the Community over the past five years, as required by Va. Code Ann. Sec. 38.2 – 4902. Similar tables are also provided for The Fairfax, another continuing care retirement community operated by the Provider within the Commonwealth of Virginia.

The Colonnades

Modified 90% Refundable Entrance Fee Plan
(For Current Residents Only)

Unit Type	2007 <u>Increase</u>	2008 <u>Increase</u>
One Bedroom	\$225 - \$325	\$225 - \$250
Two Bedroom	\$200 - \$325	\$275 - \$350
Cottage	\$325	\$350 - \$375
2 nd Resident Apartment	\$50	\$75
Cottage	\$50	\$75

Standard 90% Refundable Entrance Fee Plan
(For Current Residents Only)

Unit Type	2007 <u>Increase</u>	2008 <u>Increase</u>
One Bedroom	\$200 - \$225	\$200 - \$225
Two Bedroom	\$225 - \$300	\$225 - \$300
Cottage	\$300 - \$325	\$300 - \$325
2 nd Resident Apartment	\$50	\$75
Cottage	\$50	\$75

Zero Entrance Payment

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$175 - \$200	\$175 - \$225	\$200 - \$225	\$200 - \$225	\$225 - \$250
Two Bedroom	\$225 - \$300	\$225 - \$300	\$250 - \$300	\$250 - \$300	\$250 - \$325
Cottage	\$300	\$300	\$300 - \$325	\$325 - \$325	\$325
2 nd Resident Apartment	\$50	\$50	\$75	\$75	\$50
Cottage	\$50	\$50	\$75	\$75	\$50

Non-Refundable Entrance Fee Plan 1

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$150 - \$175	\$150 - \$175	\$175 - \$200	\$175 - \$200	\$175 - \$250
Two Bedroom	\$200 - \$250	\$200 - \$250	\$225 - \$275	\$225 - \$275	\$225 - \$275
Cottages	\$250 - \$275	\$250 - \$275	\$275 - \$300	\$225 - \$300	\$225 - \$300
2 nd Resident Apartment	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50
Cottage	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50

Non-Refundable Entrance Fee Plan 2

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$150	\$150	\$150 - \$175	\$150 - \$175	\$150 - \$175
Two Bedroom	\$175 - \$225	\$175 - \$225	\$200 - \$225	\$200 - \$225	\$200 - \$250
Cottages	\$225	\$225	\$225 - \$250	\$200 - \$250	\$250
2 nd Resident Apartment	\$ 25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50
Cottage	\$ 25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50

Non-Refundable Entrance Fee Plan 3 (New in 2011)

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$125 - \$150	\$125 - \$150	\$150 - \$175	\$125 - \$150	\$150 - \$175
Two Bedroom	\$150 - \$200	\$150 - \$200	\$175 - \$200	\$175 - \$225	\$175 - \$225
Cottages	\$200	\$200	\$200 - \$225	\$225	\$225
2 nd Resident					
Apartment	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50
Cottage	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50

Non-Refundable Entrance Fee Plan 4 (New in 2011)

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$100 - \$125	\$100 - \$125	\$125 - \$150	\$100 - \$125	\$125 - \$150
Two Bedroom	\$150 - \$175	\$150 - \$175	\$150 - \$175	\$150 - \$175	\$150 - \$200
Cottages	\$175	\$175	\$175 - \$200	\$175 - \$200	\$200
2 nd Resident					
Apartment	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50
Cottage	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50	\$25 - \$50

The Fairfax

Moderate 90% Refundable Payment Plan

(Also applies to current plan holders of the Moderate 95% Refundable Payment Plan)

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$110 - \$129	\$113 - \$133	\$723 - (\$356)	\$22 - \$128	\$158 - \$164
Two Bedroom	\$144 - \$154	\$148 - \$159	(\$499) - \$158	\$163	\$163
Three Bedroom	\$164 - \$177	\$171 - \$182	\$906 - \$189	\$194	\$200
Cottages	\$169	\$174	\$120 - \$793	\$147	\$189
2 nd Resident	\$35	\$36	\$37	\$40	\$42

90% Refundable Payment Plan

(Also applies to current plan holders of the Standard Payment Plan,
95% Refundable Plan, 50% Refundable Payment Plan and 0% Refundable Payment Plan)

<u>Unit Type</u>	<u>2014 Increase</u>	<u>2015 Increase</u>	<u>2016 Increase</u>	<u>2017 Increase</u>	<u>2018 Increase</u>
One Bedroom	\$74 - \$102	\$76 - \$105	\$58 - \$98	\$13 - \$81	\$104 - \$138
Two Bedroom	\$102 - \$123	\$105 - \$127	\$97 - \$120	\$70 - \$135	\$128 - \$173
Three Bedroom	\$111 - \$134	\$114 - \$138	\$117 - \$131	\$121 - \$146	\$158 - \$189
Cottages	\$107 - \$137	\$110 - \$141	\$43 - \$143	\$72 - \$148	\$118 - \$177
2 nd Resident	\$36	\$36	\$39	\$40	\$42

(e) Escrow

1) The Provider shall maintain an escrow account with a bank (“Escrow Agent”) to hold all entrance payments or portions thereof in excess of \$1,000 per person received by the Provider prior to the date the resident is permitted to occupy a unit in the facility. Interest shall not be credited to the resident for such deposits. When a prospective resident has selected a residence and a payment plan, she/he shall execute a Reservation Agreement (attached as Exhibit B).

Funds or assets deposited in all escrow accounts shall be kept and maintained separate and apart from the Provider’s business accounts.

2) All funds or assets deposited in the escrow accounts shall remain the property of the prospective resident. The funds or assets shall not be subject to any liens, judgments, garnishments or creditor's claims against the Provider or the facility.

3) All entrance payments deposited with the Escrow Agent pursuant to this section (f) shall be released to the Provider when the Provider presents to the Escrow Agent evidence that a unit has been occupied by the resident or a unit of the type reserved is available for immediate occupancy by the resident or prospective resident on whose behalf the payment was received.

4) Notwithstanding any other provision of this section (f), all funds or assets deposited in escrow pursuant to this section shall be released according to the terms of the escrow agreement to the prospective resident from whom it was received (i) if such funds or assets have not been released within three years after placement in escrow or within such longer period as determined appropriate by the State Corporation Commission in writing, (ii) if the prospective resident dies before occupying a unit (or, in a double occupant unit, both prospective residents shall die before occupying a unit), or (iii) upon rescission of the continuing care agreement pursuant to provisions in the agreement or the Act. However, funds or assets subject to release under item (i) of this subsection or under subsection 3 of this section (f) may be held in escrow for an additional period at a mutual consent of the Provider and the prospective resident; however, the prospective resident may consent to such additional period only after his deposit has been held in escrow for at least two years.

5) Funds or assets held in an escrow account pursuant to this Section (f) may be held in the form received or if invested shall be invested in instruments authorized for the investment of public funds as set forth in Chapter 18 (sec. 2.1 – 327 et. seq.) of Title 2.1 of the Virginia Code and not in default as to principal or interest.

(f) Below Market Loan – Section 7872 of the Internal Revenue Code of 1986 provides that if a “below market loan” is made, the lender will be treated as receiving imputed interest income in excess of the amount of interest being paid, even if the obligation to repay the loan does not provide for the payment of any interest. Effective January 1, 2006, legislation has been enacted exempting certain payments to CCRCs from the below market loan rules. The Provider has determined that the entrance fee paid at The Colonnades qualifies for the exemption and is not subject to Section 7872.

RESERVE FUNDING

It is anticipated that operating income from the Monthly Fees will be sufficient to enable the Provider to meet its continuing care obligations. Accordingly, no reserve or security funds will be established.

CERTIFIED FINANCIAL STATEMENTS

A copy of the Provider's certified financial statements for fiscal years 2016 and 2017 are attached as Exhibit C. Sunrise is a wholly owned subsidiary of Red Fox Holding Corporation (“Red Fox”) and is Red Fox's only asset. A copy of Red Fox's audited financial statements for the fiscal year ended December 31, 2017, are attached as Exhibit D.

PRO FORMA INCOME STATEMENT

The unaudited pro forma income statement for the Provider's current fiscal year and a Summary of Financial Information are attached as Exhibit E. They have been prepared in accordance with generally accepted accounting principles.

ADMISSION OF NEW RESIDENTS

The Provider's admission criteria are: (i) minimum age of 62 years; (ii) submission of a physician's report identifying any relevant health conditions; (iii) proof of sufficient assets and income to pay the Entrance Fee (if applicable) and the Monthly Fee, Health Center Fees and other normal expenses for items and services not provided by the Community; (iv) if 65 years of age or older, enrollment in Medicare Parts A and B, as well as coverage under a supplemental health insurance program acceptable to the Provider. If less than 65 years of age, the Provider requires enrollment in a medical insurance program equivalent to Medicare.

Admission to the Community is open to anyone meeting the foregoing requirements, without regard to race, religion, national origin or sex.

ACCESS TO COMMUNITY BY NON-RESIDENTS

Under the terms of the Certificate of Public Need issued by the Virginia Department of Public Health, admissions to the thirty-four nursing beds in the Health Center occurring after three years from the date of the project's completion are restricted to individuals who hold contracts meeting the requirements of Section 2.1 of Amendment 360-01-03 to the Virginia State Health Plan. Residents with Continuing Care Contracts meet these requirements. In addition, the Community is available to non-Continuing Care Contract holders who have executed contracts that meet the referenced requirements of the Virginia State Health Plan. Access to the recreational, dining areas and other common areas in the Community will be limited to residents and the contract holders described above, and guests.

PROCEDURE FOR RESIDENT TO FILE A COMPLAINT OR DISCLOSE CONCERN

A resident may direct a complaint or concern to the manager of the department at the Community who has responsibility for the issue(s). This may be done either orally or in writing. If the Resident's complaint or concern is not resolved to his/her satisfaction within forty-eight hours by the department manager, the Resident may then direct the complaint to the Community's Executive Director.

In addition, residents are encouraged to bring suggestions or concerns to the Residents' Association, which works closely with senior management of the Community.

EXHIBIT A

CONTINUING CARE AGREEMENT

THE COLONNADES

A Sunrise Senior Living Community

TABLE OF CONTENTS

PREAMBLE..... 1

ARTICLE I – RESIDENCE ACCOMMODATIONS AND FACILITIES.....1

 A. Your Residence..... 1

 B. Parking.....1

 C. Modifications to your Residence.....1

 D. Community Facilities.....2

 E. Property Protection.....2

ARTICLE II – SERVICES.....2

 A. Meals.....2

 1. Tray Service.....2

 2. Guest Meals.....2

 B. Housekeeping.....2

 C. Laundry.....3

 D. Maintenance and Repair.....3

 E. Security.....3

 F. Buildings and Grounds.....3

 G. Insurance and Responsibility for Resident’s Property.....3

 H. Utilities.....3

 I. Transportation.....3

ARTICLE III – HEALTH AND NURSING SERVICES.....4

 A. Health Center.....4

 B. Nursing Services.....4

 C. Transfer from Residence.....4

 D. Unavailability of Health Center Bed space.....4

 E. Health Center Fees and Charges.....5

 1. Payment of Fees During Health Center Stays.....5

 F. Health Insurance.....5

 G. Consent to Release of Medical Information.....6

ARTICLE IV – FEES AND CHARGES.....6

 A. Entrance Fees.....6

 B. Occupancy Date.....6

 C. Payment Schedule.....6

D. Escrow of Entrance Payments.....	6
E. Application of Funds.....	7
1. Entrance Fee.....	7
2. Additional Occupant Fee	7
F. Entrance Fee Unchanged.....	7
G. Transferor.....	7
H. Community Fee	7
I. Security Deposit	8
J. Monthly Fee.....	8
1. Payment of Monthly Fee.....	8
2. Amount of Monthly Fee	8
K. Adjustments of Monthly Fee	8
1. Adjustment.....	8
2. Termination of Double Occupancy.....	8
3. Resident Absence.....	9
L. Refunds of Monthly Fees and Security Deposit.....	9
M. Health Center Fees.....	9
1. Payment of Health Center Fee.....	9
2. Amount of Per Diem Health Center Fee.....	9
N. Adjustments of Health Center Fees.....	10
O. Move to Differently Priced Unit.....	10
P. Change from Straight Monthly Fee Plan to Entrance Fee Plan	10
 ARTICLE V – TERMINATION OF AGREEMENT.....	 10
A. Automatic Rescission.....	10
B. Termination by Resident.....	10
C. Termination by Sunrise.....	11
D. Cancellation and Other Notices.....	11
E. Termination by Death.....	12
F. Release Upon Termination.....	12
G. Removal of Resident’s Property.....	12
 ARTICLE VI – OTHER CONSIDERATIONS.....	 13
A. Resident’s Covenant of Performance.....	13
B. Attorney’s Fees.....	13
C. Pets	13
D. Additional Occupants	13
1. Guests.....	13
2. Marriage of Two Residents.....	13
3. Marriage to Non-Resident.....	13
4. Other Parties.....	14
E. Arrangements for Guardianship or Conservatorship.....	14
F. Arrangements in Event of Death.....	14

G. Property Rights.....	14
1. Right of Entry	14
2. Ownership Rights	14
3. Responsibility for Damages.....	14
H. Rules and Regulations	15
I. Accuracy of Information.	15
J. Changes in Service	15
K. Inability to pay	15
L. Personal Obligations of Residents.....	15
M. Admissions and Dismissals of Other Residents	15
N. Visitor Policy.....	15
O. Financial Statement.....	15
P. Waiver.....	15
Q. Assignment.....	15
R. Entire Agreement.....	16
S. Partial Illegality.....	16
T. Construction.....	16
U. Joint and Several Liability.....	16

CONTINUING CARE AGREEMENT

Sunrise Continuing Care, LLC (referred to in this Agreement as “Sunrise”) is a Delaware limited liability company, organized to establish and operate retirement communities. Sunrise operates the retirement community known as The Colonnades, (referred to in this Agreement as the “Community”), located in Albemarle County, Virginia.

_____ (referred to in this Agreement as “you”) has/have entered into this Continuing Care Agreement (“Agreement”) with Sunrise, effective on the _____ day of _____.

PREAMBLE

Sunrise will provide you the services and accommodations described below in this Agreement, for the rest of your life, subject to the terms and conditions specified in this Agreement, including the termination provisions.

YOU AND SUNRISE AGREE AS FOLLOWS:

ARTICLE I

RESIDENCE ACCOMMODATIONS AND FACILITIES

A. **Your Residence** – You have selected Unit _____ to be your Residence (this Unit will be referred to in this Agreement as your “Residence”). You shall have a personal and non-assignable right to reside in the Residence, subject to the terms of this Agreement and Community rules and regulations. Your Residence will be furnished with a full kitchen, carpeting, individual washer and dryer units, and emergency call system and smoke alarms. All other furnishings are your responsibility and you may furnish and decorate your Residence in accordance with your own individual tastes and preferences. You may place and use your furniture and small appliances as you please as long as this does not interfere with the Community’s safety standards.

B. **Parking** – A parking area will be available to you, at no additional charge, for a single motor vehicle used by you. An additional parking space may be available on a separate charge basis. A free parking area for guests will be provided.

C. **Modifications to Your Residence** – You will not make any structural or physical changes to your Residence or landscaping without the written consent of the Community Executive Director (“Executive Director”). At your request, for an additional fee, and in compliance with Community policy in effect at the time, Sunrise will modify your Residence in accordance with the terms of a separate agreement between you and Sunrise. Subject to Sunrise’s approval, you may

perform the modification work. Your Residence or landscaping must be returned back to the original design upon vacating your Residence, unless other arrangements have been made in writing with the Executive Director.

D. Community Facilities – You will be entitled to share with all residents in the use of the common grounds and facilities, and to reserve certain areas for special occasions in accordance with Community rules and regulations. The Community will feature facilities for a wide range of social and recreational activities. The Community’s pavilion will include a reception area, library, mail boxes, a barber/beauty shop, multi-purpose room and a high quality dining room with additional provisions for private dining. The Community, in cooperation with the Residents Council, will offer a wide range and balance of social and recreational activities.

E. Property Protection – You agree to keep your Residence clean and orderly and agree not to permit misuse of or damage to your Residence. In the event your unit is damaged beyond normal wear and tear upon termination of this Agreement, you may be assessed an additional refurbishment fee to repair such damage. Carpet will be deemed unusable if it contains stains, burns, discoloration, smoke or pet damage or heavily worn paths. All carpet replacement will be performed throughout the entire Residence to maintain consistent color.

ARTICLE II

SERVICES

A. Meals – Sunrise will make available morning, noon, and evening meals at designated hours with nutritionally well balanced and varied menus. The Monthly Fee entitles you to 30 or 31 meals per month (depending on the number of days in the month) in the Community dining room if your Residence is an apartment, and 15 or 16 meals per month (depending on whether there are 28/30 or 31 days in the month) in the Community dining room if your Residence is a cottage. Other meals may be obtained in the dining room at an additional charge.

1. **Tray Service** – Meals included in your Monthly Fee may be delivered to your room provided that you are medically certified as needing tray service. Tray service for additional meals, or tray service without medical certification may be obtained for an additional charge.
2. **Guest Meals** – You may invite guests to any meal, although Sunrise requests that you give 48 hours prior notice so that proper accommodation can be made. Guest meals will be billed to you as an additional charge.

B. Housekeeping – On a weekly basis, Sunrise will provide light cleaning services for your Residence including vacuuming, light dusting, and cleaning bathroom fixtures, kitchen and entry floors, counters, appliance faces and sinks. Sunrise will provide window washing, oven cleaning, carpet shampooing and other similar heavy cleaning

once a year. Additional housekeeping service may be contracted for an additional charge.

C. Laundry – Weekly laundering of sheets and towels is included in your monthly fee. All other laundry service will be provided at an additional charge.

D. Maintenance and Repair – Sunrise will provide necessary repairs, maintenance, and replacement of Community property and equipment. Except in an emergency, such services will be provided during normal working hours, Monday through Friday. Sunrise shall have the right to charge you for any repairs, maintenance or replacement required as a result of the negligence or intentional acts of you or your guests. You are responsible for maintaining, repairing and replacing your property.

E. Security – Your Residence will be equipped with an emergency call system by which you can contact personnel who will be available to provide assistance 24 hours a day, seven days a week. Sunrise can provide this emergency call system only if you obtain land line telephone service (see Section H below). Sunrise will employ security personnel to supervise the Community buildings and grounds during certain hours, as it deems necessary.

F. Building and Grounds – Sunrise will maintain all Community buildings, common areas and grounds, including lawns, walkways, and driveways. Landscaping and decorative plantings will be provided and maintained by Sunrise as it deems appropriate.

G. Insurance and Responsibility For Resident's Property – You will be responsible for providing all personal property and liability insurance for you, your property and your guest. Sunrise shall not be responsible for and Sunrise insurance will not protect you against any loss or damage to your personal property from theft, fire or other cause which is not the fault of Sunrise, nor does Sunrise agree to indemnify you against personal liability for injury to guest or other persons in your Residence.

H. Utilities – Electricity, including heat and air conditioning; water; and sewer and garbage collection fees are included in your Monthly Fee (as described in Article IV, Section H). Telephone service to each Residence will be available; however, installation of telephones and service costs will be your responsibility. Residents are encouraged to obtain telephone service since the operation of the emergency call system is dependent on the telephone system.

I. Transportation – Sunrise will provide scheduled local transportation to shopping centers and other points of common interest.

ARTICLE III

HEALTH AND NURSING SERVICES

A. Health Center – The Community will have a licensed Health Care Center staffed twenty-four (24) hours a day with nursing and other personnel. The Health Center will provide assisted living care, and licensed nursing care.

B. Nursing Services – If you are to be admitted to the Health Center, you shall execute a separate Assisted Living or Nursing Care Agreement, as appropriate, that will govern your stay in the Health Center. Sunrise will provide you, while a patient in the Health Center, with routine care and nursing services, which may include, as necessary, assisted living care and licensed nursing care (these services are referred to in this Agreement as “Nursing Services”). Care shall be provided in the Health Center on a fee for service basis as addressed in Section III.E. of this Agreement. Sunrise will not provide physician services at the Health Center. You shall have the right to consult with or be treated by an physician of your choosing.

C. Transfer From Residence – In case of emergency, where the consultation described below is not feasible, Sunrise may transfer you from your Residence to an appropriate facility.

Other than an emergency described above, if the Community Executive Director determines, after consulting with you, your personal physician, a member of your family or your designated representative and the Community Medical Director, if appropriate:

1. That Sunrise does not have adequate facilities or staff to provide the nursing services or medical care needed by you;
2. That your continued occupancy of your Residence constitutes a danger or health hazard to you or other residents, or is detrimental to the peace or security of other residents; or
3. That you are no longer able to leave your Residence without the assistance of another during an emergency and your Residence is not approved by the State Fire Marshal for use by nonambulatory residents; then you may be requested to transfer from your Residence to the Health Center or elsewhere for appropriate care. Failure to consent to a transfer may constitute good cause for termination of this Agreement.

D. Unavailability of Health Center Bed Space – Although it is expected that Health Center bed space will be adequate to meet demand, if it is not available for you when needed, Sunrise will assist with locating similar nursing services for you at an outside nursing facility. All costs of care at the outside facility shall be your sole responsibility. If you are transferred to an outside nursing facility, you shall have the right, on a

priority basis, to be returned to the Health Center as soon as appropriate space is available and we can meet your medical needs. Sunrise may provide Nursing Services in the Health Center to non-residents on a daily rate basis to the extent that space and services are not fully utilized by residents.

E. Health Center Fees and Charges – Payment for care in the Health Center will be separate from the monthly fee and covered by a supplemental Health Center Per Diem fee and ancillary charge schedule (“Health Center Fees”).

1. **Payment of Monthly Fees During Health Center Stays** – If you are admitted to the Health Center the fees will be as follows:
 - (a) If you are a single resident, you will pay your Monthly Fee plus Health Center fees incurred for each day in the Health Center, as long as you retain your Residence. During your stay in the Health Center, you will receive a credit for the meals included in your monthly fee. The credit will be in an amount to be determined by the Executive Director. Upon release of your Residence, you will thereafter pay only the Health Center Fees.
 - (b) If one resident of a double occupant Residence is admitted to the Health Center and the other resident remains in the Residence, the Monthly Fee for the resident remaining in the Residence shall be the applicable rate for a single occupant of the Residence in accordance with Section IV.I.2. of this Agreement and the resident in the Health Center shall pay the Health Center Fees in accordance with Section IV.L. of this Agreement.
 - (c) If both residents of a double occupant Residence are admitted to the Health Center, each will pay the Health Center Fees in accordance with Section IV.L. of this Agreement. In addition, they will continue to pay the Monthly Fee applicable to single occupancy of their Residence, less the meal credit discussed in Section III.E.1.(a) above, as long as the Residence is retained. Upon release of the Residence the obligation to pay the Monthly Fee ends.

F. Health Insurance – If you are sixty-five (65) years of age or older, you agree to obtain and maintain in force at your cost Medicare Part A and Part B, or equivalent insurance coverage under a public or private insurance plan. In addition, by the Occupancy Date (as defined herein), you agree to obtain and maintain a supplemental insurance policy with coverage acceptable to Sunrise. If you are less than sixty-five (65) years of age, you agree to obtain medical insurance coverage equivalent to the coverage described in this paragraph satisfactory to Sunrise. You agree to provide proof of coverage as Sunrise may request. The Monthly Fee (or Health Center fee) is charged for all services provided pursuant to this Residency Agreement and is not in lieu of health insurance benefits (including benefits which may be available from Medicare, Medicaid or other third party payor).

G. Consent to Release of Medical Information – You consent to the release to Sunrise or its designee of medical information which may be maintained by any physician, hospital or other provider of medical services which has provided or is providing medical services or consultation to you.

ARTICLE IV

FEES AND CHARGES

A. Entrance Fees –

The Entrance Fee for your Residence (if applicable) is \$_____.

The Additional Occupant Fee (if applicable) is \$_____.

The total Entrance Fee (if applicable) is \$_____.

B. Occupancy Date – Your Occupancy Date shall be _____ (“Occupancy Date”).

C. Payment Schedule – The total Entrance Fee (if applicable) is due on or before your Occupancy Date.

D. Escrow of Entrance Payments

1. Sunrise shall maintain an interest bearing escrow account with a bank (“Escrow Agent”) to hold all entrance payments or portions thereof in excess of \$1,000.00 per person received by Sunrise prior to the Occupancy Date. Funds or assets deposited in this account shall be kept and maintained separate and apart from Sunrise’s business accounts. Interest on escrow deposits will be at the same rate as paid by the Escrow Agent for other deposits of similar term and will be applied to your entrance payment (if applicable).
2. All funds or assets deposited in the escrow account shall remain your property until released to Sunrise in accordance with this Section D. The funds or assets shall not be subject to any liens, judgments, garnishments or creditor’s claims against Sunrise or the facility.
3. All funds or assets deposited in escrow pursuant to this section D. shall be released to Sunrise when Sunrise presents to the Escrow Agent evidence that you have occupied your Residence.
4. Notwithstanding any other provision of this Section D, all funds or assets deposited in escrow pursuant to this Section D. shall be released to you (i) if such funds or assets have not been released within three years after placement in escrow, or within such longer period as determined appropriate by the State Corporation Commission in writing, (ii) if you die before occupying your Residence (or, in a double occupant unit, both of you shall die before occupying the unit), (iii) upon rescission of this Agreement pursuant to provisions in this

Agreement or in Virginia Code §38.2 – 4900, et. seq. However, funds or assets subject to release under item (i) of this subsection or under subsection 3 of this Section C may be held in escrow for an additional period at the mutual consent of Sunrise and you; however, you may consent to such additional period only after your deposit has been held in escrow for at least two years.

5. Funds or assets held in an escrow account pursuant to this Section D may be held in the form received or if invested shall be invested in instruments authorized for the investment of public funds as set forth in Chapter 18 (§2.1 – 327 et. seq.) of Title 2.1 of the Virginia Code and not in default as to principal or interest.

E. Application of Funds – At your Occupancy Date, if you selected a Non-Refundable Entrance Fee Plan, the following shall apply:

1. **Entrance Fee** – “Entrance Fee” shall be payable in the amount of \$_____.

If you terminate this agreement as stated in Article V B., C. D. & E. during the first 12 months after the Occupancy Date, resident, or resident’s estate, will receive a refund equal to 100% of the Entrance Fee paid, minus 4% for each month of residency. After 12 months, there will be no refund of the Entrance Fee. The Second Person Entrance Fee is 100% non-refundable, unless terminated during the 7-day “right to rescind” period.

2. **Additional Occupant Entrance Fee** – “Additional Occupant Entrance Fee” shall be payable (if applicable) in the amount of \$_____.

Additional Occupant Entrance Fee payment is 100% non-refundable unless you terminate this Agreement during the seven day “right to rescind” period.

F. Entrance Fee Unchanged – The principal amount of the Entrance Fee shall not be changed unless you change to a differently priced living unit (see Section IV.O).

G. Transferor – If someone other than you, acting on your behalf has paid or will pay the Entrance Fee, this person or organization will be referred to in this Agreement as the “Transferor”. If a Transferor has acted on your behalf, the name of the Transferor is **none**, and that person is also a party to this Agreement. If you have paid the Entrance Fee directly, the term Transferor when used in this Agreement shall refer to you.

H. Community Fee – Upon signing this Agreement, you agree to pay Sunrise the sum of \$_____ (“Community Fee”), which covers the costs associated with maintenance of the Community’s common areas and grounds as well as refurbishment of the Residence as a result of normal wear and tear.

I. Security Deposit- Upon signing this Agreement, you agree to deposit with Sunrise the sum of \$ _____, as security for your performance under the Agreement (“Security Deposit”).

J. Monthly Fee

1. **Payment of Monthly Fee** – Commencing on the Occupancy Date, you will pay Sunrise a monthly fee (referred to in this Agreement as the “Monthly Fee”). The Monthly Fee shall be payable in advance on or before the fifth (5th) day of each month throughout the term of this Agreement and will be deemed paid when received by Sunrise. Sunrise may assess a five percent (5%) penalty charge for late payment. The Monthly Fee for the month within which the Occupancy Date falls shall be due and payable on the Occupancy Date. The Monthly Fee for that month and or the last month of the Agreement shall be prorated based upon the number of days in the first and last months of the Agreement. The Monthly Fee is not rent but is consideration for services provided to you as herein described.

2. **Amount of Monthly Fee** – Your initial Monthly Fee shall be:

First occupant

_____ Dollars \$ _____

Second occupant

_____ Dollars \$ _____

Total

_____ Dollars \$ _____

K. ADJUSTMENTS OF MONTHLY FEE

1. **Adjustments** – Sunrise will have the right to adjust your Monthly Fee upon sixty (60) days written notice to you. Adjustments to the Monthly Fee structure shall not be made more than once in any twelve (12) month period. Residents will also be given at least sixty (60) days advance notice of any changes in other fees, charges or the scope of care or services, except for changes required by state or federal assistance programs.
2. **Termination of Double Occupancy** – If one occupant of a double occupant Residence leaves the Community permanently, dies or moves into the Health Center, effective on the first day of the following month, the Monthly Fee for the remaining occupant shall be the Monthly Fee for single occupancy of the Residence.

3. **Resident Absence** – If you are to be absent from the Community for more than fourteen (14) consecutive days, you will receive a partial refund of your Monthly Fee in an amount to be determined by the Executive Director of the community, provided you first give written notice to the Executive Director at least five (5) days prior to such absence.

L. REFUNDS OF MONTHLY FEES AND SECURITY DEPOSIT Within forty-five (45) days after your Residence has been vacated, your property has been removed from it, and the Residence has been restored to its original clean condition, Sunrise shall pay you or your estate a refund equal to any unused Monthly Fees plus the Security Deposit (without interest), minus;

- 1) The amount of any unpaid Monthly Fees or other fees that you owe to Sunrise under this Agreement;
- 2) The costs of repairing damage (including tobacco smoke damage) to your Residence not caused by normal wear and tear;
- 3) The cost of any repairs to other Sunrise property that was damaged by you; and
- 4) Any expense incurred by Sunrise to remove, store and/or sell any of your property that was not removed after you vacated your Residence.

If the amount you owe Sunrise exceeds the sum of your unused Monthly Fees and Security Deposit, Sunrise will bill you the difference.

M. HEALTH CENTER FEES

1. **Payment of Health Center Fee** – Commencing on the date you transfer to the Health Center on either a temporary or permanent basis you will pay Sunrise Health Center Fees appropriate to the type of care you receive in accordance with the Assisted Living or Nursing Care Agreement executed pursuant to Section III.B of this Agreement. An amount equal to 30 or 31 (depending on the number of days in the month) times the Per Diem Health Center Fee is payable in advance on or before the 5th day of each month throughout the term of your stay in the Health Center and will be deemed paid when received by Sunrise. Sunrise may assess a 5% penalty charge for late payment. In the first month, this sum shall be payable on the admission date to the Health Center. If you are admitted with less than thirty (30) days remaining in the month of admission, the advance payment shall be prorated accordingly and the residual amount will be credited to the following month's payment.
2. **Amount of Per Diem Health Center Fee** – The current per diem rate for Health Center Services is as follows:

Assisted Living From \$_____ per day/unfurnished (base rate)

Nursing Care \$_____ per day/semi-private occupancy

N. Adjustments of Health Center Fees – Sunrise will have the right to adjust your Per Diem Health Center Fees upon thirty (30) days written notice to you. Other Health Center ancillary charges may be adjusted by Sunrise at any time.

O. Move to Differently Priced Unit – If you move from a lower priced unit to a higher priced unit you will pay the difference between the Entrance Fee already paid on the old unit and the Entrance Fee associated with the new unit. The monthly fee in the new unit will be the fee then in effect for a unit of that size and style.

If you move from a higher priced unit to a lower priced unit you will **not** receive a refund of the difference between the entrance payment you made on your old unit and the entrance payment associated with the new unit. The monthly fee in the new unit will be the fee then in effect for a unit of that size and style. If you move to another apartment/cottage in our community within a year of moving into your current apartment, you will be assessed a fee to pay for the repainting and repairs to the apartment/cottage walls.

P. Change From Straight Monthly Fee Plan to Entrance Fee Plan - If you change from the straight monthly fee plan to an Entrance Fee plan, you will pay the then current Entrance Fee associated with the plan. Thereafter, you will pay the monthly fees associated with the payment plan you selected. This change can be made only on the anniversary date of your residency in the community.

ARTICLE V

TERMINATION OF AGREEMENT

A. Automatic Rescission – If you die before occupying your unit, or are precluded through illness, injury or incapacity from becoming a resident under the terms of the Continuing Care Agreement, the Agreement is automatically rescinded and you or your legal representative shall receive a full refund of all money paid to Sunrise, except those costs specifically incurred by Sunrise at your request and set forth in a separate written addendum signed by both you and Sunrise.

B. Termination by Resident – You may rescind this Agreement in its entirety by giving written notice to Sunrise within seven (7) days of signing this Agreement. A “Notice of Right to Rescind” form is attached to this Agreement. If you rescind this Agreement, Sunrise will refund all amounts you paid, except for the Application Fee.

After occupancy, you (or both Residents of a double occupied unit) have the right, at any time, to terminate the Agreement by delivering a written termination notice to Sunrise, signed by you (or both Residents of a double occupied unit). This notice shall

specify the date when termination is to be effective, which shall be not less than one hundred and twenty (120) days after the date of the written notice unless this time requirement is waived by Sunrise. In case of a double occupied unit, this notice will also state whether either occupant desires to retain the Unit or another unit, if available, on a single occupancy basis. If one occupant elects to remain a Resident, the Agreement shall remain in effect with appropriate adjustment of the Monthly Fee. In the event you move to another Residence within the first 12 months of your Occupancy Date, you will be assessed a fee to refurbish the Residence you are vacating.

Should you give notice of termination as provided in this Section, you may not thereafter cancel or withdraw such notice without Sunrise's consent.

C. Termination by Sunrise – Sunrise may terminate the Agreement for good cause by notice to you. Good cause shall include any of the following:

1. Conduct by you that constitutes a danger to yourself or others;
2. Failure to pay the Monthly Fee or Health Center Fees when due;
3. Repeated conduct that interferes with the quiet enjoyment of the Community by other residents;
4. Persistent refusal to comply with reasonable written Community rules and regulations.
5. Material misrepresentations made intentionally or recklessly in your application and other related materials, regarding information which, if accurately provided, would have resulted in either your failure to qualify for residency or a material increase in the cost of providing the care and services provided under the contract; or
6. A material breach of the terms and conditions of the continuing care contract.

Sunrise will not terminate the Agreement without first notifying you of the nature of the default and allowing you not less than thirty (30) days within which to remedy such default. If, within this time period, you have not remedied the default, Sunrise may terminate the Agreement immediately.

D. Cancellation and Other Notices – All notices required by this Agreement shall be in writing and mailed or hand delivered (i) to Sunrise at its address as shown below or, after the Occupancy Date, to the Executive Director's office, (ii) to you at the address shown below, or after the Occupancy Date, by depositing the notice in your community mail box and (iii) to the Transferor (if any) at the address as shown below.

Resident:

2600 Barracks Road, _____
Charlottesville, VA 22901

Transferor:

Sunrise:

The Colonnades Retirement Community
2600 Barracks Road
Charlottesville, VA 22901
Attn: Executive Director

The address may be changed from time to time by written notice to the other party.

E. Termination by Death – Upon your death the Agreement shall terminate as soon as your personal property has been removed from the Unit. The death of one Resident of a jointly occupied Unit shall not cause this Agreement to be terminated.

F. Release Upon Termination – Upon termination of the Agreement (i) Sunrise shall take possession of your Residence and be released from all obligations to you except to pay or refund any amounts required to be paid or refunded to you hereunder, and (ii) upon payment of all amounts owed to Sunrise by you hereunder, you shall be released from further obligation to Sunrise.

G. Removal of Resident's Property – Within thirty (30) days after (i) you move from the Unit on a permanent basis, (ii) your death, or (iii) termination of the Agreement, you or your guardian, conservator or designee, or if none is qualified, your family, shall remove your personal property from the Unit. Payment of monthly fees shall continue on a prorated basis until the property is removed from the unit. If said personal property is not removed within such thirty (30) day period, Sunrise shall have the right to remove it from the Unit and place it in storage for up to one (1) year at your expense, after which time it shall be sold and the proceeds, after deductions for expenses, credited to your account.

ARTICLE VI

OTHER CONSIDERATIONS

A. Resident's Covenant of Performance – You agree to pay promptly all fees and charges required by this Agreement, and otherwise to comply fully with all of your other obligations set forth in this Agreement. You agree not to use, transfer or materially deplete your assets by gifts or otherwise, so as to threaten or jeopardize your ability to pay amounts owed under this Agreement.

B. Attorney's Fees – In the event that litigation arises between the parties in connection with their rights and obligations under this Agreement, the prevailing party will be entitled to reasonable attorney fees and costs incurred in connection with such litigation, to be paid by the other party.

C. Pets – You may maintain a dog, cat or other pet upon the approval of and on terms prescribed by the Executive Director. No such approval shall be necessary for fish or small birds which are kept in appropriate containers. You will be responsible for ensuring that any pet is properly cared for and that your pet does not create any disturbance or otherwise constitute a nuisance, and agree to comply with any reasonable pet regulations adopted by the Community.

D. Additional Occupants

1. **Guests** – No person other than you may occupy your Residence except as a temporary guest. Any guest staying overnight must first register with the Community. Permission must first be obtained from the Executive Director if you desire that a guest stay for more than seven (7) nights in any thirty (30) day period. Persons granted such permission shall acquire no rights or privileges under this Agreement. Sunrise may revoke such permission at any time upon twenty-four (24) hours notice.
2. **Marriage of Two Residents** – If two residents marry, either resident may terminate his or her Continuing Care Agreement and release his or her Residence. The terminating resident may become a party to his/her spouse's Continuing Care Agreement and become a second occupant in the occupied Residence. The Monthly Fee shall be adjusted so as to equal the Monthly Fee that applies to double occupancy of the occupied Residence. The Monthly Fee subsequently may be adjusted as set forth in Article IV, Section I.
3. **Marriage to Non-Resident** – If you marry a non-resident who meets the entrance requirements your new spouse automatically becomes a resident of the Community and becomes a party to this Agreement. If your new spouse does not meet the entrance requirements, he or she may occupy your Residence with you on a non-resident basis. In both cases the Additional Occupant Fee, equal

to the then current Additional Occupant Fee shall be paid and the Monthly Fee shall be adjusted to reflect double occupancy.

4. **Other Parties** – Should you desire to have a person other than a spouse live in your Residence with you on a permanent basis, prior written permission of the Executive Director shall be necessary. If approved, such other person will pay the Additional Occupant Fee and the Monthly Fee shall be adjusted to reflect double occupancy. If such other person does not become a resident, he or she may, at the discretion of and on terms set by the Executive Director, receive at his or her own expense, services available to residents.

E. Arrangements for Guardianship or Conservatorship – If you become legally incompetent or are not able to care properly for yourself or your property, and if you have made no other designation of a person or legal entity to serve as guardian or conservator, then Sunrise may apply to a court of law to appoint a legal guardian or conservator.

F. Arrangements in Event of Death – Funeral arrangements are the responsibility of your estate or family and Sunrise has no obligation to make such arrangements or provide such services except where you or your family fail to do so. Any expenses advanced by Sunrise relating to the funeral or burial shall become a debt of your estate.

G. Property Rights

1. **Right of Entry** – Sunrise employees may enter your Residence at any reasonable time to perform housekeeping duties, inspection and maintenance functions and at any time to respond to a medical alert system, fire alert system or other emergency. Sunrise recognizes your right to privacy and Sunrise's responsibility to limit entry only to situations such as those described above or where Sunrise deems it advisable for the best interest of you or the Community.
2. **Ownership Rights** – You have no ownership interest or proprietary right in the Residence assigned to you and the personal property, land, buildings, improvements or other Community facilities provided under this Agreement. This Agreement shall not be construed to be a lease or to confer any rights of tenancy or ownership to you. Your rights under this Agreement are subject to all terms and conditions of this Agreement and subordinate to any mortgage, financing deed, deed of trust, or financing lease on Community premises. Upon request, you agree to execute and deliver any instrument requested by Sunrise or the owner or holder of any such document to effect the sale, assignment, or conveyance thereof, provided that by so doing you shall not be required to prejudice your rights under this Agreement.
3. **Responsibility for Damages** – You will be responsible for any loss or damage to Sunrise's property caused by your negligence. If negligence of another

resident, invitee or other person, other than an employee or agent of Sunrise, results in injury, illness or damage to you or your property, Sunrise assumes no responsibility therefrom and you release and discharge Sunrise from all liability and responsibility for same.

H. Rules and Regulations – Sunrise shall have the right to adopt or amend, either by itself or with or through a residents association, such reasonable rules and regulations as it deems necessary or desirable for the proper management and operation of the Community and the safety, health and comfort of the residents. You agree to abide by such rules and regulations.

I. Accuracy of Information – You represent and warrant that all information that has been or will be submitted to Sunrise by you as required in making application to the Community or by the Reservation Agreement or this Agreement is true and complete. You understand and acknowledge that Sunrise is relying on such information.

J. Changes in Service – No changes shall be made in the scope of care or services on less than sixty (60) days notice, unless required by state or federal assistance programs.

K. Inability to Pay – If you are not able to pay the Monthly Fee, Health Center Fees, or other amounts owed under this Agreement Sunrise may assist you in applying for a loan or loans to meet your obligations.

L. Personal Obligations of Residents – Sunrise shall not be liable or responsible for any expenses, debts, or obligations incurred by you on your own account, nor shall it be obligated to furnish, supply, or give you any support, maintenance, board or lodging while you are absent from the Community.

M. Admissions and Dismissals of other Residents – You agree that you have no right to determine or appeal the admission, terms of admission, placement or dismissal of any other resident.

N. Visitor Policy – Except as provided in Article VI, Section D.1, Residents may invite Guests for visits at reasonable times. Guests must comply with Community rules and regulations.

O. Financial Statements – Sunrise's audited financial reports are contained in the Annual Disclosure Statement filed with the Virginia Bureau of Insurance.

P. Waiver – The failure of Sunrise in any one or more instances to insist upon strict compliance by you with any of the terms of this Agreement shall not be construed to be a waiver by Sunrise of the right to insist upon strict compliance by you with any of the other terms of this Agreement.

Q. Assignment – Your rights under this Agreement are personal to you and cannot be transferred or assigned by any act of you, or by any proceeding at law, or otherwise.

Sunrise may assign the Agreement to any subsidiary or other entity. The Agreement shall bind and inure to the benefit of Sunrise's successors and assigns and shall bind and inure to the benefit of your heirs, executors and administrators in accordance with its terms.

R. Entire Agreement – This Continuing Care Agreement, together with the Resident's application forms, the Priority Deposit Agreement, Residential Selection Deposit Agreement and the Reservation Agreement, constitute the entire agreement between Sunrise and you. Sunrise is not liable for nor bound in any manner by any statements, representations or promises made by any person representing or proposing to represent Sunrise unless such statements, representations, or promises are set forth in the Agreement. Any modification of the Agreement must be in writing signed by Sunrise and you.

S. Partial Illegality – This Agreement shall be construed in accordance with the laws of the Commonwealth of Virginia. If any portion of this Agreement shall be determined to be illegal or not in conformity with applicable laws and regulations, such portion shall be deemed to be modified so as to be in accordance with such laws and regulations, and the validity of the balance of this Agreement shall not be affected; provided, however, if Sunrise determines, in its sole discretion, that the portion of this Agreement so changed constitutes a substantial change in this Agreement, Sunrise may rescind this Agreement and you shall receive all refunds to which you are entitled under this Agreement.

T. Construction – Words of any gender used in this Agreement shall be deemed to include any other gender and words in the singular shall be deemed to include the plural, when the sense requires.

U. Joint and Several Liability – If two parties execute this Agreement as residents, the term "resident" or "you" as used in the Agreement shall apply to both and they shall be jointly and severally liable under this Agreement unless otherwise provided.

IN WITNESS WHEREOF, the parties hereto have executed the Agreement, the date and year first above written.

SUNRISE CONTINUING CARE, LLC

Resident or Transferor

Date

Resident or Transferor

Date

Sales & Marketing Director

Date

Executive Director

Date

Notice of Right to Rescind

Date Rescission Period Begins

Resident may rescind and terminate the Continuing Care Agreement, without penalty or forfeiture, within seven (7) days of the above date. Resident is not required to move into the Continuing Care facility before the expiration of this seven (7) day period.

To rescind the Continuing Care Agreement, mail or deliver a signed and dated copy of this notice or any other dated written, letter or telegram, stating your desire to rescind to The Colonnades, 2600 Barracks Road, Charlottesville, Virginia 22901, not later than midnight of _____ (last day of rescission).

Pursuant to this notice, I hereby cancel my Continuing Care Agreement.

Resident or Responsible Party

Date

Resident or Responsible Party

Date

EXHIBIT B

**THE COLONNADES
SUNRISE CONTINUING CARE, LLC**

**Independent Living Apartment/Cottage
Reservation Agreement**

THIS AGREEMENT is made and entered into this _____ day of _____, _____, by and between Sunrise Continuing Care, LLC referred to in this Agreement as "SUNRISE" and _____, (hereinafter designated as "you".)

SUNRISE, operates THE COLONNADES located on Barracks Road in Charlottesville, Virginia and you are desirous of becoming a resident of The Colonnades.

IT IS AGREED AS FOLLOWS:

1. You may rescind or terminate this Agreement at any time by providing notice to Sunrise at:

The Colonnades
2600 Barracks Road
Charlottesville, Virginia 22901
2. SUNRISE agrees to make residence unit number _____, available to you on the Occupancy Date.
3. SUNRISE may terminate this Agreement if you fail to meet the admissions requirements necessary for execution of the Continuing Care Agreement or if you fail to execute a Continuing Care Agreement by _____, _____.
4. You are guaranteed that any change in the state of your health after the date of the execution of a Continuing Care Agreement will not affect your admission to The Colonnades.
5. You paid SUNRISE a \$1,000.00 Application Fee when you applied for admission to THE COLONNADES which, except as specified below, is non-refundable.
 - (a) If you die prior to execution of the Continuing Care Agreement, SUNRISE shall refund the \$1,000.00 Application Fee. Payment shall be made within thirty (30) days from notice of the date of death.
 - (b) If SUNRISE terminates this Agreement due to your failure to meet admission criteria, SUNRISE shall refund the \$1,000.00 Application Fee within thirty (30) days from date of termination. If SUNRISE terminates the Agreement due to your failure to execute a Continuing Care Agreement by the date specified in Paragraph 3 of this Agreement, the \$1,000.00 Application Fee shall be non-refundable.
 - (c) Once the Continuing Care Agreement is executed, the \$1,000 application fee will be applied to the Community Fee called for in the Continuing Care Agreement.

**THE COLONNADES
SUNRISE CONTINUING CARE, LLC**

6. You have agreed to the “ _____ Payment Plan”. However, you may elect to change to any other payment plan offered by SUNRISE without penalty, at any time prior to signing the Continuing Care Agreement for your residence.
7. You are guaranteed that any change in the amount of Entrance Fees associated with your payment plan after the date of this Agreement will not affect the amount of the Entrance Fee payable by you.
8. Your rights under this Agreement are the rights and privileges expressly granted in this Agreement and do not include any proprietary interest in the properties of THE COLONNADES or SUNRISE and are subject to such subordination agreements as may be required by the Continuing Care Agreement.
9. You agree to abide by and conform to such rules, policies, and principles as now exist for the operation and management of the facility and such as may subsequently be adopted or amended. A copy of the rules and regulations of the facility shall be provided to you.
10. You agree to pay a Reservation Fee in the amount of \$ _____ to secure the apartment/cottage until the execution of the Continuing Care Agreement. Once the Continuing Care Agreement is executed, the Reservation Fee shall be applied toward the Community Fee described in the Continuing Care Agreement. If you cancel this agreement, the Reservation Fee shall be refunded.

Print Name

Print Name

Date of Birth

Date of Birth

Social Security #

Social Security #

Medicare #

Medicare #

[SIGNATURES ON FOLLOWING PAGE]

**THE COLONNADES
SUNRISE CONTINUING CARE, LLC**

Signature

Signature

Street Address

City State Zip

Telephone

Sunrise Representative

Title

EXHIBIT C

Sunrise Continuing Care, LLC

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Combining Supplemental Schedules as of
and for the Year Ended December 31, 2017,
and Independent Auditors' Report

SUNRISE CONTINUING CARE, LLC

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016:	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Member's Deficit	5
Statements of Cash Flows	6
Notes to Financial Statements	7-16
COMBINING SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017:	17
Balance Sheet	18-19
Statement of Operations	20
Statement of Cash Flows	21-22

INDEPENDENT AUDITORS' REPORT

Management of Sunrise Continuing Care, LLC:

We have audited the accompanying financial statements of Sunrise Continuing Care, LLC and its subsidiaries, (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in member's deficit, and cash flows for the years then ended, and the related notes to the financial statements. We have issued our report thereon dated April 20, 2018, which includes an emphasis-of-matter paragraph regarding the effects of an agreement with a related party that resulted in some certain assets and liabilities to be reclassified as held for sale. In connection therewith, our opinion is not modified in respect of this matter.

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 Company'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 Company'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 the Company 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.

Emphasis of Matter

We draw attention to Note 5 of the financial statements, which describes the effects of an agreement with a related party that resulted in certain assets and liabilities of two communities within the Company to be classified as held for sale as of December 31, 2017. Our opinion is not modified in respect of this matter.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules, which include the combining balance sheet, statement of operations, and cash flows for the year ended December 31, 2017 on pages 17-22 are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

April 20, 2018

SUNRISE CONTINUING CARE, LLC

BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4	\$ 4
Accounts receivable—net of allowance for doubtful accounts of \$453 and \$770 for 2017 and 2016, respectively	2,943	4,934
Indemnification receivable—Lifecare bonds	1,774	2,253
Assets held for sale	13,984	-
Prepaid expenses and other current assets	<u>1,378</u>	<u>2,161</u>
Total current assets	<u>20,083</u>	<u>9,352</u>
RESTRICTED CASH:		
Bedford Court working capital reserves (See Note 5)	-	3,475
The Quadrangle statutory minimum liquid reserve	3,368	3,368
Other restricted cash reserves	<u>1,122</u>	<u>1,188</u>
Total restricted cash	<u>4,490</u>	<u>8,031</u>
LEASEHOLD IMPROVEMENTS AND EQUIPMENT:		
Leasehold improvements	32,285	39,016
Furniture and equipment	7,129	14,532
Construction in progress	<u>347</u>	<u>2,796</u>
Total leasehold improvements and equipment	39,761	56,344
Less accumulated depreciation	<u>(21,439)</u>	<u>(29,552)</u>
Leasehold improvements and equipment—net	18,322	26,792
OTHER LONG TERM ASSETS		
Indemnification receivable—Lifecare bonds	<u>6,105</u>	<u>8,168</u>
TOTAL	<u>\$ 49,000</u>	<u>\$ 52,343</u>
LIABILITIES AND MEMBER'S DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 3,147	\$ 5,487
Accrued rent payable	9,725	11,676
Liabilities associated with assets held for sale	13,196	-
Notes payable to landlord—net	2,660	2,835
Deferred revenue	172	188
Lifecare bonds	1,774	4,383
Security and reservation deposits	<u>266</u>	<u>557</u>
Total current liabilities	<u>30,940</u>	<u>25,126</u>
LONG-TERM LIABILITIES:		
Deferred revenue—Endowment	64,827	60,372
Other long-term liabilities	273	334
Lifecare bonds	6,105	15,906
Deferred rent	<u>-</u>	<u>3,092</u>
Total long-term liabilities	<u>71,205</u>	<u>79,704</u>
TOTAL LIABILITIES	102,145	104,830
MEMBER'S DEFICIT	<u>(53,145)</u>	<u>(52,487)</u>
TOTAL	<u>\$ 49,000</u>	<u>\$ 52,343</u>

See notes to financial statements.

SUNRISE CONTINUING CARE, LLC

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
OPERATING REVENUE:		
Resident fees	\$ 84,510	\$ 81,819
Health care revenue	25,993	26,108
Amortization of deferred revenue from entrance fees	<u>10,622</u>	<u>10,666</u>
Total operating revenue	<u>121,125</u>	<u>118,593</u>
OPERATING EXPENSES:		
Labor	42,183	40,729
Rent	28,238	27,241
Ancillary expenses	9,940	9,702
General and administrative	5,390	5,521
Repairs and maintenance	5,216	5,034
Food	5,177	4,961
Depreciation	4,471	4,012
Taxes and license fees	4,002	3,948
Utilities	3,444	3,358
Insurance	2,332	2,453
Advertising and marketing	922	881
Bad debt	<u>37</u>	<u>(1)</u>
Total operating expenses	<u>111,352</u>	<u>107,839</u>
INCOME FROM OPERATIONS	<u>9,773</u>	<u>10,754</u>
OTHER (EXPENSES) INCOME:		
Other expenses	(10)	(152)
Interest expense	(50)	(34)
Interest income	<u>18</u>	<u>12</u>
Total other expenses	<u>(42)</u>	<u>(174)</u>
NET INCOME	<u>\$ 9,731</u>	<u>\$ 10,580</u>

See notes to financial statements.

SUNRISE CONTINUING CARE, LLC

STATEMENTS OF CHANGES IN MEMBER'S DEFICIT FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

MEMBER'S DEFICIT—January 1, 2016	\$ (53,084)
Net income	10,580
Distributions	(72,737)
Contributions	<u>62,754</u>
MEMBER'S DEFICIT—December 31, 2016	(52,487)
Net income	9,731
Distributions	(132,744)
Contributions	<u>122,355</u>
MEMBER'S DEFICIT—December 31, 2017	<u><u>\$ (53,145)</u></u>

See notes to financial statements.

SUNRISE CONTINUING CARE, LLC

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 9,731	\$ 10,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,471	4,012
Loss on disposal of assets	27	157
Provision for bad debts	37	(1)
Amortization of deferred revenue from entrance fees	(10,622)	(10,666)
Amortization of leases	(3,092)	(2,711)
Changes in operating assets and liabilities:		
Accounts receivable	(84)	(456)
Prepaid expenses and other current assets	46	(78)
Change in Bedford Court working capital reserves (See Note 5)	-	(446)
Change in The Quadrangle statutory minimum liquid reserve	-	(175)
Accounts payable and accrued expenses	359	739
Accrued rent payable	256	1,221
Deferred revenue	15,062	12,844
Security and reservation deposits	(25)	102
Net cash provided by operating activities	<u>16,166</u>	<u>15,122</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in other restricted cash reserves	(77)	(143)
Purchases of leasehold improvements and equipment	<u>(3,927)</u>	<u>(3,634)</u>
Net cash used in investing activities	<u>(4,004)</u>	<u>(3,777)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payment on capital leases	(104)	(76)
Distributions to member	(132,744)	(72,737)
Contributions from member	119,766	60,088
Proceeds from Lifecare bonds	<u>920</u>	<u>1,380</u>
Net cash used in financing activities	<u>(12,162)</u>	<u>(11,345)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS—Beginning of year	<u>4</u>	<u>4</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 4</u>	<u>\$ 4</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—Cash paid for interest	<u>\$ 50</u>	<u>\$ 37</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING INFORMATION:		
Accrued capital expenditures	<u>\$ (527)</u>	<u>\$ (109)</u>
Assets held for sale	<u>\$ 13,984</u>	<u>\$ -</u>
Liabilities associated with assets held for sale	<u>\$ (13,196)</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING INFORMATION:		
Proceeds from notes payable to landlord	<u>\$ 8,688</u>	<u>\$ 7,980</u>
Repayments of notes payable to landlord	<u>\$ (8,863)</u>	<u>\$ (8,453)</u>
Refunds of Lifecare bonds	<u>\$ (4,956)</u>	<u>\$ (5,068)</u>
Reimbursement from lessor for indemnification	<u>\$ 2,542</u>	<u>\$ 2,875</u>

See notes to financial statements.

SUNRISE CONTINUING CARE, LLC

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. ORGANIZATION

On March 28, 2003, Sunrise Senior Living, Inc. (SSLI) acquired Marriott Continuing Care, LLC (MCC) through the acquisition of Marriott Senior Living Services, Inc. On April 9, 2003, the name of the limited liability company was changed to Sunrise Continuing Care, LLC (SCC or "the Company").

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%.

As of December 31, 2017, the Company leased four independent full-service and assisted living communities and provided related senior care services. These active communities contain 1,712 units and are as follows:

Communities	Unit Count	Location
Bedford Court	354	Maryland
The Colonnades	303	Virginia
The Fairfax	513	Virginia
The Quadrangle	542	Pennsylvania

The Company has management agreements with Sunrise Senior Living Management Inc., a wholly-owned subsidiary of Sunrise, to manage the facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

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 the accompanying notes. Significant estimates and assumptions have been made with respect to the useful lives of assets, recoverability of investments in leasehold improvements and equipment, recoverable amounts of receivables, amortization rate of deferred revenue, and the present value of estimated costs to be incurred under continuing care agreements. Actual results could differ from those estimates.

Leasehold Improvements and Equipment—Leasehold improvements 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 equipment and the lesser of the estimated useful lives or remaining lease term for leasehold improvements as follows:

Leasehold improvements	6–15 years
Furniture and equipment	3–10 years

Leasehold improvements and furniture and equipment 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 Company measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charge was recorded in 2017 or 2016.

Assets Held for Sale—We classify long-lived assets as held for sale when (i) management commits to a plan to sell the property, (ii) it is unlikely that the disposal plan will be significantly modified or discontinued, (iii) the property is available for immediate sale in its present condition, (iv) actions required to complete the sale of the property have been initiated, (v) sale of the property is probable and expected to be completed within one year and (vi) the property is actively being marketed for sale at a price that is reasonable given its current market value. Assets classified as held for sale are reported at the lower of their carrying value or fair value less costs to sell and are no longer depreciated upon their classification as held for sale. At December 31, 2017, we reclassified two communities as Assets Held for Sale (see Note 5).

The Company reports the operations of related assets held for sale under discontinued operations when a disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with a maturity of three months or less at the date of purchase.

Restricted Cash

Working Capital Reserves—Restricted cash represents cash reserves for working capital required by the state of Maryland for Bedford Court, and by the state of Pennsylvania for The Quadrangle. Certain reserves totaling approximately \$6,843,000 and \$6,843,000 were held at banks as of December 31, 2017 and 2016, respectively. The reserve requirements under state statutes are calculated by applying a certain percentage to the applicable communities' net operating expenses, as defined by the state statutes.

Per an Agreement of Undertaking between SCC and Sunrise, SCC agrees to maintain in the Bedford Court reserve account an amount at all times equal to the greater of (i) the principal amount of the outstanding lifecare bonds (Note 4) or (ii) the minimum operating reserve required by Maryland law. As of December 31, 2017 and 2016, the Bedford Court required reserve of approximately \$3,475,000 and \$3,475,000, respectively, was maintained in an account held at a bank. At December 31, 2017, this balance is recorded in Assets Held for Sale (see Note 5).

The Bedford Court reserve calculations were as follows for 2017 and 2016 (in thousands):

	2017	2016
Total operating expenses	\$20,574	\$19,595
Less depreciation	<u>(585)</u>	<u>(487)</u>
Net operating expenses—as defined	<u>19,989</u>	<u>19,108</u>
Required reserve percentage	15 %	15 %
(1) STATE MINIMUM OPERATING RESERVES AS OF DECEMBER 31	<u>\$ 2,998</u>	<u>\$ 2,866</u>
(2) OUSTANDING LIFECARE BONDS	<u>\$ 3,365</u>	<u>\$ 3,464</u>
REQUIRED RESERVES EQUAL TO GREATER OF (1) or (2) ABOVE	<u>\$ 3,365</u>	<u>\$ 3,464</u>
RESERVE BALANCE AS OF DECEMBER 31, 2017 AND 2016	<u>\$ 3,475</u>	<u>\$ 3,475</u>
Excess (Shortfall)	<u>\$ 110</u>	<u>\$ 11</u>

The Company is required under the Commonwealth of Pennsylvania’s regulations governing lifecare communities to separately disclose its calculation of the statutory minimum liquid reserve (SMLR) for The Quadrangle for the most recent calendar year. Under the Commonwealth of Pennsylvania’s regulations, the Company must maintain a SMLR for The Quadrangle in an amount equal to or exceeding the greater of (i) the total of all principal and interest payments during the next 12 months on account of any mortgage loan or other long-term financing of the facility or (ii) 10% of the projected annual operating expenses of the facility exclusive of depreciation. The Company does not have mortgage debt, and therefore, it follows the second requirement. Approximately \$3,368,000 and \$3,368,000 was held at the bank as of December 31, 2017 and 2016, respectively.

The SMLR calculations for The Quadrangle for 2017 and 2016 are the following (in thousands):

	2017	2016
Annual operating expenses exclusive of depreciation	\$ 34,310	\$ 33,012
Required minimum reserve percentage	<u>10</u> %	<u>10</u> %
Statutory minimum liquid reserve	3,431	3,301
Reserve balance as of December 31, 2017 and 2016	<u>3,368</u>	<u>3,368</u>
(Shortfall) excess	<u>\$ (63)</u>	<u>\$ 67</u>

On March 05, 2018, the Company funded \$64,000 to the reserve account to bring the reserve balance to \$3,432,000 which is in excess of the required outstanding reserve balance as of December 31, 2017.

Other Restricted Cash Reserves—Restricted cash includes cash reserved under a working capital requirement for a previously leased community. Approximately \$1,037,000 and \$1,034,000 were held at a bank as of December 31, 2017 and 2016, respectively.

In addition to working capital reserves, a pooled furniture, fixtures, and equipment escrow exists for The Fairfax and The Quadrangle, which is also included in restricted cash in the accompanying balance sheets. The balances of approximately \$74,000 and \$1,721 as of December 31, 2017 and 2016, respectively, represent funding from operations, net of fixed-asset purchases, and are required under the lease agreements.

Allowance for Doubtful Accounts—The Company provides an allowance for doubtful accounts on its outstanding receivables based on an analysis of collectability, including its 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.

Revenue Recognition and Deferred Revenue—Operating revenue consists of resident fee revenue, including resident community fees. Generally, resident community fees approximating 30 to 60 times the daily residence fee are received from residents upon occupancy. Resident community fees are deferred and recognized as income over one year corresponding to the terms of agreements with residents. The agreements are cancelable by residents with 30 to 90 days' notice. All other resident fee revenue is recognized when services are rendered. The Company 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 recorded at established rates with contractual adjustments deducted to arrive at net health care revenue. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Health care services rendered to Medicare beneficiaries are paid on a Prospective Payment System (PPS). Fee amounts are determined annually and are based on the acuity level of the resident. As a result, the PPS does not have estimated annual settlements. Medicaid payment methodologies vary by state. Most state Medicaid programs will perform desk

reviews of all submitted cost reports and audit only selected providers. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. There are no receivables for estimated Medicare or Medicaid settlements as of December 31, 2017 and 2016.

Future Service Obligation on Continuing Care Agreement—Nonrefundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident’s contract.

When the present value of estimated costs to be incurred under Care Agreements exceeds the present value of estimated revenues, the present value of such excess costs is accrued. The calculation is performed annually and assumes a future increase in the monthly revenue commensurate with the monthly costs. The calculation, which uses a 6% discount rate, results in a positive net present value of cash flow and, as such, no liability was recorded as of December 31, 2017 and 2016.

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 member and not the Company. The Company has no uncertain tax positions that require accrual as of December 31, 2017.

The Pennsylvania statute of limitations for the periods included in the financial statements expires on October 15, 2019. Tax years December 31, 2014, through December 31, 2015, remain subject to audit.

Subsequent Events—The Company evaluated subsequent events for disclosure from the balance sheet date through April 20, 2018, the date at which the Company’s financial statements were available to be issued.

On March 29, 2018, the Colonnades was sold to Welltower (see Note 5). See note 5 for update of Bedford Court transaction which will be closed after the issuance date.

New Accounting Standards

The following Accounting Standards Updates (ASUs) were issued in 2016:

ASU No. 2016-18, Restricted Cash (Topic 230), will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for financial statements issued for fiscal years beginning after December 15, 2018, on a retrospective basis. Upon adoption of ASU No. 2016-18, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

ASU No. 2016-02, Leases (Topic 842), increases transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. ASU No. 2016-02 is effective for the Company on January 1, 2020, on a retrospective basis using a modified retrospective approach. The Company is currently in the process of assessing all of the potential impacts of ASU 2016-02 on its financial position, results of operations, cash flows, and disclosures.

The following 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 the Company on January 1, 2019, on a retrospective basis using either a full retrospective or modified retrospective method. The Company is still in the process of assessing all of the potential impacts that ASU No. 2014-09 (and related clarifying guidance issued by the FASB and FASB Transition Group) will have on its financial position, results of operations, cash flows, and disclosures.

3. TRANSACTIONS WITH AFFILIATES

The Company obtained workers' compensation, professional and general liability and property coverage through Sunrise Senior Living Insurance, Inc., an affiliate of Sunrise. Related expenses totaled \$2,332,000 and \$2,453,000 in 2017 and 2016, respectively.

The Company and Sunrise do not settle cash received or paid in affiliated transactions at the subsidiary level; therefore, the affiliated activities between Sunrise and the Company have been included in contributions in the statements of changes in member's deficit for the years ended December 31, 2017 and 2016. 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. CONTINUING CARE AGREEMENTS

Residents of the communities are required to sign a continuing care agreement ("the Care Agreements") with the Company. The Care Agreements stipulate, among other things, the amount of all entrance fees and monthly fees, the type of residential unit being provided, and the Company's obligation to provide both health care and nonhealth care services. In addition, the Care Agreements provide the Company with the right to increase future monthly fees. The Care Agreements are terminated upon the receipt of written termination notice from the resident or the death of the resident.

The components of the entrance fees for the communities are as follows:

a. Lifecare Bonds—For The Fairfax and The Quadrangle, this component is refundable to the resident or the resident's estate upon termination or cancellation of the Care Agreement and occupancy of the unit by another resident. For Bedford Court and The Colonnades, the lifecare bond is refundable upon termination or cancellation of the Care Agreement. For The Colonnades, the lifecare bond is also refundable upon

conversion from an entrance fee plan to a straight monthly fee plan. The lifecare bonds for The Fairfax, The Quadrangle, and The Colonnades are primarily noninterest bearing while the lifecare bonds for Bedford Court bear interest. Depending on the type of plan, lifecare bonds are equal to either 100%, 95%, 90%, or 50% of the total entrance fee, less any additional occupant lifecare fees. Since these obligations are considered security deposits, interest is not imputed on these obligations in accordance with ASC 835, *Imputation of Interest*. There is an automatic rescission of the Care Agreement if the resident is precluded from moving in by illness, injury, or death, in which case the lifecare bonds would be refunded. Refundable entrance fees subject to repayment upon contract termination and not contingent upon re-occupancy of the unit were \$3,690,000 or 46.8% at December 31, 2017, and \$10,421,000 or 51.4% at December 31, 2016.

Indemnification Agreement

In conjunction with the acquisition of MCC in 2003, the Company assumed the entrance fee liabilities related to The Fairfax and The Quadrangle. The lessor of the communities agreed to indemnify the Company for the liability. Therefore, the Company had indemnification receivables of \$7,879,000 (including a short-term receivable of \$1,774,000 and a long-term receivable of \$6,105,000) and \$10,421,000 (including a short-term receivable of \$2,253,000 and a long-term receivable of \$8,168,000) as of December 31, 2017 and 2016, respectively, from the lessor, which equaled the amounts of the entrance fee liabilities for these two communities as of December 31, 2017 and 2016, respectively. As these obligations are discharged during the normal course of business, the associated receivables will be reimbursed, accordingly, through reimbursements from the lessor.

b. Additional Occupant Lifecare Fee—This is a nonrefundable fee for each additional occupant in a residential unit.

c. Lifecare Fee—This component is nonrefundable and equals the total entrance fee, less the two components described in a. and b. above, if any.

Nonrefundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident's contract.

The Fairfax and The Quadrangle act as agents for the landlord and collect and disburse lifecare bond proceeds from and to the residents. Monthly, the net funds are paid to or received from the landlord. The net accompanying balances due to or from the landlord are reported as notes payables to landlord—net in the accompanying balance sheets.

5. LEASES

Bedford Court and The Colonnades Leases

Bedford Court and The Colonnades are leased from SPTMRT Properties Trust, an unrelated third party, and guaranteed by Marriott International, Inc. ("Marriott"). Under the terms of the leases, communities are required to pay (i) fixed rentals and (ii) additional rentals equal to 4.5% of annual operating revenues in excess of a specified amount. The leases have an initial term of 20 years, matured on December 31, 2013, with renewal options for an additional 20 years in four five-year increments, subject to third-party approval. At

December 31, 2017 and 2016, the Company's obligations under the lease agreements were guaranteed by Red Fox and Sunrise.

In 2011, through closing of the Agreement Regarding Leases (ARL), Marriott consented to the extension of the term of the leases for Bedford Court, The Colonnades, and the two affiliated leased communities for an additional five-year term commencing January 1, 2014, and ending December 31, 2018 ("the Extension Term").

In December 2013, Marriott consented to a second extension ("Second Extension Term") of the term of the leases for an additional five-year term commencing January 1, 2019, and ending December 31, 2023.

During the Extension Term and Second Extension Term, Sunrise will be required to pay Marriott an annual payment equal to 30% of net cash flow as defined in the ARL, subject to a \$1 million annual minimum from the pooled cash flow of these four communities. The allocation of the minimum payment to the four communities is based on the letter of credit available amount reductions from Schedule 4 of the ARL. The Company's share of the minimum payment equals \$562,000 per year of the Extension Term.

On November 23, 2016, the leases were extended for an additional five-year term commencing January 1, 2019 and ending December 31, 2023.

On December 29, 2017, Welltower agreed to acquire the four properties guaranteed by Marriott from the current owner and assume the leases. The acquisition of one of the four properties closed on December 29, 2017, and obligated Welltower to purchase the remaining three properties, including Bedford Court and The Colonnades, by March 30, 2018. The Colonnades purchase was settled on March 29, 2018, and the parties agreed to extend the purchase date for Bedford Court to be no later than 60 days from the original March 30, 2018 date. Pursuant to a letter agreement dated December 29, 2017, Welltower agreed to terminate the leases once its acquisition of all of the properties is complete and pay Sunrise an aggregate termination fee of \$10 million upon termination of the leases. In connection with the acquisition of these properties and the termination of each lease, Sunrise will concurrently enter into new 25 year management agreements for each of the properties.

As of December 29, 2017, the assets of Bedford Court and The Colonnades to be sold to Welltower, net of the liabilities to be assumed by Welltower have been reclassified to assets held for sale and liabilities associated with assets held for sale on the SCC balance sheet as of December 31, 2017.

The following table presents information related to the major classes of assets and liabilities that were classified as assets and liabilities held for sale in the Company's Balance Sheet (in thousands):

	Bedford Court	The Colonnades	Total
ASSETS HELD FOR SALE:			
Accounts receivable—net of allowance for doubtful accounts	\$ 775	\$ 1,248	\$ 2,023
Prepaid expenses and other current assets	523	230	753
Bedford Court working capital reserves	3,475	-	3,475
Other restricted cash reserves	2	143	145
Leasehold improvements and equipment—net	<u>2,721</u>	<u>4,867</u>	<u>7,588</u>
TOTAL ASSETS HELD FOR SALE	<u>\$ 7,496</u>	<u>\$ 6,488</u>	<u>\$ 13,984</u>
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE:			
Accounts payable and accrued expenses	\$ 897	\$ 1,278	\$ 2,175
Accrued rent payable	918	1,290	2,208
Lifecare bonds - short-term	990	1,092	2,082
Security and reservation deposits	52	213	265
Other long-term liabilities	57	114	171
Lifecare bonds - long-term	<u>2,376</u>	<u>3,919</u>	<u>6,295</u>
TOTAL LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	<u>\$ 5,290</u>	<u>\$ 7,906</u>	<u>\$ 13,196</u>

The Colonnades Land Lease

The Company also has a land lease agreement associated with The Colonnades with an unrelated third party. Under the terms of the lease, the Company is required to pay (i) \$80,000 per year and (ii) additional rentals equal to the sum of 1.8% of annual operating revenues and 14% of nonrefundable lifecare fees. The initial term of the lease matures September 2036, and there are two renewal options for an additional 25 years each.

The Fairfax and The Quadrangle Leases

The Fairfax and The Quadrangle are leased from HCP, Inc., another unrelated party. Under the terms of the lease, communities are required to pay a percentage of the adjusted landlord's basis, as defined in the lease. The adjusted landlord's basis increases by 3% per year. All nonrefundable entrance fees are applied to rent due. The leases have an initial term of 15 years, maturing on December 3, 2018, for The Fairfax and The Quadrangle, with an option for one 10-year first extension and then an option for a 59-month second extension. The leases are also guaranteed by Red Fox. Additional rent may be due if cash flow after consideration of nonrefundable fees is positive and is based on the nonrefundable portion of partially refundable lifecare fees. Rent credits are also provided for these two leases equal to the nonrefundable entrance fees. Rent credits for the years ended December 31, 2017 and 2016, were \$11,782,000 and \$10,247,000, respectively.

Rent Expenses and Minimum Future Obligations

The Company recognizes the effects of fixed and determinable scheduled rent increases for these leases on a straight-line basis over the noncancelable term of each lease. Deferred rent in the accompanying balance sheets represents the cumulative effect of straight lining the leases over their terms and is computed as the difference between expenses accrued on a straight-line basis and contractual rent payments. For the years ended December 31, 2017 and 2016, rent expenses for these four communities, including contingent rent of approximately \$4,056,000 and \$2,905,000, respectively, were approximately \$28,238,000 and \$27,242,000, respectively.

The Company's minimum future obligations under operating leases, as of December 31, 2017, are as following (in thousands):

2018	\$ 22,562
2019	21,242
2020	21,879
2021	22,536
2022	23,212
Thereafter	<u>152,568</u>
Total	<u>\$263,999</u>

Vehicle Leases

Certain vehicles are leased for use in operations under capital leases. Capital lease amounts included in furniture and equipment are as following (in thousands):

	2017	2016
Vehicle leases	\$ 736	\$ 522
Accumulated depreciation	<u>(325)</u>	<u>(215)</u>
Total	<u>\$ 411</u>	<u>\$ 307</u>

6. CONTINGENCIES

The Company 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 Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's financial position.

Pennsylvania Subpoena—The US Attorney's Office for the Eastern District of Pennsylvania issued a subpoena to SSLI in 2011 for certain documents relating to resident care at The Quadrangle. Sunrise and the Company are cooperating with the US Attorney's Office and have produced the requested documents. There have been no activities from or claims made by the US Attorney's Office since 2012.

* * * * *

SUPPLEMENTAL SCHEDULES

SUNRISE CONTINUING CARE, LLC

COMBINING BALANCE SHEET AS OF DECEMBER 31, 2017 (In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ -	\$ 3	\$ -	\$ 1	\$ -	\$ 4
Accounts receivable—net of allowance for doubtful accounts	-	-	933	2,010	-	2,943
Indemnification receivable—Lifecare bonds	-	-	979	795	-	1,774
Assets held for sale	7,496	6,488	-	-	-	13,984
Prepaid expenses and other current assets	-	-	265	1,113	-	1,378
Total current assets	<u>7,496</u>	<u>6,491</u>	<u>2,177</u>	<u>3,919</u>	<u>-</u>	<u>20,083</u>
RESTRICTED CASH:						
Bedford Court working capital reserves	-	-	-	-	-	-
The Quadrangle statutory minimum liquid reserve	-	-	-	3,368	-	3,368
Other restricted cash reserves	-	-	84	-	1,038	1,122
Total restricted cash	<u>-</u>	<u>-</u>	<u>84</u>	<u>3,368</u>	<u>1,038</u>	<u>4,490</u>
LEASEHOLD IMPROVEMENTS AND EQUIPMENT:						
Leasehold improvements	-	-	15,812	16,473	-	32,285
Furniture and equipment	-	-	1,902	5,227	-	7,129
Construction in progress	-	-	173	174	-	347
Total leasehold improvements and equipment	<u>-</u>	<u>-</u>	<u>17,887</u>	<u>21,874</u>	<u>-</u>	<u>39,761</u>
Less accumulated depreciation	<u>-</u>	<u>-</u>	<u>(9,404)</u>	<u>(12,035)</u>	<u>-</u>	<u>(21,439)</u>
Leasehold improvements and equipment—net	<u>-</u>	<u>-</u>	<u>8,483</u>	<u>9,839</u>	<u>-</u>	<u>18,322</u>
OTHER LONG TERM ASSETS						
Indemnification receivable—Lifecare bonds	<u>-</u>	<u>-</u>	<u>1,523</u>	<u>4,582</u>	<u>-</u>	<u>6,105</u>
TOTAL	<u>\$ 7,496</u>	<u>\$ 6,491</u>	<u>\$ 12,267</u>	<u>\$ 21,708</u>	<u>\$ 1,038</u>	<u>\$ 49,000</u>

(Continued)

SUNRISE CONTINUING CARE, LLC

COMBINING BALANCE SHEET AS OF DECEMBER 31, 2017 (In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
LIABILITIES AND MEMBER'S CAPITAL (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	\$ -	\$ -	\$ 1,158	\$ 1,989	\$ -	\$ 3,147
Accrued rent payable	-	-	7,684	2,041	-	9,725
Liabilities associated with assets held for sale	5,290	7,906	-	-	-	13,196
Notes payable to landlord—net	-	-	643	2,017	-	2,660
Deferred revenue	-	107	41	24	-	172
Lifecare bonds	-	-	979	795	-	1,774
Security and reservation deposits	-	-	150	116	-	266
Total current liabilities	<u>5,290</u>	<u>8,013</u>	<u>10,655</u>	<u>6,982</u>	<u>-</u>	<u>30,940</u>
LONG-TERM LIABILITIES:						
Deferred revenue—Endowment	-	9,277	27,835	27,715	-	64,827
Other long-term liabilities	-	-	113	160	-	273
Lifecare bonds	-	-	1,523	4,582	-	6,105
Deferred rent	-	-	-	-	-	-
Total long-term liabilities	<u>-</u>	<u>9,277</u>	<u>29,471</u>	<u>32,457</u>	<u>-</u>	<u>71,205</u>
TOTAL LIABILITIES	5,290	17,290	40,126	39,439	-	102,145
MEMBER'S CAPITAL (DEFICIT)	<u>2,206</u>	<u>(10,799)</u>	<u>(27,859)</u>	<u>(17,731)</u>	<u>1,038</u>	<u>(53,145)</u>
TOTAL	<u>\$ 7,496</u>	<u>\$ 6,491</u>	<u>\$ 12,267</u>	<u>\$ 21,708</u>	<u>\$ 1,038</u>	<u>\$ 49,000</u>

See independent auditors' report.

(Concluded)

SUNRISE CONTINUING CARE, LLC

COMBINING STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017

(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
OPERATING REVENUE:						
Resident fees	\$ 14,965	\$ 17,761	\$ 22,982	\$ 28,802	\$ -	\$ 84,510
Health care revenue	5,887	3,841	6,691	9,574	-	25,993
Amortization of deferred revenue from entrance	-	1,837	4,743	4,042	-	10,622
Total operating revenues	<u>20,852</u>	<u>23,439</u>	<u>34,416</u>	<u>42,418</u>	<u>-</u>	<u>121,125</u>
OPERATING EXPENSE:						
Labor	8,438	7,585	11,259	14,901	-	42,183
Rent	4,971	4,848	9,294	9,125	-	28,238
Ancillary expenses	1,441	1,460	1,979	5,060	-	9,940
General and administrative	1,066	964	1,404	1,931	25	5,390
Repairs and maintenance	966	896	1,346	2,008	-	5,216
Food	996	890	1,425	1,866	-	5,177
Depreciation	585	732	1,460	1,694	-	4,471
Taxes and license fees	689	527	888	1,898	-	4,002
Utilities	715	570	1,196	963	-	3,444
Insurance	495	258	412	1,167	-	2,332
Advertising and marketing	194	152	251	325	-	922
Bad debt	18	(4)	8	15	-	37
Total operating expense	<u>20,574</u>	<u>18,878</u>	<u>30,922</u>	<u>40,953</u>	<u>25</u>	<u>111,352</u>
INCOME (LOSS) FROM OPERATIONS	<u>278</u>	<u>4,561</u>	<u>3,494</u>	<u>1,465</u>	<u>(25)</u>	<u>9,773</u>
OTHER (EXPENSE) INCOME:						
other expenses	5	10	(24)	(1)	-	(10)
Interest expense	(24)	(5)	(7)	(14)	-	(50)
Interest income	7	7	-	-	4	18
Total other income (expenses)	<u>(12)</u>	<u>12</u>	<u>(31)</u>	<u>(15)</u>	<u>4</u>	<u>(42)</u>
NET INCOME	<u>\$ 266</u>	<u>\$ 4,573</u>	<u>\$ 3,463</u>	<u>\$ 1,450</u>	<u>\$ (21)</u>	<u>\$ 9,731</u>

See independent auditors' report.

SUNRISE CONTINUING CARE, LLC

COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	\$ 266	\$ 4,566	\$ 3,463	\$ 1,457	\$ (21)	\$ 9,731
Add: net income from discontinued operations	-	-	-	-	-	-
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation	585	732	1,460	1,694	-	4,471
Loss (gain) on disposal of assets	-	1	25	1	-	27
Provision for bad debts	18	(4)	8	15	-	37
Amortization of deferred revenue from entrance fees	-	(1,837)	(4,743)	(4,042)	-	(10,622)
Amortization of leases	-	-	(1,438)	(1,654)	-	(3,092)
Changes in operating assets and liabilities:						
Accounts receivable	(70)	19	41	(74)	-	(84)
Prepaid expenses and other current assets	4	(8)	44	6	-	46
Change in Bedford Court working capital reserves	-	-	-	-	-	-
Change in The Quadrangle statutory minimum liquid reserve	-	-	-	-	-	-
Accounts payable and accrued expenses	122	60	0	180	(3)	359
Accrued rent payable	45	180	696	(665)	-	256
Deferred revenue	0	3,285	6,520	5,257	-	15,062
Security and reservation deposits	1	(14)	3	(15)	-	(25)
Net cash provided by operating activities	<u>971</u>	<u>6,980</u>	<u>6,079</u>	<u>2,160</u>	<u>(24)</u>	<u>16,166</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Change in other restricted cash reserves	-	(1)	(72)	-	(4)	(77)
Purchases of leasehold improvements and equipment	<u>(960)</u>	<u>(1,275)</u>	<u>(1,162)</u>	<u>(530)</u>	<u>0</u>	<u>(3,927)</u>
Net cash (used in) provided by investing activities	<u>(960)</u>	<u>(1,276)</u>	<u>(1,234)</u>	<u>(530)</u>	<u>(4)</u>	<u>(4,004)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:						
Principal payment on capital leases	(15)	(18)	(22)	(49)	-	(104)
Distributions to member	(21,859)	(25,002)	(41,050)	(44,833)	-	(132,744)
Contributions from member	20,943	19,316	36,227	43,252	28	119,766
Proceeds from Lifecare bonds	<u>920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>920</u>
Net cash used in financing activities	<u>\$ (11)</u>	<u>\$ (5,704)</u>	<u>\$ (4,845)</u>	<u>\$ (1,630)</u>	<u>\$ 28</u>	<u>\$ (12,162)</u>

(Continued)

SUNRISE CONTINUING CARE, LLC

COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CASH AND CASH EQUIVALENTS—Beginning of year	<u>-</u>	<u>3</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>4</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 4</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—						
Cash paid for interest	<u>\$ 24</u>	<u>\$ 5</u>	<u>\$ 7</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 50</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING INFORMATION:						
Accrued capital expenditures	<u>\$ (153)</u>	<u>\$ 402</u>	<u>\$ (99)</u>	<u>\$ (677)</u>	<u>\$ -</u>	<u>\$ (527)</u>
Assets held for sale	<u>\$ 7,496</u>	<u>\$ 6,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,984</u>
Liabilities associated with assets held for sale	<u>\$ (5,290)</u>	<u>\$ (7,906)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,196)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING INFORMATION:						
Proceeds from notes payable to landlord	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,647</u>	<u>\$ 3,041</u>	<u>\$ -</u>	<u>\$ 8,688</u>
Repayments of notes payable to landlord	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,682)</u>	<u>\$ (3,181)</u>	<u>\$ -</u>	<u>\$ (8,863)</u>
Refunds of Lifecare bonds	<u>\$ (1,019)</u>	<u>\$ (1,395)</u>	<u>\$ (1,610)</u>	<u>\$ (932)</u>	<u>\$ -</u>	<u>\$ (4,956)</u>
Reimbursement from lessor for indemnification	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,610</u>	<u>\$ 932</u>	<u>\$ -</u>	<u>\$ 2,542</u>
Noncash distribution	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.

(Concluded)

EXHIBIT D

**Red Fox Holding Corporation and
its Wholly Owned Subsidiary
Sunrise Senior Living, LLC**

Consolidated Financial Statements
as of December 31, 2017 and 2016, and for the
Years Ended December 31, 2017 and 2016, and
Independent Auditors' Report

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY SUNRISE SENIOR LIVING, LLC

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016	
Consolidated Balance Sheets as of December 31, 2017 and 2016	3
Consolidated Statements of Operations for the Years Ended December 31, 2017 and 2016	4
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016	5
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2016	6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016	7
Notes to Consolidated Financial Statements	8-41
CONSOLIDATED SUPPLEMENTAL INFORMATION AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016	42
Supplemental Consolidating Balance Sheets as of December 31, 2017 and 2016	43-44
Supplemental Consolidating Statements of Operations for the Years Ended December 31, 2017 and 2016	45-46
Supplemental Consolidating Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016	47-48
Supplemental Consolidating Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2016	49-50
Supplemental Consolidating Statements of Cash Flows for the Years Ended December 31, 2017 and 2016	51-52



Deloitte & Touche LLP
7900 Tysons One Place, Suite 800
McLean, VA 22102
USA

Tel: 703-251-1000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Management of Red Fox Holding Corporation
and Sunrise Senior Living, LLC:

We have audited the accompanying consolidated financial statements of Red Fox Holding Corporation and its wholly owned subsidiary Sunrise Senior Living, LLC (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Red Fox Holding Corporation and its wholly owned subsidiary Sunrise Senior Living, LLC as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information on pages 42-53 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. This information is the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

March 16, 2018

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands, except share amounts)**

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 47,651	\$ 30,026
Accounts receivable—net	36,472	45,931
Due from affiliates	33,142	26,014
Restricted cash	24,709	30,362
Assets held for sale	26,822	-
Prepaid expenses and other current assets	<u>12,637</u>	<u>11,720</u>
Total current assets	181,433	144,053
PROPERTY AND EQUIPMENT—Net	46,228	75,493
NOTES RECEIVABLE	1,293	1,384
INTANGIBLE ASSETS—Net	198,516	210,927
GOODWILL	92,441	92,232
INVESTMENT IN EQUITY INTEREST	8,858	9,378
RESTRICTED CASH	83,222	65,413
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	7,487	6,341
DUE FROM AFFILIATES	12,043	11,610
OTHER ASSETS—Net	<u>9,586</u>	<u>12,672</u>
TOTAL ASSETS	<u>\$ 641,107</u>	<u>\$ 629,503</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Outstanding draws on bank credit facility	\$ 65,000	\$ -
Accounts payable and accrued expenses	132,709	154,344
Liabilities associated with assets held for sale	16,822	-
Deferred revenue	3,778	3,278
Entrance fees	1,775	4,384
Self-insurance liabilities	<u>24,955</u>	<u>30,150</u>
Total current liabilities	245,039	192,156
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	-	30,000
SELF-INSURANCE LIABILITIES	60,140	51,072
DEFERRED INCOME TAX LIABILITIES—Net	6,930	18,535
OTHER LONG-TERM LIABILITIES—Net	<u>161,079</u>	<u>107,179</u>
Total liabilities	<u>473,188</u>	<u>398,942</u>
EQUITY:		
Common stock, \$0.01 par, 722,765 shares issued and outstanding	7	7
Additional paid-in capital	186,559	216,559
Accumulated (deficit) earnings	(18,162)	17,212
Accumulated other comprehensive loss	<u>(6,306)</u>	<u>(8,157)</u>
Total stockholders' equity	162,098	225,621
Noncontrolling interests	<u>5,821</u>	<u>4,940</u>
Total equity	<u>167,919</u>	<u>230,561</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 641,107</u>	<u>\$ 629,503</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

(In thousands)

	2017	2016
OPERATING REVENUE:		
Management fees	\$ 115,812	\$ 116,104
Resident fees for consolidated communities	223,821	238,882
Ancillary services	7,829	8,244
Professional fees from development, marketing and other	8,150	4,193
Reimbursed costs incurred on behalf of managed communities	<u>1,009,889</u>	<u>937,315</u>
Total operating revenue	<u>1,365,501</u>	<u>1,304,738</u>
OPERATING EXPENSES:		
Community expense for consolidated communities	156,749	167,327
Community lease expense	44,164	46,397
Depreciation and amortization	23,694	32,479
Impairment of leases	14,469	2,248
Ancillary expenses	7,454	7,945
Provision for doubtful accounts	342	317
General and administrative	94,419	94,155
Share-based and incentive compensation expense	56,689	6,745
Preopening community expense	-	754
Development and idle land costs	2,172	817
Provision for abandoned projects	3,054	619
Transaction costs	457	1,025
Legal settlement	-	2,180
Start-up costs	4,064	2,126
Loss on financial guarantee	5,000	-
Costs incurred on behalf of managed communities	<u>1,008,425</u>	<u>938,676</u>
Total operating expenses	<u>1,421,152</u>	<u>1,303,810</u>
(LOSS) INCOME FROM OPERATIONS	<u>(55,651)</u>	<u>928</u>
OTHER NON-OPERATING INCOME (EXPENSE):		
Interest income	188	151
Interest expense	(2,554)	(3,109)
Other expense	<u>(1,510)</u>	<u>(712)</u>
Total other non-operating expense	<u>(3,876)</u>	<u>(3,670)</u>
GAIN FROM SALE OF REAL ESTATE	<u>14,196</u>	<u>17,731</u>
LOSS FROM INVESTMENT IN EQUITY INTEREST	<u>(755)</u>	<u>(622)</u>
(LOSS) INCOME BEFORE BENEFIT FROM (PROVISION FOR) INCOME TAXES	(46,086)	14,367
BENEFIT FROM (PROVISION FOR) INCOME TAXES	<u>9,843</u>	<u>(7,723)</u>
NET (LOSS) INCOME	(36,243)	6,644
LESS: LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS—Net of tax	<u>869</u>	<u>(307)</u>
NET (LOSS) INCOME ATTRIBUTABLE TO STOCKHOLDERS	<u>\$ (35,374)</u>	<u>\$ 6,337</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)**

	2017	2016
NET (LOSS) INCOME	\$(36,243)	\$ 6,644
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustments	1,719	(3,291)
Unrealized gain on investments	<u>132</u>	<u>171</u>
Comprehensive (loss) income	(34,392)	3,524
LESS: COMPREHENSIVE LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>737</u>	<u>(478)</u>
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO STOCKHOLDERS	<u>\$(33,655)</u>	<u>\$ 3,046</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)**

	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity	Equity Attributable to Noncontrolling Interests	Total Equity
BALANCE—January 1, 2016	\$ 7	\$ 331,259	\$ 10,875	\$(5,037)	\$ 337,104	\$ 4,633	\$ 341,737
Net income	-	-	6,337	-	6,337	307	6,644
Dividends to stockholders	-	(33,038)	-	-	(33,038)	-	(33,038)
Sale of assets to RealCo—net of tax	-	16,617	-	-	16,617	-	16,617
Distributions to stockholders	-	(98,279)	-	-	(98,279)	-	(98,279)
Foreign currency translation adjustments	-	-	-	(3,291)	(3,291)	-	(3,291)
Unrealized gain on investments	-	-	-	171	171	-	171
BALANCE—December 31, 2016	7	216,559	17,212	(8,157)	225,621	4,940	230,561
Net loss	-	-	(35,374)	-	(35,374)	(869)	(36,243)
Dividends to stockholders	-	(30,000)	-	-	(30,000)	-	(30,000)
Contributions from noncontrolling interests	-	-	-	-	-	3,488	3,488
Return of contributions from noncontrolling interests	-	-	-	-	-	(1,112)	(1,112)
Distributions on behalf of noncontrolling interests	-	-	-	-	-	(626)	(626)
Foreign currency translation adjustments	-	-	-	1,719	1,719	-	1,719
Unrealized gain on investments	-	-	-	132	132	-	132
BALANCE—December 31, 2017	<u>\$ 7</u>	<u>\$ 186,559</u>	<u>\$(18,162)</u>	<u>\$(6,306)</u>	<u>\$ 162,098</u>	<u>\$ 5,821</u>	<u>\$ 167,919</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

(In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Net (loss) income	\$ (36,243)	\$ 6,644
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Gain on sale of real estate	(14,196)	(17,731)
Loss from investment in equity interest	755	622
Depreciation and amortization	23,694	32,479
Impairment of leases	14,469	2,248
Amortization of future performance obligation	(4,684)	(5,890)
Amortization of deferred endowment	(4,983)	(3,572)
Amortization of other deferred revenue	(1,327)	(579)
Provision for abandoned projects	3,054	619
Provision for doubtful accounts	342	317
Amortization of leases, including above and below market lease intangibles	(2,374)	891
Interest accretion on note receivable	(112)	(69)
Amortization of loan issue costs	422	755
Deferred income taxes	(12,439)	(15,472)
Share-based and incentive compensation	56,689	6,745
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	5,392	(2,134)
Due from/due to affiliate	(5,469)	(928)
Prepaid expenses and other current assets	(2,254)	(1,715)
Restricted cash held by Sunrise Captive	(7,616)	(2,163)
Other assets	-	(780)
Increase (decrease) in:		
Accounts payable, accrued expenses and other liabilities	1,163	40,968
Self-insurance liabilities	3,900	264
Deferred revenue	(101)	749
Net cash provided by operating activities	<u>18,082</u>	<u>42,268</u>
INVESTING ACTIVITIES:		
Sale of assets to RealCo	5,094	98,279
Sale of Severna Park	3,000	69,776
Developer incentive fee on sale of RealCo assets to Welltower	9,414	-
Proceeds from sale of land parcels	12,321	-
Acquisition of management contracts	-	(71)
Investment in equity interest	(235)	(5,000)
Capital expenditures	(27,978)	(59,089)
Change in restricted cash	(7,276)	(844)
Increase in notes receivable	(230)	(688)
Payments from notes receivable	435	-
Net cash (used in) provided by investing activities	<u>(5,455)</u>	<u>102,363</u>
FINANCING ACTIVITIES:		
Distributions to stockholders	-	(98,279)
Dividends to stockholders	(30,000)	(33,038)
Borrowings on credit facility	35,000	30,000
Borrowings on long-term debt	-	56,234
Repayments of credit facility	-	(36,000)
Repayments of long-term debt	-	(67,831)
Loan issue costs paid	(2)	(1,300)
Net cash provided by (used in) financing activities	<u>4,998</u>	<u>(150,214)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,625	(5,583)
CASH AND CASH EQUIVALENTS—Beginning of period	<u>30,026</u>	<u>35,609</u>
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 47,651</u>	<u>\$ 30,026</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION—(Decrease) increase in accrued capital expenditures	<u>\$ (43)</u>	<u>\$ 9,222</u>

See notes to consolidated financial statements.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016, AND
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

1. ORGANIZATION AND PRESENTATION

Organization—Red Fox Holding Corporation (“Red Fox”) through its wholly owned subsidiary Sunrise Senior Living, LLC (“Sunrise LLC” and collectively with Red Fox, “we” or “the Company”) is a provider of senior living services in the United States (US), Canada, and the United Kingdom (UK). We offer a full range of personalized senior living services, including independent living, assisted living, care for individuals with Alzheimer’s and other forms of memory loss, nursing, rehabilitative care, and home health care. At December 31, 2017, we operated 322 communities; 262 communities in the US, including 4 communities held for sale, 15 communities in Canada, and 45 communities in the UK, with a total unit capacity of approximately 29,000.

Sunrise LLC was formed as successor by conversion of Sunrise Senior Living, Inc. (“Sunrise Inc.”) on January 9, 2013, under the laws of the State of Delaware. Red Fox acquired Sunrise Inc.’s management business through Sunrise LLC on January 9, 2013, from Welltower, Inc., f/k/a Health Care REIT, Inc., (“Welltower”), with Welltower retaining an approximate 20% indirect 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 LLC’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 LLC’s senior management owning the remaining 0.7% indirect interest in Red Fox. We, the acquiree, elected to apply pushdown accounting with respect to the acquisition of Red Fox as of April 21, 2014.

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

We derive the majority of our income from our core management business of managing senior living communities under long-term management contracts. In 2014, with approval of the Board of Managers (“Board”), we implemented a growth plan involving the acquisition of strategic sites for development, construction, preopening and lease-up of Sunrise communities with potential sale upon stabilization, collaborating with existing owners to acquire additional management contracts and exploring other selective investments into complementary business lines.

In December 2016, Sunrise LLC’s owners, Revera, Welltower and a member of Sunrise LLC’s senior management, formed multiple partnerships (“RealCo”) with identical ownership interests that they had in Red Fox in December 2016. Our continued growth plan involving the development of Sunrise communities will primarily occur within the RealCo structure. Three properties that were developed by the Company and subsequently

began operations in 2015 and 2016, as well as five development assets, were sold by us to RealCo in December 2016. In October 2017, Revera sold 10% of its interest in RealCo to Welltower which changed RealCo's ownership structure to be identical to Red Fox's current ownership interests.

The following table reflects the impact of our growth plan on the number of communities managed and number of development contracts for the year ended December 31, 2017:

	<u>Operating</u>				<u>Total Operating All</u>	<u>Development Contracts with Third Parties US</u>
	<u>Owned/ Leased US</u>	<u>Managed</u>				
		<u>US</u>	<u>Canada</u>	<u>UK</u>		
Community count at December 31, 2016	16	243	15	43	317	5
Management contracts acquired	-	1	-	-	1	-
Management contracts new opening **	-	2	-	-	2	(2)
Management contracts terminated	-	-	-	(1)	(1)	-
Gracewell new openings	-	-	-	5	5	-
Gracewell contracts terminated	-	-	-	(2)	(2)	-
New development contracts	-	-	-	-	-	2
Community count at December 31, 2017*	<u>16</u>	<u>246</u>	<u>15</u>	<u>45</u>	<u>322</u>	<u>5</u>

* Includes four communities held for sale at December 31, 2017.

** Management contracts entered into upon opening of newly developed communities.

Captive—We utilize large deductible blanket insurance programs in order to contain costs for certain lines of insurance risks, including workers' compensation and employers' liability risks, automobile liability risk, employment practices liability risk, and general and professional liability risks ("Self-Insured Risks"). We have self-insured a portion of the Self-Insured Risks through our wholly owned captive insurance subsidiary, Sunrise Senior Living Insurance, Inc. (the "Sunrise Captive"). The Sunrise Captive receives premiums and issues policies of insurance on behalf of us and each US community we operate. The Sunrise Captive pays the costs for each claim above a deductible up to a per-claim limit. Third-party insurers are responsible for claim costs above this limit. These third-party insurers carry an A.M. Best rating of A-/VII or better.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions and balances have been eliminated in consolidation.

Our consolidated financial statements include all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the years ended December 31, 2017 and 2016 in accordance with GAAP. We have adjusted certain amounts to conform with the current-year presentation, including the specific identification of the change in the stock-based and incentive compensation liability within the statement of cash flows.

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and an equity method investment.

We are required to continually evaluate our variable interest entity (“VIE”) relationships and consolidate these entities when we are determined to be the primary beneficiary of their operations. A VIE is broadly defined as an entity where either (i) the equity investment at risk is insufficient to finance that entity’s activities without additional subordinated financial support, (ii) substantially all of an entity’s activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights or (iii) the equity investors as a group lack any of the following: (a) the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity’s economic performance, (b) the obligation to absorb the expected losses of an entity or (c) the right to receive the expected residual returns of an entity.

A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. We qualitatively assesses whether we are (or are not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, our form of ownership interest, our representation on the VIE’s governing body, the size and seniority of our investment, our ability and the rights of other investors to participate in policy making decisions and our ability to replace the VIE manager and/or liquidate the entity.

When evaluating VIE’s, if a scope exception within the guidance applies, we use the Voting Interest Model to evaluate whether we should consolidate an entity. We have entities that qualify for the specific not-for-profit scope exception under the VIE model. Under the Voting Interest Model, if we own a majority voting interest in a legal entity other than a limited partnership and the non-controlling shareholders or partners do not hold substantive participating rights, then we are required to consolidate the entity.

Use of Estimates—Management is required to make estimates and assumptions in the preparation of financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management’s estimates. Management believes that the assumptions and estimates used in preparation of the underlying consolidated financial statements are reasonable.

Cash and Cash Equivalents—We consider cash and cash equivalents to include currency on hand, demand deposits, and all highly liquid investments with a maturity of three months or less at the date of purchase.

Allowance for Doubtful Accounts—We provide an allowance for doubtful accounts on our outstanding receivables based on an analysis of collectability, including our 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.

Due from Affiliates—Current due from affiliates represents amounts due from affiliated entities and the communities we manage and develop for them. Amounts due from affiliates, long term, represent an indemnification receivable from Welltower related to our uncertain tax positions.

Restricted Cash—The details of our restricted cash, as of December 31, 2017 and 2016, are as follows (in millions):

	December 31,	
	2017	2016
Self-insurance restricted cash	\$ 90.7	\$ 83.0
Medicare Advantage cash	5.7	-
Cash held by controlled entities	5.1	5.0
Other restricted cash	<u>6.4</u>	<u>7.8</u>
	<u>\$107.9</u>	<u>\$ 95.8</u>

Restricted cash held by the Sunrise Captive was \$90.7 million and \$83.0 million at December 31, 2017 and 2016, respectively. As of December 31, 2017, \$81.1 million was invested in two certificates of deposit maturing in the fourth quarter of 2018. It is our intent to reinvest the funds upon maturity in a similar manner. Of the total restricted cash held by the Sunrise Captive, \$81.1 million is held as collateral for the self-insurance liabilities and has been allocated between current term and long term based on the classification of the liabilities. The fair value of the certificates of deposit approximates cost. The earnings from the investment of the restricted cash of the Sunrise Captive are used to reduce future costs and pay the liabilities of the Sunrise Captive.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the lesser of the estimated useful lives of the related assets or the remaining lease term. Depreciation is discontinued when a property is identified as held for sale. Repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets—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. We recognized an impairment loss of approximately \$0.6 million and \$0.9 million related to a leased asset portfolio consisting of three communities under a single master lease and two communities under individual leases, as the carrying amount of leasehold improvement assets at these communities exceeded their fair value for the years ended December 31, 2017 and 2016, respectively (see Note 9).

Assets Held for Sale—We classify long-lived assets as held for sale when (i) management commits to a plan to sell the property, (ii) it is unlikely that the disposal plan will be significantly modified or discontinued, (iii) the property is available for immediate sale in its present condition, (iv) actions required to complete the sale of the property have been initiated, (v) sale of the property is probable and expected to be completed within one year and (vi) the property is actively being marketed for sale at a price that is reasonable given its current market value. Assets classified as held for sale are reported at the lower of their carrying value or fair value less costs to sell and are no

longer depreciated upon their classification as held for sale. We recorded a \$13.7 million impairment charge for a portfolio of four leased communities which are classified as assets held for sale (see Note 16).

The Company reports the operations of related assets held for sale under discontinued operations when a disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

Reserve for Abandoned Projects—In conjunction with the potential acquisition of land to be developed, pre-acquisition costs are expensed as incurred until we determine that the costs are directly identifiable with a specific property. The costs are then capitalized once we enter into a Letter of Intent to acquire a land parcel. Our purchase contracts typically provide for a due diligence period and certain other conditions before we are obligated to close on the property. Upon contracting for the potential land acquisition, we commence capitalization of all direct costs clearly associated with the acquisition and entitlement of the land for our needs. Our strategy is to acquire land in markets that have high barriers to entry to maintain a competitive advantage, however the entitlement process can be riskier and over a longer term which typically incurs higher costs. We provide a reserve for costs related to our pipeline of projects that may ultimately need to be abandoned primarily due to the unsuccessful entitlement efforts. The reserve amounts are based on where each property is in the process before construction is started, with lesser reserve amounts for projects that have moved further along in the process. The reserve balance was \$1.2 million and \$0.8 million at December 31, 2017 and 2016, respectively, and is recorded in "Property and equipment, net" in the consolidated balance sheets.

Business Combinations—Our consolidated financial statements include the operations of acquired businesses from the date of acquisition. We account for acquired businesses using the acquisition method of accounting. The acquisition method of accounting for acquired businesses requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Also, transaction costs are expensed as incurred.

Intangible Assets—We capitalize costs incurred to acquire management, development, and other contracts. Management contracts acquired outside of a business combination are recorded at fair value based on the actual incremental direct acquisition costs incurred. Management contracts acquired as part of a business combination are valued using the acquisition method of accounting in determining the allocation of the purchase price to net tangible and intangible assets acquired. We make estimates of the fair value of the tangible and intangible assets using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities, and independent appraisals.

Intangible assets are valued using expected discounted cash flows and are amortized using the straight-line method over the remaining contract term, generally ranging from one to 30 years. The carrying amounts of amortizing intangible assets are reviewed for impairment when indicators of impairment are identified. If the carrying amount of the asset (group) exceeds the undiscounted expected cash flows that are directly associated with the use and eventual disposition of the asset (group), an impairment charge is recognized to the extent the carrying amount of the asset exceeds the fair value. We recognized an impairment loss of approximately \$0.2 million and \$1.3 million related to a leased asset portfolio consisting of three communities under a single master lease and two communities under individual leases, as the carrying amount of leasehold intangible assets

associated with these communities exceeded their fair value for the years ended December 31, 2017 and 2016, respectively (see Note 9).

We determined our company trade name, Sunrise Senior Living, and our UK management company, Gracewell Healthcare Limited ("Gracewell")'s trade name, have an indefinite economic life and are not amortized into results of operations. On an annual basis, a qualitative assessment is performed to determine whether it is more likely than not that this indefinite-lived intangible is impaired. If this qualitative assessment indicates any potential impairment, a quantitative fair value measurement calculation is required. If the carrying amount of the trademark exceeds the calculated fair value, an impairment charge is recognized in an amount equal to the excess. At year-end 2017, we determined that the estimated fair value of our Sunrise Senior Living trade name exceeded its carrying amount and that there is no impairment as of December 31, 2017. We concluded, based on a qualitative analysis that our Gracewell trade name is not impaired as of December 31, 2017.

Goodwill—Goodwill relates to the closing of the unit purchase and merger agreement on April 21, 2014, and the acquisition of Gracewell on August 14, 2014, and represents the costs of the business acquisitions in excess of the fair value of identifiable net assets acquired.

Goodwill is reviewed for impairment annually as of December 31 using data available as of the consolidated balance sheet date. We have goodwill recorded in two reporting units. On an annual basis, a qualitative assessment is performed to determine whether it is more likely than not that goodwill is impaired. For 2017, we performed a qualitative assessment for our Gracewell reporting unit. For our Sunrise Senior Living reporting unit, we elected to bypass this qualitative assessment and proceed directly to performing the first step of the two-step goodwill impairment test. In the first step of the two-step goodwill impairment test, we compare the estimated fair value of a reporting unit with its carrying value. If the estimated fair value of a reporting unit exceeds its carrying amount, no further analysis is needed. If, however, the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to determine whether any impairment is required. We determined that the estimated fair value of our Sunrise Senior Living reporting unit exceeded its carrying amount and that there is no goodwill impairment as of December 31, 2017. We also concluded, based on a qualitative assessment, that our Gracewell reporting unit is not impaired as of December 31, 2017.

Equity Method Investment—Equity investments in unconsolidated entities for which the investee maintains specific ownership accounts are reported under the equity method of accounting. Under the equity method of accounting, our share of the investee's earnings or losses is included in our consolidated statements of income. The initial carrying value of the equity method investment is based on the amount paid to purchase the equity interest. We evaluate our equity method investment for impairment based upon a comparison of the fair value of the equity method investment to its carrying value. When we determine a decline in the fair value of an equity method investment below its carrying value is other-than-temporary, an impairment charge is recorded. No impairment was recorded in 2017 or 2016.

At December 31, 2015, we had a \$5.0 million investment representing an approximate 5% equity interest in Spectrum Equity LLC ("Spectrum") a company that provides rehabilitative therapy management and consulting services. In 2016, we invested an additional \$5.0 million bringing our total equity interest to approximately 8% at December 31, 2016. In 2017, we invested an additional \$0.2 million with our total equity interest at

approximately 9% at December 31, 2017. Our investment in Spectrum is recorded net of \$1.4 million of losses to date.

Start-up Costs—Costs incurred in connection with our development of Medicare Advantage and Medicare Advantage Special Needs Plans (“MASNPs”) in several states and markets throughout the United States have been expensed as start-up costs. The start-up costs primarily relate to fees paid under an agreement with a company with experience in establishing MASNPs, for the preparation and submission of regulatory applications necessary to operate our MASNPs. Start-up costs also include legal fees. In January 2017, we formed a joint venture in which we hold a 79% interest and which is included in our consolidated financial statements, to establish and operate the MASNPs (see Note 8). Operations commenced on January 1, 2018 for MASNPs in four states.

Debt Issuance Costs—Costs incurred in connection with obtaining financing are deferred and amortized over the term of the financing. Deferred debt issuance costs related to line-of-credit arrangements are included in “Other assets” in the consolidated balance sheets and are subsequently amortized ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. Unamortized debt issuance costs related to our line-of-credit were \$0.3 million and \$0.7 million at December 31, 2017 and 2016, respectively. Deferred debt issuance costs related to a recognized debt liability are included in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Loss Reserves for Certain Self-Insured Programs—We offer a variety of insurance programs to the communities we operate. These programs include property insurance, general and professional liability insurance, excess/umbrella liability insurance, crime insurance, automobile liability and physical damage insurance, workers’ compensation, and employers’ liability insurance and employment practices liability insurance (the “Insurance Program”). Substantially all of the communities we operate participate in the Insurance Program and are charged their proportionate share of the cost of the Insurance Program.

We utilize large deductible blanket insurance programs in order to contain costs for certain of the lines of insurance risks in the Insurance Program, including Self-Insured Risks. The design and purpose of a large deductible insurance program is to reduce overall premium and claim costs by internally financing lower-cost claims that are more predictable from year to year, while buying insurance only for higher-cost, less predictable claims.

We record outstanding losses and expenses for all Self-Insured Risks and for claims under insurance policies based on management’s best estimate of the ultimate liability after considering all available information, including expected future cash flows and actuarial analyses. The recorded liability for Self-Insured Risks was approximately \$85.1 million and \$81.2 million at December 31, 2017 and 2016, respectively, based on an actuarial valuation. We review our sensitivity analysis annually, and our annual estimated cost for Self-Insured Risks is determined using management’s judgment, including actuarial analyses at various confidence levels. Our confidence level, based on our annual review, is currently at 55% (“expected”). We believe the expected confidence level provides our best estimate of our expected liability due to our sufficient history of paid and incurred claims associated with our Sunrise Captive. The confidence level is the likelihood that the recorded expense will exceed the ultimate incurred cost. If we had used a 75% confidence level, the recorded liability would be approximately \$97.6 million. If we had used a 90% confidence level, the recorded liability would be approximately \$110.9 million.

We believe that the allowance for outstanding losses and expenses is appropriate to cover the ultimate cost of losses incurred at December 31, 2017, based on our best estimate at that date. The allowance may ultimately be settled for a greater or lesser amount. Any subsequent changes in estimates are recorded in the period in which they are determined and will be shared with the communities participating in the Insurance Program based on the proportionate share of any changes.

Employee Health, Dental, and Short-Term Disability Benefits—We offer employees an option to participate in our self-insured health, dental, and short-term disability plans. The cost of our employee health and dental benefits, net of employee contributions, is shared between us and the communities based on the respective number of participants working either at our community support office or at the communities. Funds collected are used to pay the actual program costs, including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by us. Claims are paid as they are submitted to the plan administrator. We also record a liability for outstanding claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. The recorded liability for these claims was \$5.4 million and \$4.8 million at December 31, 2017 and 2016, respectively and is included in “Accounts payable and accrued expenses” on our consolidated balance sheet. We believe that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses incurred, but actual claims may differ. Any subsequent changes in estimates are recorded in the period in which they are determined and will be shared with the communities participating in the program based on their proportionate share of any changes. The self-insured short-term disability plan only includes eligible community support office team members.

Continuing Care Agreements and Future Service Obligation—We lease communities under operating leases that provide life care services under various types of entrance fee agreements with residents (“Entrance Fee Communities” or “Continuing Care Retirement Communities”). Residents of Entrance Fee Communities are required to sign a continuing care agreement with us. The care agreement stipulates, among other things, the amount of all entrance and monthly fees, the type of residential unit being provided, and our obligation to provide both health care and non-health care services. In addition, the care agreement provides us with the right to increase future monthly fees. The care agreement is terminated upon the receipt of a written termination notice from the resident or the death of the resident. Refundable entrance fees are returned to the resident or the resident’s estate depending on the form of the agreement either upon re-occupancy or termination of the care agreement.

Refundable entrance fees are primarily noninterest bearing and, depending on the type of plan, can range from 50% to 95% of the total entrance fee, less any additional occupant entrance fees. As these obligations are considered security deposits, interest is not imputed on these obligations. Current and long-term refundable entrance fees were \$1.8 million and \$6.1 million, respectively, at December 31, 2017, and \$4.4 million and \$15.9 million, respectively, at December 31, 2016. Long-term refundable entrance fees are included in other long-term liabilities, net in the consolidated balance sheets. The current portion of refundable fees was determined based upon each community’s preceding 12-month historical refund experience as of December 31, 2017 and 2016. In conjunction with a prior acquisition, we assumed the entrance fee liability for two leased communities. The lessor of the communities agreed to indemnify us for the liability. Therefore, we have a receivable from the lessor of \$7.9 million and \$10.4 million at December 31, 2017 and 2016, respectively, which is equal to the amount of the entrance fee liability for these two

communities. The current portion of the receivable is recorded in "Accounts receivable, net" and the long-term portion is recorded in "Other assets, net" in our consolidated balance sheets. As these obligations are discharged during the normal course of business, the associated receivable will be relieved as we are reimbursed from the lessor. Refundable entrance fees subject to repayment upon contract termination and not contingent upon re-occupancy of the unit were \$3.7 million or 46.8% at December 31, 2017 (see Note 16), and \$11.9 million or 58.4% at December 31, 2016.

Nonrefundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident's contract.

When the present value of estimated costs to be incurred under care agreements exceeds the present value of estimated revenues, the present value of such excess costs is accrued. The calculation is performed annually and assumes a future increase in the monthly revenue commensurate with the monthly costs. The calculation, which uses a 5% discount rate, currently results in an expected positive net present value cash flow, and as such, no liability has been recorded as of December 31, 2017 or 2016.

In conjunction with RFAC's acquisition of us in 2014, we recorded a \$43.5 million liability representing the fair value of the future performance obligation to residents in place at the acquisition date. The liability is being amortized over the estimated expected remaining lives of the residents. The liability for future performance obligation was \$20.1 million and \$25.9 million at December 31, 2017 and 2016, respectively. We recorded amortization income of \$4.7 million and \$5.9 million for the years ended December 31, 2017 and 2016, respectively. The amortization income is recorded in "Resident fees from consolidated communities."

Income Taxes—Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. We record the current-year amounts payable or refundable as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how these events are treated for tax purposes versus for book purposes. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. We release income tax effects from accumulated other comprehensive income using the security-by-security approach. We provide a valuation allowance against the net deferred tax assets when it is more likely than not that sufficient taxable income will not be generated to utilize the net deferred tax assets.

Liability for Possible Tax Contingencies—Liabilities for tax contingencies are recognized based on the requirements of the ASC Income Tax Topic. This topic requires us to analyze the technical merits of our tax positions and determine the likelihood that these positions will be sustained if they were ever examined by the taxing authorities. If we determine that it is unlikely that our tax positions will be sustained, a corresponding liability is created and the tax benefit of such position is reduced for financial reporting purposes.

Interest and Penalties—We are also required to accrue interest and penalties that, under relevant tax law, we would incur if the uncertain tax positions ultimately were not sustained. Accordingly, interest would start to accrue for financial statement purposes in the period in which it would begin accruing under relevant tax law, and the amount of interest expense to be recognized would be computed by applying the applicable statutory

rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Penalties would be accrued in the first period in which the position was taken on a tax return that would give rise to the penalty.

Assumptions—In determining whether a tax benefit can be recorded, we must make assessments of a position’s sustainability and the likelihood of ultimate settlement with a taxing authority. Changes in our assessments would cause a change in our recorded position, and changes could be significant. We had recorded liabilities for possible losses on uncertain tax positions, including related interest and penalties of \$17.6 and \$11.6 million as of December 31, 2017 and 2016, respectively. We have a receivable from Welltower, recorded as “Due from affiliates, long term,” equal to the amount of the liabilities under an indemnification agreement with Welltower.

Revenue Recognition—“Management fees” are composed of fees from management agreements for operating communities owned by third parties, which consist of base management fees and incentive management fees. The management fees are generally between 5% and 7% of a managed community’s total operating revenue. Fees are recognized in the month they are earned in accordance with the terms of the management agreement.

“Resident fees from consolidated communities” are recognized monthly as services are provided. Agreements with residents are generally for a term of one year and are cancelable by residents with 30 days’ notice for mansion communities and 90 days’ notice for Continuing Care Retirement Communities. Approximately 13% of our resident fees from our consolidated communities for each of the years ended December 31, 2017 and 2016 were derived from governmental reimbursement programs. Revenues from these programs are recorded net of contractual adjustments as dictated under the specific program guidelines. Retroactive adjustments or assessments from program cost report audits conducted by governmental agencies are recorded against net revenues in the month we are given notice, without regard to whether we intend to appeal such assessments.

“Ancillary services” are composed of fees for providing home health-assisted living services.

“Professional fees from development, marketing, and other” is composed of development fees and preopening service fees for communities being developed on behalf of third parties and fees received for renovation projects. Development fees are recognized on the basis of completion over the construction period, which is generally 12 to 18 months. Preopening service fees are recognized over the term of the preopening period, which is generally six to ten months. Fees for renovation projects are recognized at various stages of the project when earned.

“Reimbursed costs incurred on behalf of managed communities” is comprised of reimbursements for expenses incurred by us, as the primary obligor, on behalf of communities operated by us under long-term management agreements. Revenue is recognized when the costs are recorded on the books of the managed communities and we are due the reimbursement. The related costs are included in “Costs incurred on behalf of managed communities.”

We considered the indicators in ASC Revenue Recognition Topic, in making our determination that revenues should be reported gross versus net. Specifically, we are the primary obligor for certain expenses incurred at the communities, including payroll costs,

insurance, and items such as food and medical supplies purchased under national contracts entered into by us. We, as manager, are responsible for setting prices paid for the items underlying the reimbursed expenses, including setting pay scales for our employees. We select the supplier of goods and services to the communities for the national contracts that we enter into on behalf of the communities. We are responsible for the scope, quality, and extent of the items for which we are reimbursed. Based on these indicators, we have determined that it is appropriate to record revenues gross versus net.

The following table summarizes revenue earned from the following owners of communities we manage as a percent of operating revenue:

	Year Ended	
	December 31,	
	2017	2016
Welltower	38 %	36 %
Ventas, Inc. ("Ventas")	26	26
Healthcare Property Investors, Inc.	16	17

Stock-Based Compensation—We record compensation expense for warrants and phantom stock units granted under our Phantom Equity Plan in accordance with the ASC Equity Topic. The warrants and units are cash settled and, thus, are liability-classified awards whose value is re-measured at the end of each reporting period with the expense being recognized over the requisite service period.

As a nonpublic entity, as defined in the ASC Equity Topic, we have elected to measure all liabilities relating to the units and warrants at intrinsic value with changes in the intrinsic value of the liabilities recognized as compensation cost in the consolidated statements of operations and comprehensive income over the requisite service period. As of December 31, 2017 and 2016, we recorded compensation expense related to the phantom equity plan of \$16.2 million and \$6.7 million, respectively and compensation expense related to the warrants of \$3.9 million and \$0, respectively. These amounts are included in "Share-based and incentive compensation expense" in our consolidated statement of operations.

Development Incentive Plan—The liability for cash-based compensation awards is measured based on the award's fair value and the fair value is re-measured at each reporting date until the date of settlement. Compensation expense for each period until settlement is based on the change (or a portion of the change, depending on the percentage of the requisite service that has been rendered at the reporting date) in the fair value of the award for each reporting period. Compensation expense for awards is recognized over the requisite service period when the amounts to be paid become probable and reasonably estimable. If such amount is not probable or reasonably estimable, no compensation expense for these awards is recognized. If and when the amounts to be paid become probable and reasonably estimable, compensation expense equal to the percentage of the requisite service that has been rendered at the reporting date is recorded. As of December 31, 2017 and 2016, we recorded compensation expense related to the development incentive plan of \$36.6 million and \$0, respectively. These amounts are included in "Share-based and incentive compensation expense" in our consolidated statement of operations.

Foreign Currency Translation—Our reporting currency is the US dollar. Certain of our subsidiaries' functional currencies are the local currency of their respective country. In accordance with ASC Foreign Currency Matters Topic, balance sheets prepared in their functional currencies are translated to the reporting currency at exchange rates in effect at the end of the accounting period, except for stockholders' equity accounts, which are translated at rates in effect when these balances were originally recorded. Revenue and expense accounts are translated at a weighted average of exchange rates during the period. The cumulative effect of the translation is included in "Accumulated other comprehensive income" in the consolidated balance sheets. Monetary assets and liabilities denominated in foreign currencies including intercompany accounts with consolidated subsidiaries are revalued to US dollars at the functional currency rate of exchange at the consolidated balance sheet date. These realized foreign exchange gains and losses are recorded as "Other expense" in the consolidated statements of operations.

Advertising Costs—We expense advertising costs as incurred. Total advertising expense for the years ended December 31, 2017 and 2016 was \$1.5 million and \$2.0 million, respectively.

Legal Contingencies—We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. We record an accrual for loss contingencies when a loss is probable and the amount of the loss can be reasonably estimated. We review these accruals quarterly and make revisions based on changes in facts and circumstances. As of December 31, 2017 and 2016 we had \$1.8 million and \$2.5 million recorded in "Accounts payable and accrued expenses" in our consolidated balance sheets related to legal settlements (see Note 16).

New Accounting Standards—The following Accounting Standards Updates ("ASUs") were issued in 2017 and 2018:

ASU No. 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350), simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU No. 2017-04 is effective for financial statements issued for fiscal years beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are in the process of assessing the impact that ASU No. 2017-04 will have on our consolidated financial position, results of operations, cash flows, and disclosures.

The following ASUs were issued in 2016:

ASU No. 2016-18, Restricted Cash (Topic 230), will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for financial statements issued for fiscal years beginning after December 15, 2017, on a retrospective basis. Upon adoption of ASU No. 2016-18, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

ASU No. 2016-02, Leases (Topic 842), increases transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in

exchange for consideration. ASU No. 2016-02 is effective for us on January 1, 2020, on a retrospective basis using a modified retrospective approach. We are currently in the process of assessing all of the potential impacts of ASU 2016-02 on our consolidated financial position, results of operations, cash flows, and disclosures..

The following ASUs were 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. We are still in the process of assessing all of the potential impacts 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.

3. DISPOSITIONS

Sale of Severna Park Community—On June 17, 2016 (“Closing Date”), pursuant to a membership interest purchase agreement dated June 16, 2016, we sold our membership interests in North Arundel Senior Living, LLC and in NAH / Sunrise Severna Park LLC to Welltower for \$72.0 million. The entities own and operate one senior living facility in Severna Park, MD. We recognized a gain of approximately \$17.7 million in connection with the sale. For tax purposes, the gain was deferred as a part of a Reverse 1031 Exchange (see Note 14).

In addition, we were entitled to receive additional consideration of up to \$3.0 million if certain income thresholds were met by the Severna Park community during the first year after the Closing Date. Based on the calculation of agreed upon income thresholds for the 12 months ended June 30, 2017, and Welltower’s acknowledgement that the thresholds were met, we recognized the full \$3.0 million of additional consideration earned in 2017. The additional consideration of \$3.0 million was received in July 2017. Also, as of June 17, 2016, we deferred a gain of approximately \$0.6 million due to a clawback provision in the management agreement whereby we agreed to reimburse Welltower up to a maximum of the management fees paid to us for the Severna Park community during the first year after the Closing Date if certain income thresholds were not met. Income during the first year exceeded the thresholds and the deferred gain of \$0.6 million was recognized in 2017.

Sale of Assets to RealCo—In December 2016, pursuant to an Omnibus Investment Framework Agreement dated December 19, 2016, we, through wholly-owned subsidiaries (Sunrise PropCos), sold three operating communities and five development assets to newly formed entities (New PropCos) that are partnerships (collectively “RealCo”). The three

operating communities and four of the development assets were sold on December 21, 2016 and one development asset was sold on December 28, 2016. The total purchase price for the eight assets was \$206.2 million of which \$98.3 million was paid in cash and \$107.9 million was assumed in debt and other liabilities. The ownership of RealCo was identical to the ownership of Red Fox at December 2016 (see Note 1). We concluded that the Sunrise PropCos and RealCo have common ownership and thus, we recognized the difference of \$25.6 million between the proceeds received and the book value of the assets transferred as an equity transaction. No gains or losses were recorded in our consolidated financial statements. The transaction generated a taxable gain which resulted in tax expense of \$9.0 million being recorded to equity (see Note 14).

In conjunction with the RealCo transaction, we entered into new management agreements and new development agreements with the New PropCos. In addition to earning management, pre-opening and development fees, Sunrise has the potential to earn a developer incentive fee upon the earlier of 1) the sale of a facility or 2) five years from the opening of a facility. The developer incentive fee will be equal to 20% of the excess of the Facility Equity Value over the Hurdle Value, as those terms are defined in the development agreements.

Sale of Assets to Ventas—On July 27, 2017 we sold two land parcels for \$12.3 million representing our costs incurred on the acquisition and subsequent entitlement of the two land parcels, to a joint venture (“Ventas/Suntas”) between an affiliate of Ventas, Inc. (“Ventas”), which has a 90% ownership interest in the joint venture, and Suntas Sunrise Member PropCo, LLC (“Suntas”), which has a 10% ownership interest in the joint venture. Suntas is owned indirectly by Welltower, Revera and a member of Sunrise LLC’s senior management. The ownership percentages in Suntas are the same as the ownership percentages in Red Fox effective April 28, 2017 (see Note 1). In conjunction with the sale, previously capitalized interest of \$0.2 million was written-off to gains from sale of real estate. We incurred transaction costs of \$0.3 million related to this transaction.

The land parcels were sold to the Ventas/Suntas joint venture as part of the Development Pipeline Agreement entered into between Sunrise and Ventas in September 2016 whereby Sunrise agreed to provide Ventas the opportunity to make an offer to participate in Sunrise’s development of new senior housing projects until the earlier of (i) September 30, 2023 or (ii) Ventas having participated with Sunrise in development projects having an aggregate cost to complete of at least \$125 million.

In November 2017, the Ventas/Suntas joint venture purchased a land parcel and reimbursed Sunrise \$2.0 million for search costs incurred and deposits we had placed on the land parcel. These costs were removed from “Property and equipment, net when we were reimbursed.

Concurrent with the July and November transactions, the Ventas/Suntas joint venture entered into development agreements, pre-opening and management agreements, accounting services agreements and incentive fee agreements with us whereby we will earn fees as agreed upon within the various agreements during the development, construction, pre-opening, subsequent long-term management and eventual sale of the three senior living communities to be built on the land parcels. We provided a completion guarantee in conjunction with the development of the senior living communities and have also agreed to fund any cost overruns with a maximum exposure of up to the development fees to be paid to us (see Note 16).

4. FAIR VALUE MEASUREMENTS

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The ASC, Fair Value Measurements Topic, established a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Prices determined using other significant observable inputs that other market participants would use in pricing a security, including quoted prices for similar assets and liabilities.

Level 3—Prices determined using significant unobservable inputs for the asset or liability; that is, inputs that reflect the reporting entity’s own assumptions about the factors market participants would use in pricing the asset or liability, and would be based on the best information available in the circumstances.

Restricted Investments in Marketable Securities—Restricted investments in marketable securities relate to a consolidated entity in which we have control, but no ownership interest and a consolidated entity in which we have an 80% ownership interest. The following table details the restricted investments in marketable securities measured at fair value as of December 31, 2017 (in thousands):

	<u>Fair Value Measurements at Reporting Date Using</u>			
		<u>Quoted Prices in</u>	<u>Significant</u>	
	<u>December 31,</u>	<u>Active Markets for</u>	<u>Other</u>	<u>Significant</u>
	<u>2017</u>	<u>Identical Assets</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>(Level 1)</u>	<u>Inputs</u>	<u>Inputs</u>
			<u>(Level 2)</u>	<u>(Level 3)</u>
Restricted investments in marketable securities	<u>\$7,487</u>	<u>\$3,017</u>	<u>\$4,470</u>	<u>\$ -</u>

Available-for-sale securities, such as exchange-traded securities, are recorded at fair value on a recurring basis. Fair value measurement is based upon various sources of market pricing. We use quoted prices in active markets, where available, and classify such instruments within Level 1 of the fair value hierarchy.

Investment securities traded in secondary markets, such as municipal bonds, are considered Level 2 assets and are typically valued using prices obtained from third-party pricing services or brokers. While the input amounts used by the pricing vendor in determining fair value are not provided, and therefore unavailable for our review, we review recent transaction prices on a specific instrument-by-instrument basis.

Other Fair Value Information—Cash equivalents, certificates of deposit, accounts receivable, notes receivable, accounts payable and accrued expenses, other current assets and liabilities and outstanding draws on bank credit facility are carried at amounts that reasonably approximate their fair values.

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following (in thousands):

	December 31,	
	2017	2016
Accounts receivable		
Resident receivables	\$ 7,592	\$12,693
Receivables from managed communities	24,585	24,014
Litigation indemnification receivables	1,804	6,500
Other receivables	<u>3,633</u>	<u>4,318</u>
 Total accounts receivable	 37,614	 47,525
 Allowance for doubtful accounts	 <u>(1,142)</u>	 <u>(1,594)</u>
 Total accounts receivable, net	 <u>\$36,472</u>	 <u>\$45,931</u>

The Company returned to the government overpayments arising out of therapy services provided by RehabCare Group East, Inc. d/b/a RehabCare Group Therapy Services, Inc. (collectively along with its affiliates "RehabCare") under certain therapy services agreements whereby RehabCare provided therapy services to residents of certain skilled nursing facilities operated by the Company. Approximately \$2.8 million previously paid to the Company for skilled nursing services at five facilities served by RehabCare was repaid to the government as of December 31, 2015. These repayments were recorded in accounts receivable as we had an indemnification agreement from RehabCare.

In December 2016, we reached a settlement agreement with RehabCare, whereby they agreed to pay us \$4.0 million to repay the \$2.8 million receivable that was recorded by us as of December 31, 2015 and to offset \$1.2 million of legal costs incurred by us. On January 11, 2017, we received the \$4.0 million settlement payment from RehabCare.

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts consists of the following (in thousands):

Balance at December 31, 2015	\$2,066
Provision for doubtful accounts	317
Write-offs	<u>(789)</u>
 Balance at December 31, 2016	 1,594
Provision for doubtful accounts	342
Write-offs	<u>(794)</u>
 Balance at December 31, 2017	 <u>\$1,142</u>

7. NOTES RECEIVABLE

In conjunction with the April 21, 2014, acquisition of Red Fox by RFAC, the Chief Executive Officer of Sunrise (CEO) acquired an approximate 1% interest in RFAC for \$1.1 million. We have two notes receivable from our CEO related to the RealCo transaction in December 2016 (see Note 3) for his share of the purchase price. These two notes totaling \$0.7 million bear interest at the USD 1-year LIBOR at note inception (reset annually) ("LIBOR"), plus 4% and are due to mature in December 2023. We received payments related to the two notes of \$0.4 million and \$17,000 in principal and interest, respectively, during the year ended December 31, 2017. The notes had a carrying value of \$0.3 million and \$0.7 million at December 31, 2017 and 2016, respectively.

In 2017, we accepted eight new notes receivable from the CEO related to transactions with RealCo and Suntas (see Notes 3 and 16). These eight notes totaling \$0.2 million bear interest at LIBOR plus 4% and are due to mature from July to December 2024.

We have a note receivable related to the sale of certain subsidiary companies (the "Companies") in 2009. The note is a \$2.5 million earn-out, non-interest-bearing note due to mature on March 31, 2029. This note had a carrying value of \$0.8 million and \$0.7 million at December 31, 2017 and 2016, respectively.

8. START-UP COSTS

Costs incurred in connection with our potential development of Medicare Advantage and Medicare Advantage Special Needs Plans ("MASNPs") in several states and markets throughout the United States have been expensed as start-up costs. The start-up costs primarily relate to fees paid under an agreement with AllyAlign Health ("AAH"), a company with experience in establishing MASNPs, for the preparation and submission of regulatory applications necessary to operate our MASNPs. Start-up costs also include legal fees. Start-up costs were \$4.1 million and \$2.1 million for the year ended December 31, 2017 and 2016, respectively. Operations commenced on January 1, 2018 for MASNPs in four states. Also see Note 18 Related Party Transactions.

9. LEASE IMPAIRMENT

We recorded an impairment charge of \$0.8 million and \$2.2 million related to a leased asset portfolio consisting of three communities under a single master lease and two communities under individual leases for the years ended December 31, 2017 and 2016, respectively. Forecasts for these communities indicated the cash flow would not be sufficient to recover the carrying amount of the associated leasehold improvements and lease intangible assets as of December 31, 2017. Based on the calculated fair value of the underlying assets, we recorded an impairment charge of \$0.2 million and \$1.3 million related to the leasehold intangibles and \$0.6 million and \$0.9 million related to the leasehold improvements and other property and equipment relating to these leased communities for the years ended December 31, 2017 and 2016, respectively (see Notes 10 and 11). The term of these leases end on April 30, 2018.

We recorded a \$13.7 million impairment charge for a portfolio of four leased communities which are classified as a disposal group held for sale (see Note 16).

10. PROPERTY AND EQUIPMENT

Property and equipment consists of the following, excluding the assets held for sale (in thousands):

	Asset Lives	December 31,	
		2017	2016
Land and land improvements	15 years	\$ 11,679	\$ 11,944
Building and building improvements	5–40 years	5,987	40,048
Furniture and equipment	3–10 years	35,617	31,517
Construction in progress		<u>17,202</u>	<u>18,954</u>
Total property and equipment		70,485	102,463
Less accumulated depreciation		<u>(24,257)</u>	<u>(26,970)</u>
Property and equipment—net		<u>\$ 46,228</u>	<u>\$ 75,493</u>

We recognized \$11.0 million and \$14.4 million of depreciation expense for the years ended December 31, 2017, and 2016, respectively.

We wrote-off capitalized costs of \$3.1 million and \$1.0 million for the years ended December 31, 2017 and 2016, respectively, associated with projects for which we ultimately could not obtain all the necessary entitlements to proceed with further development or we no longer intend to pursue. The write-offs were recorded against our reserve for abandoned projects.

11. INTANGIBLE ASSETS AND LIABILITIES

Intangible assets consist of the following (in thousands):

	Estimated Useful Lives	December 31,	
		2017	2016
Management contracts, less accumulated amortization of \$26,955 and \$19,439 as of December 31, 2017 and 2016, respectively	4–30 years	\$124,615	\$131,247
Leaseholds, less accumulated amortization of \$31,403 and \$27,097 as of December 31, 2017 and 2016, respectively	4–9 years	16,532	21,052
Below-market lease intangible, less accumulated amortization of \$11,116 and \$9,795 as of December 31, 2017 and 2016, respectively	7 years	6,460	7,773
Trademark	Indefinite	<u>50,909</u>	<u>50,855</u>
		<u>\$198,516</u>	<u>\$210,927</u>

Intangible liabilities included in other long-term liabilities, net consist of the following (in thousands):

	Estimated Useful Lives	December 31,	
		2017	2016
Above-market lease liability less accumulated amortization of \$10,393 and \$7,558 as of December 31, 2017 and 2016, respectively	4-9 years	<u>\$2,957</u>	<u>\$5,791</u>

We recognized \$12.5 million and \$18.1 million of amortization expense related to our acquired management contracts and leaseholds for the years ended December 31, 2017 and 2016, respectively. We recognized \$1.5 million and \$0.7 million of net amortization expense (and recorded as lease expense) related to our below-market lease asset and above-market lease liabilities for the years ended December 31, 2017 and 2016, respectively.

Estimated aggregate amortization expense (revenue) for the next five years is as follows (in thousands):

	Management Contracts Amortization	Leaseholds Amortization	Below- Market Lease Intangible Amortization	Above- Market Lease Liability Amortization
2018 *	\$ 7,323	\$13,969	\$6,415	\$(1,248)
2019	6,999	704	10	(454)
2020	6,676	704	10	(454)
2021	6,613	704	10	(454)
2022	6,525	422	10	(323)
Thereafter	<u>90,479</u>	<u>29</u>	<u>5</u>	<u>(24)</u>
	<u>\$124,615</u>	<u>\$16,532</u>	<u>\$6,460</u>	<u>\$(2,957)</u>

* Includes \$19.6 million of accelerated amortization related to assets held for sale (see Note 16).

Loss on Financial Guarantee—On September 30, 2016, we entered into an amendment to our management agreements with Ventas. The amendment reduced management fees paid by Ventas under existing management contracts, maintained the existing term of the contracts with reduced termination risk and provided us with incentives for future outperformance. The amendment also requires a one-time payment to Ventas for the amount, if any, by which the Total Actual 2017 Net Income is less than 102% of the Total Actual 2016 Net Income. The amount of the one-time payment is the lesser of the above deficiency, if any, or \$5.0 million to be paid in 2018. Based on the Ventas portfolio's operating results for 2017, it is probable we will be required to make a deficiency payment of \$5.0 million and have thus, accrued a \$5.0 million loss on financial guarantee for the year ended December 31, 2017. On February 5, 2018, we paid Ventas \$5.0 million.

12. BANK CREDIT FACILITY

On August 5, 2015, we entered into a syndicated \$100 million revolving credit facility with Bank of America, NA (BoA) and other participating lenders which includes a sublimit of \$25 million for letters of credit. The credit facility has an initial term of three years from closing and has a one-year extension option subject to standard notice provisions and the payment of an extension fee. The credit facility has an interest rate of, at our option, LIBOR or Prime Rate, plus a spread. At December 31, 2017, the spread was 2.50% for LIBOR and 1.50% for Prime Rate. The facility also includes standard unused fees. Interest-only payments are due monthly with all principal due at maturity. The credit facility can be prepaid at any time.

Financial covenants associated with the credit facility are as follows:

- Maximum net total debt (including recourse project financing) to adjusted earnings before interest, taxes, depreciation, and amortization of 3.0x;
- Maximum net senior debt (excluding any project financing) to adjusted earnings before interest, taxes, depreciation, and amortization ("Senior Leverage Ratio") of 2.5x;
- Minimum fixed charge coverage ratio of total adjusted earnings before interest, taxes, depreciation, amortization, and rent expense to fixed charges of not less than 1.4x; and
- Distributions are unrestricted while the Senior Leverage Ratio is less than or equal to 2.0x or restricted to 50% of excess cash after fixed charges while the Senior Leverage Ratio is above 2.0x, with liquidity of at least \$20 million.

At December 31, 2017 and 2016, we had \$65 million and \$0, respectively, drawn on the revolving credit facility and we had utilized \$2.9 million of the letter of credit availability, leaving us with undrawn capacity under the revolving credit facility of \$32.1 million. We were in compliance with all financial covenants at December 31, 2017.

In 2015, we paid \$1.2 million of finance costs related to the BoA credit facility. The unamortized balance of \$0.3 million and \$0.7 million was included in other assets, net as of December 31, 2017 and 2016, respectively. We paid \$2.1 million and \$1.1 million in interest for the years ended December 31, 2017 and 2016, respectively.

13. LONG-TERM DEBT

As part of the RealCo transaction in December 2016 (see Note 3), all outstanding construction debt of \$102.0 million, net of unamortized debt issue costs, was assumed by RealCo. As part of the Severna Park sale in June 2016 (see Note 3), the outstanding mortgage debt of \$39.6 million, net of unamortized debt issue costs, was repaid. We have guarantees that remain in place on the construction debt that was assumed by RealCo (see Note 16).

We paid \$2.3 million in interest of which \$1.2 million was capitalized during the year ended December 31, 2016.

14. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1), the tax reform bill (the "Act"), was signed into law. The Act includes numerous changes in existing tax law, including a permanent reduction in the federal corporate income tax rate from 35% to 21%. The rate reduction takes effect on January 1, 2018. As a result of the reduction of federal corporate income tax rates, we have concluded that this will cause our deferred tax assets and liabilities to be revalued. In accordance with SEC Staff Accounting Bulletin No. 118 (SAB 118), *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, a provisional amount may be recorded if we are able to determine a reasonable estimate but do not have the necessary information available, prepared, and analyzed in reasonable detail to complete our accounting for the Act. We, based on currently available information, recorded an additional tax provision of approximately \$3.9 million in the fourth quarter of 2017 related to the revaluation of our deferred tax assets and liabilities. We may revise our estimates during a measurement period of up to one year from the enactment of the Act, as we finalize our analysis including the calculation of the one-time transition tax and any related state implications.

The (benefit from) provision for income taxes related to continuing operations was (\$9.8) million and \$7.7 million for the years ended December 31, 2017 and 2016, respectively. The provision for income taxes related to minority interest was \$0.4 million and \$0 for the years ended December 31, 2017 and 2016, respectively. Our effective tax rate for continuing operations was 21.4% and 53.8% for the years ended December 31, 2017 and 2016, respectively. Our tax benefit is related primarily to taxes at federal and state jurisdictions, the impact of the Act, APB 23, foreign rate differentials, work opportunity tax credits, reduced by interest and penalties for uncertain tax positions and a valuation reserve against the net deferred tax assets in the US.

The 2017 provision reflects the following current rates for the US states and the foreign jurisdictions: 35% for US federal, 4.8% for the US-blended state rate—net of federal benefit, 19.25% for the UK, and 31% for Canada. The 2016 provision reflects the following current rates for the US states and the foreign jurisdictions: 35% for US federal, 4.44% for the US-blended state rate—net of federal benefit, 20% for the UK, and 31% for Canada. All Luxembourg operations were dissolved during 2016.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount recognized for income tax purposes. Our deferred tax assets consist primarily of general operating accruals, deferred revenue, deferred compensation, capitalized startup costs, taxes and interest for uncertain tax positions, investments in joint ventures, fixed assets, and federal and state net operating loss carryforwards. Total deferred tax assets as of December 31, 2017 and 2016 were \$50.9 million and \$68.1 million, respectively. Our deferred tax liabilities primarily consist of the difference between the book and tax basis in intangible property, prepaid expenses, and accelerated lease liabilities. The deferred tax liability primarily relates to purchase accounting. The transaction with Revera was a stock purchase and, therefore, there is no tax step up in the Sunrise's assets; however, GAAP standards revalue Sunrise's assets and liabilities to fair value. Total deferred tax liabilities as of December 31, 2017 and 2016 were \$57.8 million and \$86.7 million, respectively.

The 2017 provision reflects the following deferred rates for the US states and the foreign jurisdictions: 21% for US federal, 5.1% for the US-blended state rate—net of federal benefit, 19.0% for the UK, and 31% for Canada.

Our worldwide taxable income was estimated to be \$11.3 million and \$81.8 million for the years ended December 31, 2017 and 2016, respectively. The current year taxable income and tax expense is primarily generated through general operations, as well as the incentive fee earned on the sale of three operating properties to Welltower (see Note 3), and the termination fee earned on four communities located in the U.K (see Note 16). A significant portion of the taxable income in 2016 relates to the tax gain generated by the RealCo transaction resulting in a total of \$9.0 million of tax expense recorded to equity (see Note 3).

All available sources of positive and negative evidence were evaluated to determine if there should be a valuation allowance on our net deferred tax asset. In 2017 a full valuation allowance was recorded on the net deferred tax assets of the US Management Company and certain US subsidiaries, as deferred tax assets in excess of reversing deferred tax liabilities were not likely to be realized. In 2016, we recorded a full valuation allowance on the deferred tax assets on certain US subsidiaries. No valuation allowance was recorded in Canada and the UK in either 2017 or 2016. At December 31, 2017 and 2016 our total valuation allowance on our net deferred tax asset was \$9.1 million and \$0.3 million, respectively.

At December 31, 2017, we have estimated US federal net operating loss carryforwards of \$43.7 million, of which \$42.6 million relate to our US consolidated return and \$0.03 million relate to other separate company returns, which are carried forward to offset future taxable income in the US for up to 20 years. The pre-acquisition net operating losses are subject to an annual Section 382 limitation. Therefore, the Company is only permitted to use \$2.3 million of loss generated before January 9, 2013, on an annual basis. At December 31, 2017, we had various state net operating loss carryforwards resulting in an ending deferred tax asset of \$2.4 million. The deferred tax asset resulting from state net operating losses is based on the blended state tax rate—net of federal benefit, while all other net operating loss carryforwards are gross and not tax effected. At December 31, 2016, we had Canadian net operating loss carryforwards of \$0.7 million to offset future foreign taxable income, which are carried forward to offset future taxable income in Canada for up to 20 years. At December 31, 2017, we have no UK net operating loss carryforwards to offset future foreign taxable income, which have an unlimited carryforward period. In 2017, we provided income taxes for unremitted earnings of our foreign subsidiaries that are not considered permanently reinvested.

The major components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

	Year Ended December 31,	
	2017	2016
Current:		
Federal	\$ 2,198	\$ 26,008
State	172	5,600
Foreign	647	42
RealCo adjustment	<u>-</u>	<u>(9,022)</u>
Total current expense	<u>3,017</u>	<u>22,628</u>
Deferred:		
Federal	(11,218)	(14,535)
State	(1,537)	(2,022)
Foreign	<u>(105)</u>	<u>1,652</u>
Total deferred (benefit) expense	<u>(12,860)</u>	<u>(14,905)</u>
Provision for income taxes	<u>\$ (9,843)</u>	<u>\$ 7,723</u>

There was no income tax benefit or expense allocated to discontinued operations for 2017 and 2016. An income tax expense (benefit) of \$1.1 and \$(1.0) million was recorded to Other Comprehensive Income in 2017 and 2016, respectively.

Income taxes of \$21.9 million and \$3.8 million were paid in 2017 and 2016, respectively.

The differences between the amount that would have resulted from applying the domestic federal statutory tax rate (35%) to pretax income from continuing operations and the reported income tax expense from continuing operations recorded include the recognition of a valuation allowance on the US Management Company, the change in the rate resulting from the Act, state income taxes, change in the valuation allowance of US subsidiaries, tax contingencies, foreign rate differentials, work opportunity tax credits, income tax indemnities and liabilities required as a result of not being permanently reinvested in foreign jurisdictions.

Included in the balance of unrecognized tax benefits at December 31, 2017, was approximately \$11.3 million of tax positions that, if recognized, would decrease our effective tax rate.

We reflect interest and penalties, if any, on unrecognized tax benefits in the consolidated statements of operations as income tax expense. The amount of interest recognized in the consolidated statements of operations for 2017 and 2016 related to unrecognized tax benefits was a pretax expense of \$0.6 million and \$0.3 million, respectively. No penalties were recognized in the consolidated statements of operations for 2017 and 2016 related to unrecognized tax benefits.

The total amount of accrued liabilities for interest recognized in the consolidated balance sheets related to unrecognized tax benefits as of December 31, 2017 and 2016, was

\$4.9 million and \$4.3 million, respectively. The total amount of accrued liabilities for penalties recognized in the consolidated balance sheets related to unrecognized tax benefits was \$1.5 million as of December 31, 2017 and 2016. To the extent that uncertain matters are settled favorably, this amount could reverse and decrease our effective tax.

Within the next 12 months, no uncertain tax positions are expected to be released.

Taxing Jurisdictions Audits—There are no income tax returns under audit by the US Internal Revenue Service (IRS), with the years after 2014 remaining open and subject to audit. There are no income tax returns under audit by the Canadian government, with the years after 2012 remaining open and subject to audit. In the UK, years after 2012 remain open and subject to audit and the 2013 and 2012 income tax returns are currently under audit by the UK government. At this time, we do not expect the results from any income tax audits to have a material impact on our consolidated financial statements. We do not believe that it is reasonably possible that the amount of unrecognized tax benefits will significantly change in 2018.

15. SHARE-BASED COMPENSATION AND DEVELOPMENT INCENTIVE PLAN

Phantom Stock Units—In November 2014, the Compensation Committee of the Board (“Compensation Committee”) approved the design for the Sunrise Senior Living LLC Phantom Equity Plan (the “Equity Plan”). The Equity Plan grants to eligible employees (“Participants”) units, or rights to a cash payment, at the end of three-year performance periods pursuant to the Equity Plan. The value of each unit is based on the Company’s Phantom Equity Value, as defined in the Equity Plan, at the end of each respective three-year performance period divided by the number of units outstanding (“Per Unit Value”). The units cliff vest at the end of each respective three-year performance period. The effective date of the Equity Plan was July 1, 2014.

Phantom Equity Value, as defined in the Equity Plan, is the enterprise value which is the aggregate fair market value of Sunrise LLC and RealCo, less debt, less contributions, plus cash, plus distributions. On an annual basis, the Board selects an independent valuation firm to calculate enterprise value as of December 31 of that respective year.

No later than 90 days after the last day of a performance period, each Participant shall be entitled to a cash payment equal to the number of units then held by the Participant multiplied by the Per Unit Value as of the valuation date coincident with or next preceding the last day of the performance period. Thus, the units are liability-classified awards as the units require cash settlement by us to the Participants in the Equity Plan.

A total of 700,000 units have been approved under the Equity Plan with a maximum of 100,000 units eligible to be awarded in respect of any one performance period. As of December 31, 2017, 400,000 units had been awarded, 100,000 units as of July 1, 2014 (“July 2014 Units”), 100,000 units as of July 1, 2015 (“July 2015 Units”), 100,000 units as of January 1, 2016 (“January 2016 Units”), and 100,000 units as of January 1, 2017 (“January 2017 Units”). The grant date for the July 2014 Units was determined to be May 8, 2015, the date on which the key terms and conditions of the units were communicated to Participants and a mutual understanding of the key terms and conditions of the award between the Company and the individual Participants was reached. The grant date for the July 2015 Units was September 11, 2015. The grant date for the January 2016 Units was April 19, 2016. The grant date for the January 2017 Units was April 12, 2017.

On September 1, 2017, we paid out \$0.9 million (14,750 units) to Participants not electing the deferral option, upon vesting of their July 2014 Units awarded under the Equity Plan.

We recognized \$16.2 million and \$6.7 in stock compensation expense relating to the units for the years ended December 31, 2017 and 2016, respectively.

Phantom Warrants—In February 2015, the Compensation Committee also approved the one-time grant of Phantom Warrants (“Warrants”) to certain executives and senior-level employees, subject to Board approval of the Phantom Warrant Plan (“Warrant Plan”), which was approved by the Board in March 2015. A total of 315,000 Warrants were granted. The grant date for the Warrants was determined to be May 8, 2015, the date on which the key terms and conditions of the Warrants were communicated and a mutual understanding of the key terms and conditions of the Warrants between the Company and the individual employees was reached. Each Warrant entitles the holder of that Warrant to a cash payment, for each Warrant exercised, equal to the excess, if any, of the Per Unit Value as of the valuation date coincident with or next preceding the date of exercise over the Base Value per Warrant, as defined in the Warrant Plan, payable upon or as soon as practicable after the applicable exercise date. Thus, the Warrants are liability-classified awards as the Warrants require cash settlement by us to the holder of the Warrant upon exercise.

The Base Value per Warrant is \$65.63. The Warrants will vest on June 30, 2021 (the “Vesting Date”) and no portion of the Warrants will vest prior to that date. Once vested, except as provided in the grant letter, 25% of the holder’s Phantom Warrants will be deemed to be exercised on each of January 1, 2022, 2023, 2024 and 2025 (an “Exercise Date”).

We recognized \$3.9 million and \$0 in stock compensation expense relating to the Warrants for the years ended December 31, 2017 and 2016, respectively. The Per Unit Value exceeded the Base Value as of December 31, 2017.

Development Plan—In November 2014, the Compensation Committee approved the Sunrise Senior Living LLC Development Plan (“Development Plan”) to provide a means whereby Sunrise may provide incentives to key employees of the Company and its subsidiaries to maximize the value of real estate development projects through rewards that are based on such value.

Per the terms of the Development Plan, the Board will designate a group of projects as a portfolio every other year. On March 23, 2015, the employees selected to participate in the first Portfolio Bonus Plan (“Pool 1”) were notified of the key terms and conditions, including their specific award percentage in Pool 1. On March 3, 2016, the Compensation Committee approved the designation of eight real estate development projects as Pool 1 with the portfolio commencement date of July 1, 2014 and the performance ending date of June 30, 2021. On April 19, 2016, the employees selected to participate in the second Portfolio Bonus Pool (“Pool 2”) were notified of the key terms and conditions, including their specific award percentage in Pool 2. On December 3, 2017, the Compensation Committee approved the designation of six real estate development projects as Pool 2 with the portfolio commencement date of January 1, 2016 and the performance ending date of December 31, 2022.

The Compensation Committee shall determine the Portfolio Bonus Pool for such portfolio by multiplying the excess, if any, of the Portfolio Equity Value over the Portfolio Hurdle Rate, by 30% creating the Portfolio Bonus Pool, as all such terms are defined in the Development

Plan. The performance period is the period commencing on the portfolio commencement date and ending on the seventh anniversary, or sooner if certain events take place before the seventh anniversary of the portfolio commencement date, e.g., change in control. The Portfolio Bonus Pool will be paid out to the Participants based on their award percentage adjusted for any forfeitures or reductions as provided for in the Plan.

The first group of projects included the eight projects sold to RealCo in December 2016 (See Note 3). The RealCo asset sale transaction in September 2017 triggered the ending date for three of the eight projects in the first portfolio (See Note 3). The Portfolio Equity Value for the first group of projects/portfolio was estimated using the purchase price for the three communities sold, and the values provided in the independent enterprise valuation (used in determining the Phantom Equity Value of the Equity Plan) for the five development properties. The estimated Portfolio Equity Value for Pool 1 resulted in an estimated Portfolio Bonus Pool of \$76.2 million. The estimated Portfolio Equity Value for Pool 2 used the values provided in the independent enterprise valuation noted above for the properties in Pool 2. The estimated Portfolio Equity Value for Pool 2 did not exceed the Portfolio Hurdle Rate as of December 31, 2017 and, therefore we have not accrued a liability for Pool 2 as of December 31, 2017.

Our estimate of the Pool 1 Portfolio Bonus Pool was based on information available at the time these financial statements were prepared. The actual amount of the Pool 1 Portfolio Bonus Pool, which will be payable after the earlier of June 30, 2021 or the date the last property in the portfolio is sold, could be significantly higher or lower than this estimate based on various factors including, but not limited to; (1) fair market values of any development assets not sold by the end of the performance period as determined by an independent valuation firm, (2) sales values for any development assets sold prior to the end of the performance period, (3) timing of sales and operating cash distributions and (4) achievement of certain Internal Rate of Return hurdles under the Sunrise Equity Plan.

Based on the estimated Portfolio Bonus Pool and the performance period incurred, we recognized \$36.6 million and \$0 million in stock compensation expense relating to the Development Plan for the years ended December 31, 2017 and 2016, respectively. We expect to accrue the remaining expense related to Pool 1 over the remaining performance period.

16. COMMITMENTS AND CONTINGENCIES

Leases for Operating Communities—We have operating leases for 14 communities with terms ranging from three months to 11 years. Some of these leases can be extended at our option. In addition, we have two ground leases related to operating communities with lease terms ranging from three to four months. These leases are subject to annual increases based on the consumer price index and/or stated increases in the lease.

Assets held for sale—Four leases are guaranteed by Marriott. In 2011, Marriott consented to the extension of the term of the four leases for a five-year term commencing January 1, 2014, and ending December 31, 2018. In return for its consent to the lease extension and its maintenance of a guarantee of our lease payments, we provided Marriott with a letter of credit issued by KeyBank with a face amount of \$85 million to secure Marriott's exposure under the guarantees. During the lease term, we are required to pay Marriott an annual payment based on the cash flow of the leased facilities, subject to a \$1 million annual minimum. Marriott may draw on the letter of credit in order to pay any obligations if not paid by us when due. Marriott has agreed to reduce the face amount of the letter of credit proportionally on a quarterly basis during the lease term as we pay our

rental obligations. In October 2014, Welltower took on the letter of credit as an obligation under their line of credit removing this obligation from Sunrise.

In December 2013, Marriott consented to a second extension of the term of the four leases for an additional five-year term commencing January 1, 2019, and ending December 31, 2023. In return for its consent to the lease extension and its maintenance of a guarantee, Welltower provided Marriott with a letter of credit issued by Credit Agricole with a face amount of \$87.6 million to secure Marriott's exposure under the guarantees. We will be required to pay Marriott an annual payment based on the cash flow of the leased facilities, subject to a \$1 million annual minimum similar to the terms of the first extension. On November 23, 2016, the leases were extended for an additional five-year term commencing January 1, 2019, and ending December 31, 2023.

On December 29, 2017, Welltower agreed to acquire the four properties guaranteed by Marriott from the current owner and assume the leases. The acquisition of one of the four properties closed on December 29, 2017, and obligated Welltower to purchase the remaining three properties by March 30, 2018. Pursuant to a letter agreement dated December 29, 2017, Welltower agreed to terminate the leases once its acquisition of all of the properties is complete and pay us an aggregate termination fee of \$10 million upon termination of the leases. In connection with the acquisition of these properties and the termination of each lease, we will concurrently enter into new 25 year management agreements for each of the properties.

As of December 29, 2017, we have reclassified the assets of the four properties that will be sold to Welltower, net of the liabilities to be assumed by Welltower, to assets held for sale and liabilities associated with assets held for sale on our consolidated balance sheet as of December 31, 2017 and recognized an impairment loss of approximately \$13.7 million.

The following table presents information related to the major classes of assets and liabilities that were classified as assets and liabilities held for sale in the Consolidated Balance Sheet (in millions):

	December 29, 2017
Assets held for sale:	
Accounts receivable, net	\$ 4,446
Prepaid expenses and other current assets	1,362
Property and equipment, net	13,812
Restricted cash	7,075
Other assets, net	<u>127</u>
Total assets held for sale	<u><u>\$26,822</u></u>
Liabilities associated with assets held for sale:	
Accounts payable and accrued expenses	\$ 7,742
Deferred revenue	130
Entrance fees	8,375
Other long-term liabilities, net	<u>575</u>
Total liabilities associated with assets held for sale	<u><u>\$16,822</u></u>

We also revised the amortization period of the leasehold intangible assets, including above / below market lease and in-place lease intangible assets, relating to these four properties on our consolidate balance sheet to reflect the use of the assets over their shortened useful life. As a result, we recognized approximately \$0.6 million of additional amortization expense in the year ended December 31, 2017. The remaining \$19.6 million of amortization expense will be recognized in the first quarter of 2018.

We will also be required to pay a \$1 million early termination fee to Marriott upon the early release of Marriott's guarantee obligations relating to these leases. We expect to record income relating to this transaction of approximately \$7.4 million in the first quarter of 2018, exclusive of the accelerated amortization expense to be recognized prior to the termination of the leases.

Community Leases—Rent expense for communities subject to operating leases was as follows (in thousands):

	Year Ended December 31,	
	2017	2016
	Leased Communities	Leased Communities
Rent expense, including ground rent	\$39,481	\$42,254
Contingent rent expense	<u>4,683</u>	<u>4,143</u>
Total rent expense	<u>\$44,164</u>	<u>\$46,397</u>

Contingent rent expense is based on the net cash flow of certain of the leased properties.

Leases for Office Space—In December 2013, we signed a new lease for our community support office. The lease commenced in April 2014. The lease is for approximately seven years and four months and includes annual rent increases and the option to renew the lease for either five or seven years. Rent expense for office space for the years ended December 31, 2017 and 2016 was \$2.2 million and \$2.0 million, respectively, and is included in general and administrative expense. Under the terms of the lease, the landlord reimbursed us for the cost of improvements up to a maximum specified amount. A portion of the reimbursement was for leasehold improvements that will be owned by the landlord, and accordingly, the cost of these leasehold improvements is not reflected in our consolidated balance sheets. The remaining reimbursement was for other furniture, fixtures and equipment, and related capitalized costs that are reflected in our consolidated balance sheets.

Future minimum lease payments under office, ground, and other operating leases at December 31, 2017, are as follows, excluding assets held for sale (in thousands):

	Office and Leased Communities
2018	\$ 32,187
2019	27,700
2020	28,398
2021	28,514
2022	26,749
Thereafter	<u>153,414</u>
	<u>\$296,962</u>

Letters of Credit—At December 31, 2017 and 2016, we had \$2.9 million and \$3.0 million, respectively, in letters of credit relating to operations, which are collateralized by the BoA revolving credit facility, and \$80.7 million and \$78.1 million, respectively, in letters of credit relating to our Insurance Program, which are fully cash collateralized.

Debt Guarantees—We have provided completion guarantees and principal guarantees on the debt assumed by the New PropCos in the RealCo transaction (see Note 3) ranging from 20% to 25% based on debt service coverage ratios. The maximum exposure under the principal guarantees was \$25.3 million as of December 31, 2017. In conjunction with the guarantees, we are required to comply with various financial covenants. We are in compliance with all financial covenants at December 31, 2017. The remaining terms of the debt that we have guaranteed range from 12 months to 3.5 years as of December 31, 2017.

We provided completion guarantees in conjunction with the development of the senior living communities to be built on the three land parcels that are part of the Ventas/Suntas joint venture (see Note 3) and have also agreed to fund any cost overruns with a maximum exposure of up to the development fees to be paid to us.

Legal Proceedings

Pending Lawsuits and Claims

Consolidated California Wage-Hour Class Actions—The Company is a defendant in two class-action lawsuits consolidated in the U.S. District Court for the Central District of California. Plaintiffs assert that the Company failed to provide meal and rest periods and failed to pay overtime and minimum wages, among other things. The Company believes that plaintiffs' allegations are not meritorious and that a class action is not appropriate in this case.

In June 2016, the Company entered into a settlement agreement with plaintiffs whereby we agreed to pay \$2.2 million to settle the litigation. This amount was accrued as of June 30, 2016. The Court granted preliminary approval of the settlement on March 29, 2017. After providing notice of the settlement to class members, no objections were received, and on July 17, 2017, the Court issued an order granting final approval of the settlement. Sunrise paid the settlement funds, and on August 1, 2017, the Court entered judgement in accordance with the terms of the Settlement Agreement and completely dismissed the claims. This matter is now concluded.

California Pay Card Class Action—The Company is a defendant in a class-action lawsuit in the U.S. District Court for the Central District of California, Los Angeles County. Plaintiffs allege various California Labor Code violations stemming from the Company's use of the TotalPay Card Kit and Money Network Checks for payment of team members' final wages. The Company believes that plaintiffs' allegations are not meritorious and that a class action is not appropriate in this case.

In December 2016, the Company reached a related, confidential, non-public settlement with a third party in which that party agreed to indemnify the Company for the costs of defending and resolving the Pay Card Class Action. Shortly thereafter, on January 4, 2017, during mediation, the Company and the Plaintiff reached a settlement in which the Company agreed to pay a maximum of \$2.5 million on a partial claims-made basis to resolve the case. As of December 31, 2016, we accrued the \$2.5 million settlement and recorded a receivable for \$2.5 million under the indemnification. On May 3, 2017, the Court preliminarily approved the settlement. Class notices were issued, and no objections were received. The hearing on final approval of the settlement occurred on August 21, 2017, and on December 21, 2017, the Court entered the final approval order for the settlement, reducing the final amount to \$1.8 million. This amount was included in "Accounts payable and accrued expenses" and "Accounts receivable" in our consolidated balance sheets as of December 31, 2017. We funded the settlement payments to class members on February 5, 2018 and the indemnifying third party has reimbursed those funds to us. The matter will be concluded shortly.

In addition to the matters described above, we are involved in various lawsuits and claims, regulatory matters and other governmental audits and investigations arising in the normal course of business. In the opinion of management, although the outcomes of these other suits and claims are uncertain, in the aggregate they are not expected to have a material adverse effect on our business, financial condition, and results of operations.

17. RELATED-PARTY TRANSACTIONS

Welltower—We manage 138 communities owned by Welltower; 108 in the US, including three RealCo communities acquired on September 1, 2017 (see Note 3), three in Canada, and 27 in the UK, under management agreements with initial terms of 5 to 15 years. In addition, we manage 24 venture communities where Welltower is a venture partner, six in the US and 18 Gracewell communities in the UK. We are also currently developing or have entered into agreements to develop 7 communities owned by Welltower through its interest in RealCo (see Note 3).

Revenues earned from Welltower's communities are as follows (in thousands):

	Year Ended December 31,					
	2017			2016		
	Wholly Owned	Joint venture		Wholly Owned	Joint venture	
	Gracewell	Other		Gracewell	Other	
Management fees	\$ 48,009	\$ 3,456	\$ 1,648	\$ 46,843	\$ 2,821	\$ 1,745
Professional fees from development, marketing and other	2,639	243	73	2,104	750	87
Reimbursed costs incurred on behalf of managed communities	<u>438,987</u>	<u>8,231</u>	<u>13,122</u>	<u>394,552</u>	<u>4,238</u>	<u>13,041</u>
Total revenues	<u>\$489,635</u>	<u>\$11,930</u>	<u>\$14,843</u>	<u>\$443,499</u>	<u>\$7,809</u>	<u>\$14,873</u>

In 2016, we entered into management contracts for eight communities owned by Welltower and in 2017 we entered into a management contract for one community owned by Welltower. In lieu of a cash payment to acquire the contracts, we accepted a reduced management fee percentage over the first five years of each 15-year contract. We estimated the average fee percentage to be earned over the entire term of the contracts and record management fee revenue using the average fee. The difference between the management fee revenue recorded and actual management fees received is included in other assets. This balance was \$1.9 million and \$0.5 million at December 31, 2017 and 2016, respectively.

Reimbursed costs incurred on behalf of managed communities were offset by \$1.1 million and \$2.4 million for Welltower's pro rata share of Sunrise Captive's net income for the years ended December 31, 2017 and 2016, respectively.

Included in "Due from affiliates, current" is \$24.9 million and \$22.4 million as of December 31, 2017 and 2016, respectively.

Amounts due include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days.

"Due from affiliates, current" also includes \$0.4 million due from Welltower related to consulting costs incurred by our UK management company.

"Due from affiliates, long term" of \$12.0 million and \$11.6 million at December 31, 2017 and 2016, respectively, represents an indemnification receivable from Welltower related to our uncertain tax positions.

Dividends of \$6.0 million and \$6.6 million were paid to Welltower for the years ended December 31, 2017 and 2016, respectively.

As part of the December 2016 RealCo transaction, Welltower paid us \$23.6 million for their share of the purchase price and we paid \$19.7 million in distributions to Welltower.

In July 2017, we received \$3.0 million of additional purchase price for the Severna Park community (see Note 3).

Sunrise and Welltower agreed to transition the management of two UK communities and three Gracewell communities to a new manager. On December 21, 2016 Deeds of Termination were executed and one UK community was transitioned. Welltower paid Sunrise a £0.4 million (\$0.5 million) termination fee in December 2016. The remaining four communities were transitioned in 2017 and Welltower paid Sunrise £1.6 million (\$2.0 million) in termination fees for the communities that terminated in 2017.

Revera—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, Revera’s indirect interest in Red Fox decreased from 75.3% to 65.3% (see Note 1). Revera has a 25% indirect interest in 18 Gracewell communities in the UK. We are currently developing or have entered into agreements to develop 7 communities owned by Revera through its interest in RealCo (see Note 3).

Included in “Due from affiliates, current” is \$0.7 million due from Revera related to consulting costs incurred by our UK management company.

RealCo—We manage two communities owned by RealCo under management agreements with initial terms of 15 years and are currently developing or have entered into agreements to develop 7 communities owned by RealCo.

Revenues earned from RealCo’s communities are as follows (in thousands):

	Year Ended December 31,	
	2017	2016
Management fees	\$ 950	\$ 27
Professional fees from development, marketing and other	3,150	77
Reimbursed costs incurred on behalf of managed communities	<u>14,302</u>	<u>-</u>
Total revenues	<u>\$18,402</u>	<u>\$104</u>

Included in “Due from affiliates, current” is the following due from RealCo as of December 31 (in thousands):

	2017		2016	
	Operating Communities	Development Communities	Operating Communities	Development Communities
	<u>\$3,795</u>	<u>\$3,337</u>	<u>\$1,092</u>	<u>\$2,472</u>

Amounts due from operating communities include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days. Amounts due from development communities include construction and pre-opening costs that will be reimbursed to us once the communities submit draw requests and receive funding, generally within 30 days.

On September 1, 2017, Revera and a member of Sunrise LLC's senior management sold their interests in the three operating communities to Welltower. Following the sale of the interests, these communities became wholly owned by Welltower. Based on the calculation of the agreed upon excess value for these communities, we received \$9.4 million in developer incentive fees in September 2017. We recognized \$8.1 million of gains from sale of real estate, net of deferred gains of \$1.3 million due to a clawback provision in the management agreement whereby we agreed to reimburse Welltower up to a maximum of the management fees paid to us for the communities during the first year after the Closing Date if certain income thresholds are not met. We also recognized \$2.8 million of development fees related to these three operating communities in September 2017.

In October 2017, Revera sold 10% of its interest in RealCo to Welltower which changed RealCo's ownership structure to be identical to Red Fox's ownership interests effective April 28, 2017 (see Note 1).

During 2017, we sold a land parcel to a New 2017 PropCo within the RealCo structure. We received \$5.1 million from RealCo representing our costs incurred on the acquisition and subsequent entitlement of the land parcel. In addition, three New 2017 PropCo entities within the RealCo structure purchased three land parcels and reimbursed us \$3.1 million for search costs incurred and deposits we had placed on these land parcels. We entered into development agreements with the New 2017 PropCos with terms similar to those discussed above. The ownership of the New 2017 PropCos is identical to Red Fox's ownership interest effective April 28, 2017 (see Note 1).

AllyAlign Health ("AAH")—On January 19, 2017, we formed a joint venture with AAH to establish and operate Medicare Advantage Special Needs Plans ("MASNPs"). As of December 31, 2017, we have contributed \$8.9 million for a 79% interest in the joint venture which is included in our consolidated financial statements. AAH has contributed \$2.4 million for the remaining 21% interest which is recorded as a non-controlling interest. The joint venture will establish and operate MASNPs in various states. Sunrise and AllyAlign had contributed \$12.4 million and \$3.5 million, respectively, to the joint venture of which \$3.5 million and \$1.1 million was returned to Sunrise and AllyAlign, respectively. The returned capital was equity funding for state plans that the joint venture did not move forward with.

As of December 31, 2017, the joint venture has made \$8.7 million in contributions to fund start-up working capital and statutory equity requirements for various wholly owned subsidiaries. The contributions are held in interest-bearing cash accounts controlled by either Sunrise or AAH and are classified as restricted cash on our balance sheet.

The joint venture has expensed \$2.0 million and \$1.5 million of fees to AAH for the years ended December 31, 2017 and 2016, respectively, for the preparation and submission of regulatory applications necessary to operate the MASNPs. This amount is included as Start-up costs in our consolidated statement of operations with 21% recorded as Loss attributable to non-controlling interests.

Spectrum—We recorded expense of \$6.5 million and \$1.7 million for the years ended December 31, 2017 and 2016, respectively, for therapy and rehabilitative services provided at our consolidated communities by entities owned by Spectrum. The expense is recorded in "Community expense for consolidated communities" in our consolidated statements of operations.

18. ACCOUNTS PAYABLE AND ACCRUED EXPENSES AND OTHER LONG-TERM LIABILITIES

Accounts payable and accrued expenses consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Accounts payable and accrued expenses	\$ 20,006	\$ 21,458
Accrued salaries and bonuses	49,116	46,497
Accrued employee health and other benefits	34,505	32,694
Income taxes payable	3,791	28,445
Other accrued expenses	<u>25,291</u>	<u>25,250</u>
	<u>\$132,709</u>	<u>\$154,344</u>

Other long-term liabilities consist of the following (in thousands):

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Uncertain tax position	\$ 17,643	\$ 11,610
Lease liabilities, including above-market lease liability—net	4,955	9,477
Liability for future performance obligation	20,091	25,949
Deferred revenue from nonrefundable entrance fees	42,137	30,755
Refundable entrance fees	6,105	15,905
Equity plan, warrants, development plan liabilities	62,477	7,993
Other long-term liabilities	<u>7,671</u>	<u>5,490</u>
	<u>\$161,079</u>	<u>\$107,179</u>

19. 401(K) PLAN

We have a 401(k) Plan (the "Plan") covering all eligible employees. Under the Plan, eligible employees may make pretax contributions up to 100% of the IRS limits. The Plan provides an employer match dependent upon compensation levels and years of service. The Plan does not provide for discretionary matching contributions. Matching contributions were \$2.3 million and \$2.2 million for the years ended December 31, 2017 and 2016, respectively.

20. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 16, 2018, the date these consolidated financial statements were available to be issued. Other than the events identified within, there were no other subsequent events identified.

* * * * *

SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2017
(In thousands, except share amounts)**

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1	\$ 47,650	\$ -	\$ 47,651
Accounts receivable—net	-	36,472	-	36,472
Due from affiliates	-	33,625	(483)	33,142
Restricted cash	-	24,709	-	24,709
Assets held for sale	-	26,822	-	26,822
Prepaid expenses and other current assets	-	12,637	-	12,637
Total current assets	1	181,915	(483)	181,433
PROPERTY AND EQUIPMENT—Net	-	46,228	-	46,228
NOTES RECEIVABLE	-	1,293	-	1,293
INTANGIBLE ASSETS—Net	-	198,516	-	198,516
GOODWILL	-	92,441	-	92,441
INVESTMENT IN EQUITY INTEREST	-	8,858	-	8,858
RESTRICTED CASH	-	83,222	-	83,222
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	-	7,487	-	7,487
DUE FROM AFFILIATES	-	12,043	-	12,043
INVESTMENT IN SUBSIDIARY	162,580	-	(162,580)	-
OTHER ASSETS—Net	-	9,586	-	9,586
TOTAL ASSETS	<u>\$ 162,581</u>	<u>\$ 641,589</u>	<u>\$(163,063)</u>	<u>\$ 641,107</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Outstanding draws on bank credit facility	\$ -	\$ 65,000	\$ -	\$ 65,000
Accounts payable and accrued expenses	-	132,709	-	132,709
Liabilities associated with assets held for sale	-	16,822	-	16,822
Due to affiliates	483	-	(483)	-
Deferred revenue	-	3,778	-	3,778
Entrance fees	-	1,775	-	1,775
Self-insurance liabilities	-	24,955	-	24,955
Total current liabilities	483	245,039	(483)	245,039
SELF-INSURANCE LIABILITIES	-	60,140	-	60,140
DEFERRED TAX LIABILITIES—Net	-	6,930	-	6,930
OTHER LONG-TERM LIABILITIES—Net	-	161,079	-	161,079
Total liabilities	483	473,188	(483)	473,188
EQUITY:				
Common stock, \$0.01 par, 722,765 shares issued and outstanding	7	-	-	7
Additional paid-in capital	186,559	-	-	186,559
Member's capital	-	187,048	(187,048)	-
Accumulated deficit	(18,162)	(18,162)	18,162	(18,162)
Accumulated other comprehensive loss	-	(6,306)	-	(6,306)
Share of subsidiary's other comprehensive loss	(6,306)	-	6,306	-
Total stockholders' equity	162,098	162,580	(162,580)	162,098
Noncontrolling interests	-	5,821	-	5,821
Total equity	<u>162,098</u>	<u>168,401</u>	<u>(162,580)</u>	<u>167,919</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 162,581</u>	<u>\$ 641,589</u>	<u>\$(163,063)</u>	<u>\$ 641,107</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2016
(In thousands, except share amounts)**

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1	\$ 30,025	\$ -	\$ 30,026
Accounts receivable—net	-	45,931	-	45,931
Due from affiliates	25	26,497	(508)	26,014
Restricted cash	-	30,362	-	30,362
Prepaid expenses and other current assets	-	11,720	-	11,720
Total current assets	26	144,535	(508)	144,053
PROPERTY AND EQUIPMENT—Net	-	75,493	-	75,493
NOTES RECEIVABLE	-	1,384	-	1,384
INTANGIBLE ASSETS—Net	-	210,927	-	210,927
GOODWILL	-	92,232	-	92,232
INVESTMENT IN EQUITY INTEREST	-	9,378	-	9,378
RESTRICTED CASH	-	65,413	-	65,413
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	-	6,341	-	6,341
DUE FROM AFFILIATES	-	11,610	-	11,610
INVESTMENT IN SUBSIDIARY	226,103	-	(226,103)	-
OTHER ASSETS—Net	-	12,672	-	12,672
TOTAL ASSETS	\$ 226,129	\$ 629,985	\$ (226,611)	\$ 629,503
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ -	\$ 154,344	\$ -	\$ 154,344
Due to affiliates	508	-	(508)	-
Deferred revenue	-	3,278	-	3,278
Entrance fees	-	4,384	-	4,384
Self-insurance liabilities	-	30,150	-	30,150
Total current liabilities	508	192,156	(508)	192,156
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	-	30,000	-	30,000
SELF-INSURANCE LIABILITIES	-	51,072	-	51,072
DEFERRED TAX LIABILITIES—Net	-	18,535	-	18,535
OTHER LONG-TERM LIABILITIES—Net	-	107,179	-	107,179
Total liabilities	508	398,942	(508)	398,942
EQUITY:				
Common stock, \$0.01 par, 722,765 shares issued and outstanding	7	-	-	7
Additional paid-in capital	216,559	-	-	216,559
Member's capital	-	217,048	(217,048)	-
Accumulated earnings	17,212	17,212	(17,212)	17,212
Accumulated other comprehensive loss	-	(8,157)	-	(8,157)
Share of subsidiary's other comprehensive loss	(8,157)	-	8,157	-
Total stockholders' equity	225,621	226,103	(226,103)	225,621
Noncontrolling interests	-	4,940	-	4,940
Total equity	225,621	231,043	(226,103)	230,561
TOTAL LIABILITIES AND EQUITY	\$ 226,129	\$ 629,985	\$ (226,611)	\$ 629,503

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)**

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING REVENUE:				
Management fees	\$ -	\$ 115,812	\$ -	\$ 115,812
Resident fees for consolidated communities	-	223,821	-	223,821
Ancillary services	-	7,829	-	7,829
Professional fees from development, marketing and other	-	8,150	-	8,150
Reimbursed costs incurred on behalf of managed communities	-	<u>1,009,889</u>	-	<u>1,009,889</u>
Total operating revenue	<u>-</u>	<u>1,365,501</u>	<u>-</u>	<u>1,365,501</u>
OPERATING EXPENSES:				
Community expense for consolidated communities	-	156,749	-	156,749
Community lease expense	-	44,164	-	44,164
Depreciation and amortization	-	23,694	-	23,694
Impairment of leases	-	14,469	-	14,469
Ancillary expenses	-	7,454	-	7,454
Provision for doubtful accounts	-	342	-	342
General and administrative	-	94,419	-	94,419
Share-based and incentive compensation	-	56,689	-	56,689
Development and idle land costs	-	2,172	-	2,172
Provision for abandoned projects	-	3,054	-	3,054
Transaction costs	-	457	-	457
Start-up costs	-	4,064	-	4,064
Loss on financial guarantees	-	5,000	-	5,000
Costs incurred on behalf of managed communities	-	<u>1,008,425</u>	-	<u>1,008,425</u>
Total operating expenses	<u>-</u>	<u>1,421,152</u>	<u>-</u>	<u>1,421,152</u>
LOSS FROM OPERATIONS	<u>-</u>	<u>(55,651)</u>	<u>-</u>	<u>(55,651)</u>
OTHER NON-OPERATING INCOME (EXPENSE):				
Interest income	-	188	-	188
Interest expense	-	(2,554)	-	(2,554)
Other expense	-	<u>(1,510)</u>	-	<u>(1,510)</u>
Total other non-operating expense	<u>-</u>	<u>(3,876)</u>	<u>-</u>	<u>(3,876)</u>
GAIN FROM SALE OF REAL ESTATE	<u>-</u>	<u>14,196</u>	<u>-</u>	<u>14,196</u>
LOSS FROM INVESTMENT IN EQUITY INTEREST	<u>-</u>	<u>(755)</u>	<u>-</u>	<u>(755)</u>
EQUITY IN LOSS OF SUBSIDIARY	<u>(35,374)</u>	<u>-</u>	<u>35,374</u>	<u>-</u>
LOSS BEFORE BENEFIT FROM INCOME TAXES	(35,374)	(46,086)	35,374	(46,086)
BENEFIT FROM INCOME TAXES	<u>-</u>	<u>9,843</u>	<u>-</u>	<u>9,843</u>
NET LOSS	(35,374)	(36,243)	35,374	(36,243)
LESS—LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS—NET OF TAX	<u>-</u>	<u>869</u>	<u>-</u>	<u>869</u>
NET LOSS ATTRIBUTABLE TO STOCKHOLDERS	<u>\$ (35,374)</u>	<u>\$ (35,374)</u>	<u>\$ 35,374</u>	<u>\$ (35,374)</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands)**

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING REVENUE:				
Management fees	\$ -	\$ 116,104	\$ -	\$ 116,104
Resident fees for consolidated communities	-	238,882	-	238,882
Ancillary services	-	8,244	-	8,244
Professional fees from development, marketing and other	-	4,193	-	4,193
Reimbursed costs incurred on behalf of managed communities	-	<u>937,315</u>	-	<u>937,315</u>
Total operating revenue	<u>-</u>	<u>1,304,738</u>	<u>-</u>	<u>1,304,738</u>
OPERATING EXPENSES:				
Community expense for consolidated communities	-	167,327	-	167,327
Community lease expense	-	46,397	-	46,397
Depreciation and amortization	-	32,479	-	32,479
Impairment of leases	-	2,248	-	2,248
Ancillary expenses	-	7,945	-	7,945
Provision for doubtful accounts	-	317	-	317
General and administrative	-	94,155	-	94,155
Stock compensation	-	6,745	-	6,745
Preopening community expense	-	754	-	754
Development and idle land costs	-	817	-	817
Provision for abandoned projects	-	619	-	619
Transaction costs	-	1,025	-	1,025
Legal settlement	-	2,180	-	2,180
Start-up costs	-	2,126	-	2,126
Costs incurred on behalf of managed communities	-	<u>938,676</u>	-	<u>938,676</u>
Total operating expenses	<u>-</u>	<u>1,303,810</u>	<u>-</u>	<u>1,303,810</u>
INCOME FROM OPERATIONS	<u>-</u>	<u>928</u>	<u>-</u>	<u>928</u>
OTHER NON-OPERATING INCOME (EXPENSE):				
Interest income	-	151	-	151
Interest expense	-	(3,109)	-	(3,109)
Other expense	-	(712)	-	(712)
Total other non-operating expense	<u>-</u>	<u>(3,670)</u>	<u>-</u>	<u>(3,670)</u>
GAIN FROM SALE OF REAL ESTATE	<u>-</u>	<u>17,731</u>	<u>-</u>	<u>17,731</u>
LOSS FROM INVESTMENT IN EQUITY INTEREST	<u>-</u>	<u>(622)</u>	<u>-</u>	<u>(622)</u>
EQUITY IN LOSS OF SUBSIDIARY	<u>6,337</u>	<u>-</u>	<u>(6,337)</u>	<u>-</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>6,337</u>	<u>14,367</u>	<u>(6,337)</u>	<u>14,367</u>
PROVISION FOR INCOME TAXES	<u>-</u>	<u>(7,723)</u>	<u>-</u>	<u>(7,723)</u>
NET INCOME	<u>6,337</u>	<u>6,644</u>	<u>(6,337)</u>	<u>6,644</u>
LESS—LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS—NET OF TAX	<u>-</u>	<u>(307)</u>	<u>-</u>	<u>(307)</u>
NET LOSS ATTRIBUTABLE TO STOCKHOLDERS	<u>\$ 6,337</u>	<u>\$ 6,337</u>	<u>\$ (6,337)</u>	<u>\$ 6,337</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017**

(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
NET LOSS	\$(35,374)	\$(36,243)	\$ 35,374	\$(36,243)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	-	1,719	-	1,719
Unrealized gain on investments	-	132	-	132
Share of subsidiary's other comprehensive income	<u>1,851</u>	<u>-</u>	<u>(1,851)</u>	<u>-</u>
COMPREHENSIVE LOSS	(33,523)	(34,392)	33,523	(34,392)
LESS—COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>-</u>	<u>737</u>	<u>-</u>	<u>737</u>
COMPREHENSIVE LOSS ATTRIBUTABLE TO STOCKHOLDERS	<u><u>\$(33,523)</u></u>	<u><u>\$(33,655)</u></u>	<u><u>\$ 33,523</u></u>	<u><u>\$(33,655)</u></u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
NET INCOME	\$ 6,337	\$ 6,644	\$ (6,337)	\$ 6,644
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	-	(3,291)	-	(3,291)
Unrealized gain on investments	-	171	-	171
Share of subsidiary's other comprehensive loss	<u>(3,120)</u>	<u>-</u>	<u>3,120</u>	<u>-</u>
COMPREHENSIVE INCOME	3,217	3,524	(3,217)	3,524
LESS—COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>-</u>	<u>(478)</u>	<u>-</u>	<u>(478)</u>
COMPREHENSIVE LOSS ATTRIBUTABLE TO STOCKHOLDERS	<u>\$ 3,217</u>	<u>\$ 3,046</u>	<u>\$ (3,217)</u>	<u>\$ 3,046</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)**

	<u>Red Fox Holding Corporation</u>	<u>Sunrise Senior Living, LLC</u>	<u>Noncontrolling Interests</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
BALANCE—January 1, 2017	\$ 225,621	\$ 226,103	\$ 4,940	\$(226,103)	\$ 230,561
Net loss	(35,374)	(35,374)	(869)	35,374	(36,243)
Dividends to stockholders	(30,000)	(30,000)	-	30,000	(30,000)
Contributions from noncontrolling interests	-	-	3,488	-	3,488
Return of contributions from noncontrolling interests	-	-	(1,112)	-	(1,112)
Distributions on behalf of noncontrolling interests	-	-	(626)	-	(626)
Foreign currency translation adjustments	-	1,719	-	-	1,719
Unrealized gain on investments	-	132	-	-	132
Share of subsidiary's other comprehensive income	<u>1,851</u>	<u>-</u>	<u>-</u>	<u>(1,851)</u>	<u>-</u>
BALANCE—December 31, 2017	<u>\$ 162,098</u>	<u>\$ 162,580</u>	<u>\$ 5,821</u>	<u>\$(162,580)</u>	<u>\$ 167,919</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016**

(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Noncontrolling Interests	Eliminations	Consolidated Total
BALANCE—January 1, 2016	\$ 337,104	\$ 337,586	\$ 4,633	\$(337,586)	\$ 341,737
Net income	6,337	6,337	307	(6,337)	6,644
Dividends to stockholders	(33,038)	(33,038)	-	33,038	(33,038)
Sale of assets to RealCo, net of tax	16,617	16,617	-	(16,617)	16,617
Distributions to stockholders	(98,279)	(98,279)	-	98,279	(98,279)
Foreign currency translation adjustments	-	(3,291)	-	-	(3,291)
Unrealized gain on investments	-	171	-	-	171
Share of subsidiary's other comprehensive loss	(3,120)	-	-	3,120	-
BALANCE—December 31, 2016	<u>\$ 225,621</u>	<u>\$ 226,103</u>	<u>\$ 4,940</u>	<u>\$(226,103)</u>	<u>\$ 230,561</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING ACTIVITIES:				
Net loss	\$(35,374)	\$(36,243)	\$ 35,374	\$(36,243)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Equity in income of subsidiary	35,374	-	(35,374)	-
Gain on sale of real estate	-	(14,196)	-	(14,196)
Loss from investment in equity interest	-	755	-	755
Depreciation and amortization	-	23,694	-	23,694
Impairment of leases	-	14,469	-	14,469
Amortization of future performance obligation	-	(4,684)	-	(4,684)
Amortization of deferred endowment	-	(4,983)	-	(4,983)
Amortization of other deferred revenue	-	(1,327)	-	(1,327)
Provision for abandoned projects	-	3,054	-	3,054
Provision for doubtful accounts	-	342	-	342
Amortization of leases, including above and below market lease intangibles	-	(2,374)	-	(2,374)
Interest accretion on note receivable	-	(112)	-	(112)
Amortization of loan issue costs	-	422	-	422
Deferred income taxes	-	(12,439)	-	(12,439)
Share-based and incentive compensation expense	-	56,689	-	56,689
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	-	5,392	-	5,392
Due from/due to affiliate	-	(5,469)	-	(5,469)
Prepaid expenses and other current assets	-	(2,254)	-	(2,254)
Restricted cash held by Sunrise Captive	-	(7,616)	-	(7,616)
Other assets	-	-	-	-
Increase (decrease) in:				
Accounts payable, accrued expenses and other liabilities	-	1,163	-	1,163
Self-insurance liabilities	-	3,900	-	3,900
Deferred revenue	-	(101)	-	(101)
Net cash provided by operating activities	<u>-</u>	<u>18,082</u>	<u>-</u>	<u>18,082</u>
INVESTING ACTIVITIES				
Sale of assets to RealCo	-	5,094	-	5,094
Sale of Severna Park	-	3,000	-	3,000
Developer incentive fee on sale of RealCo assets to Welltower	-	9,414	-	9,414
Proceeds from sale of land parcels	-	12,321	-	12,321
Investment in equity interest	-	(235)	-	(235)
Capital expenditures	-	(27,978)	-	(27,978)
Change in restricted cash	-	(7,276)	-	(7,276)
Increase in notes receivable	-	(230)	-	(230)
Payments from notes receivable	-	435	-	435
Net cash used in investing activities	<u>-</u>	<u>(5,455)</u>	<u>-</u>	<u>(5,455)</u>
FINANCING ACTIVITIES:				
Dividends to stockholders	-	(30,000)	-	(30,000)
Borrowings on credit facility	-	35,000	-	35,000
Loan issue costs paid	-	(2)	-	(2)
Net cash provided by financing activities	<u>-</u>	<u>4,998</u>	<u>-</u>	<u>4,998</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	17,625	-	17,625
CASH AND CASH EQUIVALENTS—Beginning of period	<u>1</u>	<u>30,025</u>	<u>-</u>	<u>30,026</u>
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 1</u>	<u>\$ 47,650</u>	<u>\$ -</u>	<u>\$ 47,651</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION—				
Decrease in accrued capital expenditures	<u>\$ -</u>	<u>\$ (43)</u>	<u>\$ -</u>	<u>\$ (43)</u>

See notes to consolidated financial statements.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED
SUBSIDIARY SUNRISE SENIOR LIVING, LLC**

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands)**

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING ACTIVITIES:				
Net income	\$ 6,337	\$ 6,644	\$ (6,337)	\$ 6,644
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Equity in income of subsidiary	(6,337)	-	6,337	-
Gain on sale of real estate	-	(17,731)	-	(17,731)
Loss from investment in equity interest	-	622	-	622
Depreciation and amortization	-	32,479	-	32,479
Impairment of leases	-	2,248	-	2,248
Amortization of future performance obligation	-	(5,890)	-	(5,890)
Amortization of deferred endowment	-	(3,572)	-	(3,572)
Amortization of other deferred revenue	-	(579)	-	(579)
Provision for abandoned projects	-	619	-	619
Provision for doubtful accounts	-	317	-	317
Amortization of leases, including above and below market lease intangibles	-	891	-	891
Interest accretion on note receivable	-	(69)	-	(69)
Amortization of loan issue costs	-	755	-	755
Deferred income taxes	-	(15,472)	-	(15,472)
Share-based and incentive compensation	-	6,745	-	6,745
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	-	(2,134)	-	(2,134)
Due from/due to affiliate	(31)	(897)	-	(928)
Prepaid expenses and other current assets	-	(1,715)	-	(1,715)
Restricted cash held by Sunrise Captive	-	(2,163)	-	(2,163)
Other assets	-	(780)	-	(780)
Increase (decrease) in:				
Accounts payable, accrued expenses and other liabilities	-	40,968	-	40,968
Self-insurance liabilities	-	264	-	264
Deferred revenue	-	749	-	749
Net cash provided by operating activities	<u>(31)</u>	<u>42,299</u>	<u>-</u>	<u>42,268</u>
INVESTING ACTIVITIES:				
Sale of assets to RealCo	-	98,279	-	98,279
Sale of Severna Park	-	69,776	-	69,776
Acquisition of management contracts	-	(71)	-	(71)
Investment in equity interest	-	(5,000)	-	(5,000)
Capital expenditures	-	(59,089)	-	(59,089)
Change in restricted cash	-	(844)	-	(844)
Increase in notes receivable	-	(688)	-	(688)
Net cash used in investing activities	<u>-</u>	<u>102,363</u>	<u>-</u>	<u>102,363</u>
FINANCING ACTIVITIES:				
Distributions to stockholders	(98,279)	-	-	(98,279)
Dividends to stockholders	(33,038)	-	-	(33,038)
Distributions between entities	131,317	(131,317)	-	-
Borrowings on credit facility	-	30,000	-	30,000
Borrowings on long-term debt	-	56,234	-	56,234
Repayments of credit facility	-	(36,000)	-	(36,000)
Repayments of long-term debt	-	(67,831)	-	(67,831)
Loan issue costs paid	-	(1,300)	-	(1,300)
Net cash provided by financing activities	<u>-</u>	<u>(150,214)</u>	<u>-</u>	<u>(150,214)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(31)	(5,552)	-	(5,583)
CASH AND CASH EQUIVALENTS—Beginning of period	<u>32</u>	<u>35,577</u>	<u>-</u>	<u>35,609</u>
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 1</u>	<u>\$ 30,025</u>	<u>\$ -</u>	<u>\$ 30,026</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION—				
Increase in accrued capital expenditures	<u>\$ -</u>	<u>\$ 9,222</u>	<u>\$ -</u>	<u>\$ 9,222</u>

See notes to consolidated financial statements.

EXHIBIT E

SUMMARY OF FINANCIAL INFORMATION
THE COLONNADES
AS OF DECEMBER 31, 2017 AND 2016
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	Current Year	Prior Year
Total Assets	\$ 6,491	\$ 5,518
Total Liabilities	17,290	16,592
Total Net Assets	(10,799)	(11,074)
Total Revenues	23,439	22,886
Total Expenses	18,878	18,401
Operating Income (Loss)	4,561	4,485
Net Income (Loss)	\$ 4,566	\$ 4,477

Narrative on financial condition:

The Colonnades had a good year finishing 4.4% above budget and 2.0% better than last year. Total Revenue increased \$553 thousand or 2.4%. Resident Fees were up \$364 thousand, 2.1% better than prior year. The increase was due primarily rate increases. Occupancy overall was up flat with last year. Expenses were up 2.6% and the primary driver here was labor.

Occupancy Information:	Capacity of Units	Average Occupancy	Percentage Occupancy
Independent Living	218	203	93.1%
Assisted Living	57	57	100.0%
Nursing	34	27	79.4%

THE COLONNADES
STATEMENT OF OPERATIONS
2017 Actual vs 2017 Budget from 2017 Disclosure
(In thousands)

	<u>2017-Actual</u>	<u>2017-Budget</u>	<u>Variance</u>	<u>%</u>
OPERATING REVENUES:				
Resident fees	\$ 19,598	\$ 19,276	\$ 322	2%
Health care revenue	<u>3,841</u>	<u>4,188</u>	<u>(347)</u>	-8%
Total operating revenues	<u>23,439</u>	<u>23,464</u>	<u>(25)</u>	<u>0%</u>
OPERATING EXPENSE:				
Labor	7,585	7,710	(125)	-2%
Rent	4,848	4,826	22	0%
Ancillary expenses	1,460	1,506	(46)	-3%
General and administrative	964	956	8	1%
Repairs and maintenance	896	1,021	(125)	-12%
Food	890	915	(25)	-3%
Depreciation	732	951	(219)	-23%
Utilities	570	598	(28)	-5%
Taxes and license fees	527	546	(19)	-3%
Insurance	258	298	(40)	-13%
Advertising and marketing	152	173	(21)	-12%
Bad debt	<u>(4)</u>	<u>35</u>	<u>(39)</u>	-111%
Total operating expenses	<u>18,878</u>	<u>19,535</u>	<u>(657)</u>	
INCOME FROM OPERATIONS	<u>4,561</u>	<u>3,929</u>	<u>632</u>	
OTHER (EXPENSE) INCOME:				
Other expenses	10	(5)	15	-300%

Interest expense	(5)	(3)	(2)	67%
Interest income	<u>0</u>	<u>0</u>	<u> </u>	
Total other (expense) income	<u>5</u>	<u>(8)</u>	<u>13</u>	
Income before discontinued operations	4,566	3,921	645	
Income (Loss) from discontinued operations (Note 6)	<u> </u>	<u> </u>	<u> </u>	
NET INCOME	<u>\$ 4,566</u>	<u>\$ 3,921</u>	<u>\$ 645</u>	
Balance Check	4,566	3,921		
	0	0		

Explanation

Positive variance in RDF Capex which is renovation costs that cannot be capitalized. Further savings in general Repairs and

Depreciation lower due to less than anticipated Capital spending.

Utilities are budgeted based on prior year actual plus anticipated rate increases. 2016 Utilities were \$50k more than 2017 and reflected in a higher budget. The reduction was primarily due to a milder year.

SUNRISE CONTINUING CARE, LLC
THE COLONNADES
BUDGETED STATEMENT OF OPERATIONS WITH ASSUMPTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	2018	Assumptions
OPERATING REVENUES:		
Resident fees	\$ 20,147	Resident Fees increase 4.0% in Independent Living which is a function of normal annual increases with Occupancy flat.
Health care revenue	4,162	Health Care 3% increase in rate.
Total operating revenues	<u>24,309</u>	
OPERATING EXPENSES:		
Labor	8,058	Productive labor increases 6% including filling vacancies. The norm wage increase is 3%. Health benefits are increasing 15% and Dental 24%
Rent	5,024	Land Rent is expected to increase 7%. Land rent is a combination of fixed and a percentage of sales.
Ancillary expenses	1,349	Ancillary Expenses are budgeted to increase 3.5%
General and administrative	1,034	General Expenses are budgeted to increase 3.0%
Food	913	Resident Food Cost less Rebates is budgeted to increase 3.7% based on expected price increases. Food is budgeted on a per resident day stat amount (PSD)
Utilities	574	Utility Expense is budgeted utilizing the rolling 12 month actuals increased by community specific growth rates provided by Sunrise's energy management services partner; Increases to Electric and Natural Gas are applied to monthly experience to maintain expected seasonality and a state-by-state assessment of regulatory authority changes and usage trends (normalized for weather); Water, Sewer and Other Utilities are projected. Utilities are budgeted to increase 2.0% over 2017 Forecast
Depreciation	1,038	Depreciation is budgeted based on the existing Asset Base plus planned additions and expensed based on their useful lives.
Taxes and license fees	554	Taxes and license fees are budgeted at prior year levels with inflation unless proper notice has been given by taxing authority of any changes for upcoming year. Real Estate Taxes are the largest part of this expense and are budgeted for a 7.6% increase over the 2017 Forecast..
Repairs and maintenance	821	Repairs and Maintenance are increasing 6.0% with the largest increases in Repairs and Contracts.
Insurance	299	In general, the Insurance Program includes the use of the Sunrise Captive that insures the liability and workers compensation insurance policies' deductible/retention exposures above the community deductible; Program insures Community, Owners, Tenants, Lenders, and Sunrise against risks of ongoing operation and ownership at level and coverage customary for the senior living industry. Worker's Compensation is decreasing 3% based on good experience. Liability Premiums are expected to increase 6.2%
Advertising and marketing	159	Marketing Expense is expected to increase 17% to focus effort and launch more in-house campaigns
Bad debt expense	<u>36</u>	Bad Debt Expense is budgeted as a percentage of Revenue typically less than 1%
Total operating expenses	<u>19,859</u>	
Interest expense	0	
Other Income/Expense	(4)	Expected gain / loss on investments.
Interest income	<u>0</u>	