ALLAN D. JERGESEN
PARTNER
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June 26, 2020

VIA EMAIL AND OVERNIGHT MAIL

Allison Nakatomi
Manager, Continuing Care Branch
California Department of Social Services
744 P Street, MS 9-14-91
Sacramento, CA 95814

Re: Sunrise Senior Living – Annual Report for The Stratford
Our File No. 21249.94

Dear Allison:

In accordance with the continuing care statute, I am enclosing the annual report for 2019 for The Stratford, together with the associated provider fee check. As required by the Annual Report instructions, we are sending an unlocked electronic copy to cclccb@dss.ca.gov and are mailing two hard copies to the Continuing Care Branch. The electronic and physical copies of include the Key Indicators Report. I would like to highlight the following points in the Annual Report:

- Disclosure Statement – We have provided an attachment explaining how Sunrise meets the requirements in the continuing care statute for including a resident representative and a resident member on the governing body. Please let me know if you would like to discuss further.

- Financial Statements – We have included the financial statements for Sunrise Stratford, LP. Additionally, we are sending a consolidated financial statement for Sunrise Senior Living, LLC, the COA co-holder, and its parent, Red Fox Holding Corporation. We have provided similar financial statements over the past five years with the Department's approval.

Please let me know if you need anything further. As always, we look forward to working with you to fulfill our legal commitments.

Very truly yours,

Allan D. Jergesen

Allan D. Jergesen

Enclosure

2019 ANNUAL REPORT
SUNRISE STRATFORD, LP

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	70
[2]	Number at end of fiscal year	70
[3]	Total Lines 1 and 2	140
[4]	Multiply line 3 by ".50" and enter result on line 5	0.5
[5]	Mean number of continuing care residents	**70**
	All Residents	
[6]	Number at beginning of fiscal year	76
[7]	Number at end of fiscal year	80
[8]	Total Lines 6 and 7	156
[9]	Multiply line 8 by ".50" and enter result on line 10	0.5
[10]	Mean number of *all* residents	**78**
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	**0.90**

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$	6,473,637
[a]	Depreciation	$ 3,197		
[b]	Debt Service (Interest only)	$ -		
[2]	Subtotal (add Line 1a and 1b)		$	3,197
[3]	Subtract Line 2 from Line 1 and enter result		$	6,470,440
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)			0.90
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$	5,806,805
				x .001
[6]	**Total Amount Due**		**$**	**5,806.81**

PROVIDER: Sunrise Stratford LP

COMMUNITY: The Stratford

April 30, 2020

California Department of Social Services
Continuing Care Contracts Branch
744 P Street, MS 10-90
Sacramento, CA 95814
ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as a certification on behalf of Sunrise Stratford LP to the California Department of Social Services for the following matters regarding the enclosed annual report for 2019 that Sunrise Stratford LP is submitting as the holder of a certificate of authority for The Stratford:

1. The annual report and any amendments to it are correct to the best of my knowledge.

2. Each continuing care contract form in use or offered to new residents at The Stratford has been approved by the Department.

3. Sunrise Stratford LP does not maintain cash or cash equivalents. Sunrise Senior Living, Inc., in its role as co-holder of the certificate of authority at The Stratford, is responsible for meeting the liquid reserve requirements in the California continuing care statute on behalf of Sunrise Stratford LP. Therefore, Form 5-5 lists under "Operating Reserve" the amount of cash and cash equivalents maintained by Sunrise Senior Living LLC, as set forth in Sunrise Senior Living, LLC's audited financial statement for 2019. A copy of the relevant portions of that statement is included with Form 5-5. See Form 5-5 and footnote 1 to the 2019 financial statement of Sunrise Stratford LP regarding the assumption by Sunrise Senior Living, LLC in 2014 of Sunrise Senior Living, Inc.'s responsibilities as co-holder of the certificate of authority at The Stratford.

Please feel free to contact us if you have any questions about our submissions.

Sincerely,

Chris Winkle
Chief Executive Officer, Sunrise Senior Living, LLC

Community Support Office
7902 Westpark Drive, McLean, Virginia 22102
Main: 703-273-7500
SunriseSeniorLiving.com

CERTIFICATE OF LIABILITY INSURANCE

DATE(MM/DD/YYYY) 04/22/2020

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

Holder Identifier :

PRODUCER	CONTACT NAME:			
Aon Risk Services Central, Inc. Philadelphia PA Office One Liberty Place 1650 Market Street Suite 1000 Philadelphia PA 19103 USA	PHONE (A/C. No. Ext): (866) 283-7122	FAX (A/C. No.): (800) 363-0105		
	E-MAIL ADDRESS:			
	INSURER(S) AFFORDING COVERAGE			NAIC #
INSURED	INSURER A:	Continental Casualty Company		20443
Sunrise Senior Living, LLC 7902 Westpark Drive McLean VA 22102 USA	INSURER B:			
	INSURER C:			
	INSURER D:			
	INSURER E:			
	INSURER F:			

COVERAGES **CERTIFICATE NUMBER:** 570081497013 **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS,

Limits shown are as requested

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	COMMERCIAL GENERAL LIABILITY						EACH OCCURRENCE	
	CLAIMS-MADE / OCCUR						DAMAGE TO RENTED PREMISES (Ea occurrence)	
							MED EXP (Any one person)	
							PERSONAL & ADV INJURY	
	GEN'L AGGREGATE LIMIT APPLIES PER:						GENERAL AGGREGATE	
	POLICY / PRO-JECT / LOC						PRODUCTS - COMP/OP AGG	
	OTHER:							
	AUTOMOBILE LIABILITY						COMBINED SINGLE LIMIT (Ea accident)	
	ANY AUTO						BODILY INJURY (Per person)	
	OWNED AUTOS ONLY / SCHEDULED AUTOS						BODILY INJURY (Per accident)	
	HIRED AUTOS ONLY / NON-OWNED AUTOS ONLY						PROPERTY DAMAGE (Per accident)	
	UMBRELLA LIAB / OCCUR						EACH OCCURRENCE	
	EXCESS LIAB / CLAIMS-MADE						AGGREGATE	
	DED / RETENTION							
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N						PER STATUTE / OTH-ER	
	ANY PROPRIETOR / PARTNER / EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)	N/A					E.L. EACH ACCIDENT	
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. DISEASE-EA EMPLOYEE	
							E.L. DISEASE-POLICY LIMIT	
A	EPL - Primary			596786770 SIR applies per policy terms & conditions	04/30/2019	04/30/2020	Policy Limit SIR	$10,000,000 $250,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

RE: The Carlisle, 1450 Post Street, San Francisco,CA 94109, The Stratford, 601 Laurel Avenue, San Mateo, CA 94401.

Certificate No : 570081497013

CERTIFICATE HOLDER	CANCELLATION
State of California Dept. of Social Services 6167 Bristol Pkwy., Suite 400 Culver City CA 90230 USA	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE Aon Risk Services Central Inc.

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CERTIFICATE OF LIABILITY INSURANCE

DATE(MM/DD/YYYY) 04/27/2020

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an **ADDITIONAL INSURED**, the policy(ies) must have **ADDITIONAL INSURED** provisions or be endorsed. If **SUBROGATION IS WAIVED**, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

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Aon Risk Services Central, Inc. Philadelphia PA Office One Liberty Place 1650 Market Street Suite 1000 Philadelphia PA 19103 USA	PHONE (A/C. No. Ext): (866) 283-7122	FAX (A/C. No.): (800) 363-0105		
	E-MAIL ADDRESS:			
		INSURER(S) AFFORDING COVERAGE		NAIC #
INSURED	INSURER A:	Continental Casualty Company		20443
Sunrise Senior Living, LLC 7902 Westpark Drive McLean VA 22102 USA	INSURER B:			
	INSURER C:			
	INSURER D:			
	INSURER E:			
	INSURER F:			

COVERAGES **CERTIFICATE NUMBER:** 570081539201 **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS,

Limits shown are as requested

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	COMMERCIAL GENERAL LIABILITY						EACH OCCURRENCE	
	CLAIMS-MADE / OCCUR						DAMAGE TO RENTED PREMISES (Ea occurrence)	
							MED EXP (Any one person)	
							PERSONAL & ADV INJURY	
	GEN'L AGGREGATE LIMIT APPLIES PER:						GENERAL AGGREGATE	
	POLICY / PRO-JECT / LOC						PRODUCTS - COMP/OP AGG	
	OTHER:							
	AUTOMOBILE LIABILITY						COMBINED SINGLE LIMIT (Ea accident)	
	ANY AUTO						BODILY INJURY (Per person)	
	OWNED AUTOS ONLY / SCHEDULED AUTOS						BODILY INJURY (Per accident)	
	HIRED AUTOS ONLY / NON-OWNED AUTOS ONLY						PROPERTY DAMAGE (Per accident)	
	UMBRELLA LIAB / OCCUR						EACH OCCURRENCE	
	EXCESS LIAB / CLAIMS-MADE						AGGREGATE	
	DED / RETENTION							
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N						PER STATUTE / OTH-ER	
	ANY PROPRIETOR / PARTNER / EXECUTIVE OFFICER/MEMBER (Mandatory in NH)	N/A					E.L. EACH ACCIDENT	
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. DISEASE-EA EMPLOYEE	
							E.L. DISEASE-POLICY LIMIT	
A	EPL - Primary			596786770 SIR applies per policy terms & conditions	04/30/2020	04/30/2021	Policy Limit SIR	$10,000,000 $500,000

Certificate No : 570081539201

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

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

Consolidated Financial Statements as of and for the Years Ended December 31, 2019 and 2018, Supplemental Consolidating Financial Information as of and for the Years Ended December 31, 2019 and 2018, and Independent Auditors' Report

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

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

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

INDEPENDENT AUDITORS' REPORT

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, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended and the related notes to the consolidated financial statements ("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, 2019 and 2018, 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.

Emphasis of Matters

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019, due to adoption of Accounting Standards Codification (ASC) 842, Leases.

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for revenue recognition as of January 1, 2019, due to adoption of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers.

Report on Supplementary Consolidating 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 48-58 is 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 is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the Company's management and was 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 20, 2020

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

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018
(In thousands, except share amounts)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,340	$ 44,409
Accounts receivable, net	41,108	30,866
Due from affiliates	16,794	17,843
Restricted cash	25,372	20,303
Prepaid expenses and other current assets	12,286	22,498
Total current assets	102,900	135,919
PROPERTY AND EQUIPMENT, Net	28,058	48,288
RIGHT-OF-USE ASSETS, Net	12,334	-
NOTES RECEIVABLE	2,400	1,617
INTANGIBLE ASSETS, Net	159,492	168,278
GOODWILL	92,395	92,307
INVESTMENT IN EQUITY INTEREST	6,268	8,451
RESTRICTED CASH	75,071	93,367
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	3,131	2,483
DUE FROM AFFILIATES	13,092	12,516
OTHER ASSETS, Net	5,660	10,469
TOTAL ASSETS	$ 500,801	$ 573,695
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 107,793	$ 141,381
Due to affiliates	1,600	324
Current lease liabilities	5,115	-
Deferred revenue	1,907	1,998
Entrance fees	-	1,315
Self-insurance liabilities	31,309	24,161
Total current liabilities	147,724	169,179
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	65,000	65,000
SELF-INSURANCE LIABILITIES	66,805	67,338
DEFERRED INCOME TAX LIABILITIES, Net	6,403	6,078
LONG-TERM LEASE LIABILITIES	10,604	-
OTHER LONG-TERM LIABILITIES, Net	74,762	169,534
Total liabilities	371,298	477,129
EQUITY:		
Common stock, $0.01 par, 722,765 shares issued and outstanding	7	7
Additional paid-in capital	172,729	172,289
Accumulated deficit	(38,874)	(73,137)
Accumulated other comprehensive loss	(7,719)	(8,426)
Total stockholders' equity	126,143	90,733
Noncontrolling interests	3,360	5,833
Total equity	129,503	96,566
TOTAL LIABILITIES AND EQUITY	$ 500,801	$ 573,695

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, 2019 AND 2018 (In thousands)

	2019	2018
OPERATING REVENUE:		
Management fees	$ 118,939	$ 112,960
Resident fees for consolidated communities	109,672	161,918
Ancillary services	9,339	8,255
Professional fees from development, marketing and other	41,367	9,146
Sunrise Advantage plan revenue	11,501	2,542
Reimbursed costs incurred on behalf of managed communities	1,162,675	1,098,223
Total operating revenue	1,453,493	1,393,044
OPERATING EXPENSES:		
Community expense for consolidated communities	76,212	107,124
Community lease expense	27,826	37,605
Depreciation and amortization	13,810	28,424
Impairment	3,972	8,694
Ancillary expenses	9,125	8,279
Provision for doubtful accounts	477	380
General and administrative	103,653	100,969
Share-based and incentive compensation expense	38,549	29,607
Development and idle land costs	5,469	3,169
Provision for abandoned projects	608	1,430
Transaction costs	1,124	-
Loss on financial guarantees	1,157	1,239
Contract modification costs	-	2,000
Sunrise Advantage plan expense	17,668	5,932
Costs incurred on behalf of managed communities	1,173,574	1,105,186
Total operating expenses	1,473,224	1,440,038
LOSS FROM OPERATIONS	(19,731)	(46,994)
OTHER NON-OPERATING INCOME (EXPENSE):		
Interest income	2,140	1,136
Interest expense	(4,777)	(4,069)
Other expense	(972)	(3,461)
Total other non-operating expense	(3,609)	(6,394)
GAIN (LOSS) ON SALE OF REAL ESTATE	1,807	(51)
GAIN ON TERMINATION OF LEASES	57,271	-
LOSS FROM INVESTMENT IN EQUITY INTEREST	(410)	(407)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	35,328	(53,846)
PROVISION FOR INCOME TAXES	(1,356)	(2,182)
NET INCOME (LOSS)	33,972	(56,028)
LESS LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, Net of tax	291	1,053
NET INCOME (LOSS) ATTRIBUTABLE TO STOCKHOLDERS	$ 34,263	$ (54,975)

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In thousands)

	2019	2018
NET INCOME (LOSS)	$33,972	$(56,028)
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustments	691	(1,437)
Unrealized gain (loss) on investments	16	(6)
COMPREHENSIVE INCOME (LOSS)	34,679	(57,471)
LESS COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	275	1,059
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO STOCKHOLDERS	$34,954	$(56,412)

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, 2019 AND 2018 (In thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Equity Attributable to Noncontrolling Interests	Total Equity
BALANCE—January 1, 2018	$ 7	$186,559	$(18,162)	$(6,306)	$162,098	$ 5,821	$167,919
Net loss	-	-	(54,975)	-	(54,975)	(1,053)	(56,028)
Dividends to stockholders	-	(15,000)	-	-	(15,000)	-	(15,000)
Sale of asset under common control, net of tax	-	730	-	-	730	-	730
Contributions from noncontrolling interests	-	-	-	-	-	889	889
Distributions on behalf of noncontrolling interests	-	-	-	-	-	(745)	(745)
Termination of leases	-	-	-	-	-	(141)	(141)
Foreign currency translation adjustments	-	-	-	(1,437)	(1,437)	-	(1,437)
Unrealized loss on non-equity investments of noncontrolling interests	-	-	-	(6)	(6)	(5)	(11)
Cumulative impact from adopting ASU No. 2016-01 on January 1, 2018	-	-	-	(677)	(677)	1,067	390
BALANCE—December 31, 2018	7	172,289	(73,137)	(8,426)	90,733	5,833	96,566
Net income (loss)	-	-	34,263	-	34,263	(291)	33,972
Sale of asset under common control, net of tax	-	440	-	-	440	(1,517)	(1,077)
Contributions from noncontrolling interests	-	-	-	-	-	843	843
Distributions on behalf of noncontrolling interests	-	-	-	-	-	(1,508)	(1,508)
Foreign currency translation adjustments	-	-	-	691	691	-	691
Unrealized gain on non-equity investments of noncontrolling interests	-	-	-	16	16	-	16
BALANCE—December 31, 2019	$ 7	$172,729	$(38,874)	$(7,719)	$126,143	$ 3,360	$129,503

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, 2019 AND 2018 (In thousands)

	2019	2018
OPERATING ACTIVITIES:		
Net income (loss)	$ 33,972	$ (56,028)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
(Gain) loss on sale of real estate	(1,807)	51
Gain on termination of leases	(57,271)	-
Loss from investment in equity interest	410	407
Net (gain) loss on investments in marketable equity securities	(512)	225
Depreciation and amortization	13,810	28,424
Impairment	3,972	8,694
Amortization of future performance obligation	(3,769)	(4,083)
Amortization of deferred endowment	(6,381)	(13,839)
Amortization of other deferred revenue	(1,090)	(1,567)
Provision for abandoned projects	608	1,430
Provision for doubtful accounts	477	380
Lease expense in excess of payments	6,649	-
Amortization of leases, including above and below market lease intangibles	-	4,006
Interest accretion on note receivable	(153)	(123)
Amortization of loan issue costs	552	477
Deferred income taxes	125	(97)
Share-based and incentive compensation expense	38,549	29,607
Deconsolidation of controlled entities	(6,360)	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(3,593)	9,666
Due from/due to affiliate	4,574	18,854
Prepaid expenses and other current assets	8,426	(3,214)
Other assets	(56)	(89)
(Decrease) increase in:		
Accounts payable, accrued expenses and other liabilities	(17,733)	(37)
Share-based and incentive compensation liability	(65,020)	(2,626)
Self-insurance liabilities	6,615	6,404
Deferred revenue	(86)	(1,030)
Net cash (used in) provided by operating activities	(45,092)	25,892
INVESTING ACTIVITIES:		
Distribution from investment in equity interests	1,773	-
Proceeds from termination of leases	-	7,791
Sale of asset to RealCo	-	3,479
Sale of Severna Park	-	(586)
Acquisition of management contracts	-	(29)
Capital expenditures, net of reimbursed costs transferred to RealCo	(5,435)	(18,562)
Increase in notes receivable	(979)	(209)
Payments from notes receivable	354	1
Purchase of investments in marketable securities	(1,275)	(1,464)
Proceeds from the sale of investments in marketable securities	1,153	2,690
Net cash used in investing activities	(4,409)	(6,889)
FINANCING ACTIVITIES:		
Dividends to stockholders	-	(15,000)
Borrowings on credit facility	-	65,000
Repayment of credit facility	-	(65,000)
Loan issue costs paid	-	(1,651)
Contributions from non-controlling interests	842	889
Distributions on behalf of non-controlling interests	(1,503)	(744)
Lease payments—financing	(134)	-
Net cash used in financing activities	(795)	(16,506)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(50,296)	2,497
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	158,079	155,582
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	$ 107,783	$ 158,079
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION—Decrease in accrued capital expenditures	$ (218)	$ (139)

See notes to consolidated financial statements.

1. ORGANIZATION

Organization—Red Fox Holding Corporation ("Red Fox") through its wholly owned subsidiary, Sunrise Senior Living, LLC ("Sunrise LLC" or "Sunrise" and collectively with Red Fox, "we," "us," "our," 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, 2019, we operated 329 communities; 268 communities in the US, 15 communities in Canada, and 46 communities in the UK, with a total unit capacity of approximately 29,500.

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%.

Business Lines—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.

Development and Management of Communities—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. 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. We are currently developing or have entered into agreements to develop 18 communities wholly owned by RealCo or in joint ventures in which RealCo has a minority interest.

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, 2019:

	Operating Owned/ Leased	Managed			Total Operating	Development Contracts with Third Parties
	US	US	Canada	UK	All	US
Community count—December 31, 2018	7	259	15	46	327	10
Management contracts new opening [1]		3			3	(3)
Management contract terminated [2]		(1)			(1)	1
Management contract upon transfer into RealCo [3]	(1)	1			-	
Management contracts upon termination of leases [4]	(2)	2			-	
New development contracts					-	10
Community count—December 31, 2019 [5]	4	264	15	46	329	18

[1] Management contracts entered into upon opening of newly developed communities.

[2] Management contract terminated due to closure of community for redevelopment.

[3] Management contract entered into upon transfer of Carlisle community to RealCo.

[4] Management contracts entered into upon termination of existing leases.

[5] Includes three Canadian development contracts.

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 "Captive"). The Captive receives premiums and issues policies of insurance on behalf of us and each US community we operate. The 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.

Captive revenue and expense (excluding interest income and provision for income taxes) are reported net and are included in "Costs incurred on behalf of managed communities" in our consolidated statements of operations. The details of Captive revenue and expense for the years ended December 31, 2019 and 2018, are as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Revenue	$ 36,361	$ 31,218
Expense	(32,281)	(30,449)
Income	$ 4,080	$ 769

In March 2018, the Captive's board of directors recommended a discretionary, $5 million premium incentive rebate, recorded as a reduction of Captive revenue, to covered communities in the US with favorable claims experience over the last two years. The continued favorable claims experience was taken into account when setting 2019 premiums.

Sunrise Advantage Plans—On January 1, 2018, operations commenced for Sunrise Medicare Advantage and Sunrise Medicare Advantage Special Needs Plans (SAPs) doing business in the states of Illinois, Pennsylvania, New York, and Virginia. SAPs are organized in a joint venture with Sunrise's partner, AllyAlign Health (AAH), a managed care company out of Richmond, Virginia. SAPs operate as licensed Health Maintenance Organizations in their respective states.

The initial joint venture interests were 79% for Sunrise and 21% for AAH. In 2019, AAH declined to fund its portion of the required capital calls. Sunrise funded the full amount of all capital calls resulting in the revised ownership percentages of 83.3% for Sunrise and 16.7% for AAH.

In 2018, SAPs had a quota share reinsurance policy in place with GenRe, which covered 66.67% of the Part C claims of SAPs covered under the Medicare program. In 2019, we were not able to continue the reinsurance policy as the Centers of Medicare/Medicaid Services did not allow quota share reinsurance policies for Medicare Advantage Plans.

2. PRESENTATION AND 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 material 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, 2019 and 2018, in accordance with GAAP. We have adjusted certain amounts to conform with the current-year presentation.

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, entities in which we have a controlling financial interest, entities in which we own more than 50% of the voting interests, and an equity method investment.

The determination of a controlling financial interest is based upon the terms of the governing agreements of the respective entities, including the evaluation of rights held by other ownership interests. If the entity is considered to be a variable interest entity (VIE), we determine whether we are the primary beneficiary, and then consolidate those VIEs for which we have determined we are the primary beneficiary. If the entity in which we hold an interest does not meet the definition of a VIE, we evaluate whether we have a controlling financial interest through our voting rights in the entity. We consolidate entities when we own more than 50% of the voting interests of a company or otherwise have a controlling financial interest.

Use of Estimates—Management is required to make estimates and assumptions in the preparation of consolidated 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 collectibility, 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. See Note 18 Related Party footnote.

Restricted Cash—The details of our restricted cash, as of December 31, 2019 and 2018, are as follows (in millions):

	December 31,	
	2019	**2018**
Self-insurance restricted cash	$ 90.8	$ 98.4
Sunrise Advantage Plans cash	6.0	5.4
Cash held by controlled entities	0.5	3.6
Other restricted cash	3.1	6.3
	$100.4	$113.7

Restricted cash held by the Captive was $90.8 million and $98.4 million at December 31, 2019 and 2018, respectively. As of December 31, 2019, $83.9 million was invested in certificates of deposit maturing in 2020. It is our intent to reinvest the funds upon maturity in a similar manner. Of the total restricted cash held by the Captive, $80.7 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 Captive are used to reduce future costs and pay the liabilities of the 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.

Leases—We determine if a contract is or contains a lease at the inception of the contract, and we classify that lease as a finance lease if it meets certain criteria or as on operating lease when it does not. We reassess if a contract is or contains a leasing arrangement upon modification of the contract. For a contract, in which we are a lessee, that contains fixed payments for both lease and non-lease components, we have elected to account for the components as a single lease component, as permitted.

We lease land, buildings, office space, and certain equipment. At commencement of the lease, we recognize a lease liability for future fixed lease payments and a right-of-use (ROU) asset representing our right to use the underlying asset during the lease term. The lease liability is initially measured as the present value of the future fixed lease payments that will be made over the lease term. Renewal options that we are reasonably certain to exercise are included in the lease term. As most of our leases do not provide a rate implicit in the lease agreement, we use our incremental borrowing rate available at lease commencement to determine the present value of the lease payments. Upon adoption of Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* ("ASC 842"), for leases that commenced prior to January 1, 2019, we used the incremental borrowing rate on December 31, 2018. We also made an accounting policy election to keep short-term leases less than 12 months off the consolidated balance sheet for all classes of underlying assets.

The ROU asset is measured at the amount of the lease liability with adjustments, if applicable, for deferred rent and lease incentives. Upon adoption of ASC 842, we adjusted the ROU asset for existing straight-line lease liabilities and existing above- and below-market lease intangibles. We evaluate the carrying value of ROU assets if there are indicators of impairment and review the recoverability of the related asset group. If the carrying value of the asset group is determined to not be recoverable and is in excess of the estimated fair value, we record an impairment charge. Upon adoption of ASC 842, we recognized a previously unrecognized impairment charge of $1.4 million associated with one ROU asset and recorded an additional impairment charge of $0.5 million during the year ended December 31, 2019. This lease expires in 2023. See Note 12.

Our operating leases require fixed lease payments, or minimum payments, as contractually stated in the lease agreement and variable lease payments, which, for our leased communities that were terminated in December 2019, were based on the underlying asset's net operating income. For operating leases, lease expense related to fixed payments is recognized on a straight-line basis over the lease term, and lease expense related to variable payments is expensed as incurred. For finance leases, the amortization of the asset is recognized over the shorter of the lease term or useful life of the underlying asset.

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. In 2018, we recognized an impairment loss of approximately $1.6 million related to a leased community as the carrying amount of leasehold improvement assets at this community exceeded their fair value. This lease expires in 2023.

Reserve for Abandoned Projects—We provide a reserve for costs related to our pipeline of development projects that may ultimately need to be abandoned primarily due to unsuccessful entitlement efforts. The reserve balance was $1.1 million and $1.6 million at December 31, 2019 and 2018, respectively, and is recorded in "Property and equipment, net" in our consolidated balance sheets.

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 preacquisition 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 year 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. In 2019, we recognized an impairment loss of $2.1 million related to management contract intangible assets associated with six communities. The owner of these communities plans to sell or transition these underperforming communities to a new owner and/or operator during 2020 as part of an overall portfolio restructuring. In 2018, we recognized an impairment loss of approximately $1.3 million related to a leased community as the carrying amount of leasehold intangible assets associated with this community exceeded their fair value. This lease expires in 2023.

We determined our company trade name, Sunrise Senior Living, and one of our UK management companies, Gracewell Healthcare Limited's ("Gracewell") 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 2019, 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, 2019. We concluded, based on a qualitative analysis, that our Gracewell trade name is not impaired as of December 31, 2019.

Goodwill—Goodwill of $90.1 million relates to the closing of the unit purchase and merger agreement on April 21, 2014, and $2.3 million relates to 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 sheets 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 2019, 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 quantitative impairment test. The quantitative goodwill impairment test, which is used to identify both the existence of impairment and the amount of impairment loss, compares the estimated fair value of a reporting unit with its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. 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, 2019. We also concluded, based on a qualitative assessment, that our Gracewell reporting unit is not impaired as of December 31, 2019.

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 comprehensive income (loss). 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 2019 or 2018.

We have an investment in equity interest of $6.3 million representing an approximate 9% interest in Spectrum Equity LLC ("Spectrum"), a company that provides rehabilitative therapy management and consulting services.

In April 2019, we received a $1.8 million distribution from our investment in Spectrum. Our investment in Spectrum is recorded net of $2.2 million of accumulated losses.

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 our 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. In 2018, we entered into a new line-of-credit facility with a greater borrowing capacity than the old line of credit and paid $1.7 million in financing costs (see Note 14). We treated this as a debt modification, and accordingly, the remaining unamortized deferred costs relating to the old line-of-credit facility were deferred and will be amortized over the term of the new line-of-credit facility. Unamortized debt issuance costs related to our line-of-credit were $0.9 million and $1.4 million at December 31, 2019 and 2018, respectively.

Loss Reserves for Captive Programs—Through our Captive, we offer a variety of insurance programs to the communities we operate. These programs include general and professional liability insurance, automobile liability insurance 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 self-insured and large deductible insurance programs in order to contain costs for certain of the lines of insurance risks in the Insurance Program. The design and purpose of the insurance program is to reduce overall premium and claim costs by internally managing the claims to attain more predictable expenses from year to year, while buying insurance only for higher-cost, less predictable, or more severe claims.

We record outstanding losses and expenses for all the Captive 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 the Captive layer was approximately $94.1 million and $90.6 million at December 31, 2019 and 2018, respectively, based on an actuarial valuation.

We believe that the allowance for outstanding losses and expenses is appropriate to cover the ultimate cost of losses incurred at December 31, 2019, 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.

Loss Reserves for Sunrise Advantage Plans—We record medical liabilities for reported claims not yet paid as well as claims incurred but not yet reported (IBNR) based on management's best estimate after considering all available information and actuarial analyses. The IBNR reserve was $3.9 million and $0.7 million at December 31, 2019 and 2018, respectively, based on an actuarial valuation. This amount is recorded in "Self-insurance liabilities, current" in our consolidated balance sheets. We believe that the liability for loss reserves 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.

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 IBNR. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. The recorded liability for these claims was $6.8 million and $6.2 million at December 31, 2019 and 2018, respectively, and is included in "Accounts payable and accrued expenses" in our consolidated balance sheets. 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—As of December 31, 2019, we no longer have a financial obligation under continuing care agreements or future performance obligations as a result of the lease terminations and deconsolidation (as described in Note 3). Prior to the December 2019 lease terminations and deconsolidation, we had leased two communities under operating leases that provided 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 had signed a continuing care agreement with us which stipulated, 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 nonhealth care services. The care agreement would terminate upon the receipt of a written termination notice from the resident or the death of the resident. Refundable entrance fees would be returned to the resident or the resident's estate depending on the form of the agreement either upon reoccupancy or termination of the care agreement.

Refundable entrance fees were primarily noninterest bearing and, depending on the type of plan, ranged from 50% to 95% of the total entrance fee, less any additional occupant entrance fees. As these obligations were considered security deposits, interest was not imputed on these obligations. Current and long-term refundable entrance fees were $1.3 million and $4.9 million, respectively, at December 31, 2018. Long-term refundable entrance fees were included in "Other long-term liabilities, net" in our 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, 2018. In conjunction with a prior acquisition, we had also assumed the entrance fee liability for the two leased communities. The lessor of the communities agreed to indemnify us for the liability. Therefore, we had a receivable from the lessor of $6.2 million at December 31, 2018, which was equal to the amount of the entrance fee liability for these two communities. The current portion of the receivable was recorded in "Accounts receivable, net" and the long-term portion was recorded in "Other assets, net" in our consolidated balance sheet at December 31, 2018. As these obligations were discharged during the normal course of business, the associated receivable was relieved as we were reimbursed from the lessor. Refundable entrance fees subject to repayment upon contract termination and not contingent upon reoccupancy of the unit were $2.9 million or 47.2% at December 31, 2018.

Nonrefundable portions of entrance fees were 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 under care agreements exceeds the present value of estimated revenues, the present value of such excess costs would be accrued. The calculation was performed annually and assumed an increase in the monthly revenue commensurate with the monthly costs. The calculation, which used a 5% discount rate, resulted in an expected positive net present value cash flow, and as such, no liability was recorded as of December 31, 2018.

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. Prior to December 2019 lease terminations and deconsolidation, the liability was being amortized over the estimated expected remaining lives of the residents. The amortization income is recorded in "Resident fees from consolidated communities." We recorded amortization income of $3.8 million and $4.1 million for the years ended

December 31, 2019 and 2018, respectively. The future performance obligation balance was $0 million and $16.0 million at December 31, 2019 and 2018, respectively.

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. To the extent that we incur tax expense related to "global intangible low-taxed income" (GILTI), we will account for GILTI in the year the tax is incurred. 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 $19.6 million and $18.6 million as of December 31, 2019 and 2018, 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. We have performance obligations to provide management services for those communities. As compensation for such services, we are generally entitled to receive base fees, which are a percentage of a managed community's total operating revenues, and incentive fees, which are generally based on a measure of a community's profitability. Both the base and incentive management fees are variable consideration, as the transaction price is based on a percentage of revenue or profit, as defined in each contract. We recognize revenue for community management services in accordance with the provisions of ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*, ("ASC 606"). Although there are

various management and operational activities performed by us under the contracts, we have determined that all community operations management activities are a single performance obligation, which is satisfied over time as the services are rendered. We estimate the amount of incentive fee revenue expected to be earned, if any, during the annual contract period and revenue is recognized as services are provided. Our estimate of the transaction price for management services also includes the amount of reimbursement due from the owners of the communities for services provided and related costs incurred. Such revenue is included in "reimbursed costs incurred on behalf of managed communities" in the consolidated statements of operations. The related costs are included in "costs incurred on behalf of managed communities" in the consolidated statements of operations.

"Resident fees from consolidated communities" are composed of fees from residents. Revenue from resident fees and services is predominantly service based We recognize revenue for resident care services in accordance with the provisions of ASC 606. Although there are various tasks and activities performed by us under the contracts, we have determined that all resident care services are a single performance obligation, which is satisfied over time as the services are rendered. Agreements with residents are generally for a term of one year and are cancelable by the resident with 30 days' notice. Approximately 11% and 12% of our resident fees from our consolidated communities for the years ended December 31, 2019 and 2018, respectively, were derived from governmental reimbursement programs. Revenue from these programs is 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 revenue 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. We recognize revenue for ancillary services in accordance with the provisions of ASC 606. Each service provided is a separate performance obligation and fees are recognized when the service is provided.

"Professional fees from development, marketing, and other" are composed of development fees and preopening service fees for communities being developed on behalf of third parties and fees received for renovation projects. The goods and services provided under the development agreements are not distinct as we provide a significant service of integrating the goods and services into a senior housing facility. Therefore, we account for all of the goods and services in a development agreement as a single performance obligation. Development fees are recognized on the basis of completion over the construction period, which is generally 12 to 18 months, because our performance creates or enhances an asset that the customer controls as the asset is created or enhanced. We measure our progress toward the complete satisfaction of the performance obligation(s) using an input (i.e., "cost to cost") method. Preopening service fees are recognized over the term of the preopening period, which is generally six to 10 months. Fees for renovation projects are recognized at various stages of the project when earned.

"Medicare Advantage revenue" consists of premium payments from governmental reimbursement programs. The premium revenue recorded is based on plan membership as reported by the governmental reimbursement programs. Plan enrollments are submitted to the governmental reimbursement programs throughout the month, but are only included in the reimbursements up to a particular cutoff date each month. Revenues are accrued based on the date of each enrollee's coverage period. Premium revenue is reported net of contractual adjustments. The adjustments are recorded in the period in which they are

reported by the governmental reimbursement programs. Premium revenue is also reported net of reinsurance fees.

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

	Year Ended December 31,	
	2019	2018
Welltower	44 %	42 %
Ventas, Inc. ("Ventas")	24	25
Healthpeak Properties, Inc. (f/k/a Healthcare Property Investors, Inc.)	17	17
All others	15	16

Share-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 remeasured 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 over the requisite service period. For the years ended December 31, 2019 and 2018, we recorded compensation expense related to the phantom equity plan of $11.6 million and $12.0 million, respectively, and compensation expense related to the warrants of $2.7 million and $1.4 million, respectively. These amounts are included in "Share-based and incentive compensation expense" in our consolidated statements of operations (see Note 16).

Development Incentive Plan—The liability for cash-based compensation awards was $23.8 million and $52.9 million as of December 31, 2019 and 2018, respectively and is measured based on the award's fair value and the fair value is remeasured 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. For the years ended December 31, 2019 and 2018, we recorded compensation expense related to the development incentive plan of $24.3 million and $16.3 million, respectively. These amounts are included in "Share-based and incentive compensation expense" in our consolidated statements 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 our 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 sheets date. These unrealized 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, 2019 and 2018, was $0.5 million and $1.0 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 (see Note 17).

New Accounting Standards—The following ASUs were issued in 2019:

ASU No. 2019-12, *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*, (ASC 740) simplifies the accounting for income taxes by (i) removing certain exceptions to the general principles of ASC 740 and (ii) clarifying and amending existing guidance to improve consistent application of ASC 740. ASU No. 2019-12 is effective for non-public business entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. We are in the process of assessing the impact that ASU No. 2019-12 will have on our consolidated financial position, results of operations, cash flows, and disclosures.

ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, defers the effective date of the major updates listed above and simplifies how effective dates for future updates will be staggered between larger public companies ("bucket one") and all other entities ("bucket two"), including private companies, smaller public companies, and not-for-profit organizations. The effective date for bucket two entities would be staggered at least two years after bucket one for major updates. Early adoption would continue to be allowed for all entities. We adopted ASC 842 for the year ended December 31, 2019. We will assess our adoption of the other two major updates based on the new effective dates.

The following ASUs were adopted in 2019:

We adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and requires entities to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. Subsequent to ASU No. 2014-09, the Financial Accounting Standards Board (FASB) issued several related ASUs to clarify the application of the new revenue recognition standard, collectively ASU No. 2014-09. We adopted ASU No. 2014-09 on January 1, 2019, using the modified retrospective method. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to

beginning retained earnings. We have determined that the adoption of ASU 2014-09 did not result in an adjustment to retained earnings as of January 1, 2019.

We evaluated our various revenue streams to identify whether they would be subject to the provisions of ASC 606 and any differences in timing, measurement, or presentation of revenue recognition. A significant source of our revenue is generated from management contracts to provide resident care services, asset and property management, marketing, and other services on a monthly basis. In addition, for our consolidated communities, we recognize resident fees and services monthly, as services are provided. We also earn fees under development contracts that are recognized over time as the work is completed. Under ASC 606, the pattern and timing of recognition of income from these contracts is consistent with the prior accounting model. The adoption of ASC 606 did not materially impact our consolidated financial statements.

We adopted ASU No. 2016-02, *Leases (Topic 842)* (ASC 842), which supersedes the existing guidance on accounting for leases in ASC Topic 840, *Leases* (ASC 840), and generally requires all leases, including operating leases, to be recognized in the balance sheet of lessees as ROU assets and lease liabilities.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which (1) simplifies transition requirements for both lessees and lessors by adding an option that permits entities to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and (2) allows lessors to elect, as a practical expedient, to not separate lease and nonlease components in a contract, and instead to account for the contract as a single lease component, if certain criteria are met. This practical expedient causes an entity to assess whether a contract is predominantly lease or service-based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASC 842 and predominantly service-based would be accounted for under ASC 606). For the year ended December 31, 2018, for our consolidated communities we recognized revenue from our resident agreements in accordance with the provisions of the prior lease guidance, ASC 840. Upon adoption of ASC 842, we elected the lessor practical expedient described above and recognized revenue from our resident agreements based upon the predominant component, the non-lease service component. Therefore, beginning on January 1, 2019, we accounted for these resident agreements under ASC 606. The timing and pattern of revenue recognition is substantially the same as that prior to adoption.

As described above, we adopted ASU No. 2016-02 on January 1, 2019, utilizing the transition method included in ASC 2018-11 and applying the package of practical expedients permitted under the transition guidance within the new standard, which among other things, permits us to carry forward our prior conclusions for lease classification and initial direct costs on existing leases. By applying ASU No. 2016-02 at the adoption date, as opposed to at the beginning of the earliest period presented, the presentation of financial information for periods prior to January 1, 2019 remain unchanged and in accordance with *Leases (ASC 840)*. There was no impact to retained earnings as of January 1, 2019 of applying the above transition method. We also made an accounting policy election to keep short-term leases less than twelve months off the balance sheet for all classes of underlying assets.

For leases in which the Company is the lessee, primarily consisting of ground and building leases and various office and equipment leases, we recognized upon adoption right of use assets of $195.0 million, which included the present value of minimum lease payments, existing above- and/or below-market lease intangible values, and existing straight-line rent

liabilities associated with such leases. We recognized a previously unrecognized impairment charge of $1.4 million associated with one right of use asset. We also recognized operating lease liabilities of $199.8 million. Included in initial right of use assets and lease liabilities was $178.2 million and $178.5 million, respectively, related to two operating leases, which were terminated in December 2019 (as described in Note 3).

ASU No. 2016-18, *Restricted Cash (Topic 230)*, requires that a statement of cash flows reconcile and explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We adopted ASU No. 2016-18 in 2019 on a retrospective basis and, accordingly, certain line items in the consolidated statements of cash flows have been reclassified to conform to the current presentation.

The following table summarizes the change in 2018 cash flows as reported and as previously reported prior to the adoption of these standards (in thousands):

	Year Ended December 31,	
	2018 As Reported	**2018 As Previously Reported**
Net cash provided by operating activities	$ 25,892	$ 15,898
Net cash used in investing activities	(6,889)	(2,489)
Net cash used in financing activities	(16,506)	(16,651)
Net increase (decrease) in cash, cash equivalents, and restricted cash	2,497	(3,242)
Cash, cash equivalents, and restricted cash at beginning of period	155,582	47,651
Cash, cash equivalents, and restricted cash at end of period	$158,079	$ 44,409

The following ASUs were adopted in 2018:

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*, addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments with the objective of enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU No. 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Prior to the issuance of ASU No. 2016-01, these unrealized holding gains and losses were recognized in other comprehensive income. It does not change the guidance for classifying and measuring investments in debt securities or loans. ASU No. 2016-01 was effective for us on January 1, 2018. At adoption, we recorded a cumulative-effect adjustment, net of taxes, to our consolidated balance sheet of approximately $0.7 million related to the marketable equity securities of a consolidated entity in which we have control, but no ownership interest.

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 adopted this ASU for our annual impairment test for the year ended December 31, 2018, and the adoption had no impact on our consolidated financial position, results of operation, cash flows, and disclosures.

3. TERMINATION OF LEASES AND DECONSOLIDATION

On December 18, 2019, Healthpeak agreed to terminate the existing leases for two properties leased by Sunrise Continuing Care, LLC (SCC), a wholly owned subsidiary of Sunrise, and convert the ownership of the properties into a RIDEA structure. We recorded a gain on lease termination of approximately $11.8 million resulting primarily from the derecognition of the ASC 842 ROU asset and lease liability on our consolidated balance sheet associated with the leases.

Regulatory approval for new licenses for the new owners, wholly owned subsidiaries of Healthpeak, to operate the properties can take several months. Thus, simultaneously with the termination of the leases, interim sublease and management agreements were executed to provide for the continued operation of the properties by SCC under SCC's existing licenses until the receipt of the new licenses by the new owners.

Under the terms of the interim sublease, SCC will pay the new owners any positive net operating income generated from the operation of the properties, including all entrance fees received from residents during the sublease term. In addition, the new owners will pay for all expenses and indemnify SCC from and against all losses arising from the ownership, management or operation of the properties during the sublease term.

Based on the terms of the interim sublease agreement, we determined that SCC is a VIE because we, as the holders of the equity investment at risk in SCC, lack the characteristics of a controlling financial interest and we deemed Healthpeak to be the primary beneficiary of SCC. As the primary beneficiary of SCC, Healthpeak (i.e., the new owners) is required to consolidate SCC in its financial statements. Therefore, we are no longer required to consolidate SCC in our consolidated financial statements as of December 18, 2019.

The following table presents information related to the major classes of assets and liabilities that were removed from the consolidated balance sheet due to the deconsolidation of SCC as of December 18, 2019 (in thousands):

	December 18, 2019
ROU asset, net	$ 159,627
Lease liability	171,403
Gain on lease termination	$ 11,776
Assets:	
Accounts receivable, net [1]	$ (2,224)
Prepaid expenses and other current assets	1,321
Property and equipment, net [1]	17,575
Restricted cash [1]	3,769
Other assets, net	4,974
Total assets	$ 25,415
Liabilities:	
Accounts payable and accrued expenses	$ 6,618
Entrance fees	654
Deferred revenue from nonrefundable entrance fees, net and liability for future performance obligation	58,370
Other long-term liabilities, net	5,268
Total liabilities	$ 70,910
Gain on deconsolidation	$ 45,495
Total gain on lease termination and deconsolidation	$ 57,271

[1] Restricted cash and unreimbursed capital expenditures were removed upon deconsolidation and a receivable for these items was recorded.

Following the receipt of the new licenses by the owners, the interim agreements will be terminated and new management agreements with us will be effective for each of the properties. The agreements have an initial term through December 2, 2033 with an option to extend for an additional five years.

4. AMENDMENT OF MANAGEMENT CONTRACTS

In February 2019, Sunrise made a Portfolio Performance Cure ("Cure") payment of $2.1 million to the owner of a portfolio of communities that we manage under long-term management agreements. The portfolio of communities did not meet specified performance thresholds during 2018 as defined in the management agreement. This provided the owner with, in their sole discretion and option, a Portfolio Performance Termination Right, to terminate the management agreements for the portfolio. By making the Cure payment, the owner was prevented from exercising its termination right. The liability for the Cure payment was recorded in "Accounts payable and accrued expenses" in our consolidated balance sheet as of December 31, 2018.

On March 31, 2019, we entered into an amendment to the above management agreements. The amendment provides for a sliding reduction in base management fees based on community performance thresholds, temporarily reduces the amount of central administrative services charged to the communities, maintains the existing term of the contracts with reduced termination risk and provides us with incentives for future outperformance.

5. SALE OF REALCO ASSETS

On May 1, 2019, Revera and a member of Sunrise LLC's senior management sold their interests in five operating communities to Welltower, which completed the sale of the first Portfolio Bonus Pool of the Sunrise Development Plan ("Pool 1") with the three other operating communities sold to Welltower in September 2017. Following the sale of the interests, these communities became wholly owned by Welltower. In conjunction with the sale transaction, Sunrise earns a developer incentive fee upon the earlier of 1) the sale of a community or 2) five years from the opening of a community. The developer incentive fee is equal to 20% of the excess of the Facility Equity Value over the Hurdle Value for each community, as those terms are defined in the development agreements. Based on the agreed-upon excess value for these five communities, Sunrise received approximately $24.0 million in developer incentive fees in May 2019 and also recognized $1.8 million of deferred development fees related to these five communities as of the date of the transaction. These amounts are reflected in "Professional fees from development, marketing, and other" and "Gain on sale of real estate," respectively, in our consolidated statements of operations.

The sale of the five communities ended the performance period for Pool 1. The May 1, 2019 Purchase Agreement included an indemnification clause covering the representations and warranties, indemnities, covenants, and agreements in the Purchase Agreement for a period of 12 months after closing with a defined maximum indemnification amount. We reflected the maximum indemnification amount in the calculation of the Pool 1 value and held back $2.3 million from the Pool 1 payout. In June 2019, Sunrise paid the participants approximately $52.6 million, their pro rata share of the calculated value, less the hold back. As of December 31, 2018, Sunrise had recorded a liability of $46.4 million for Pool 1 and the remaining balance was expensed during the first six months of 2019. The hold back liability is included in "Accounts payable and accrued expenses" in our consolidated balance sheets.

There is a potential for Welltower to pay an additional purchase price based on the performance of the five communities. The calculation will be based on the Net Operating Income (as defined in the Pooling Agreement) generated by the five communities in the third twelve full calendar months following closing. Sunrise would be entitled to an

additional developer incentive fee based on the additional purchase price, if any. In addition, Sunrise would be obligated to pay an additional amount for Pool 1 under the Development Plan. The amount of developer incentive fees to be received based on the Additional Purchase Price is dependent on the market and thus, is highly susceptible to factors outside of Sunrise's influence. In addition, the uncertainty about the amount of consideration is not expected to be resolved for a long period of time (i.e., 36 months). Therefore, at this time, Sunrise cannot estimate an amount it would receive whereby it is probable that a significant reversal in the amount of revenue recognized would not occur. Thus, $0 in revenue relating to the amount of developer incentive fees to be received based on the Additional Purchase Price will be recognized at this time. Similarly, Sunrise has not recognized any liability for additional payments for Pool 1 under the Development Plan as of December 31, 2019.

On May 1, 2019, we entered into new management agreements with Welltower for the five communities. There is a clawback provision in the management agreements whereby we agree to reimburse Welltower up to a maximum of the management fees paid to us for the communities during the first two years after the Closing Date if certain income thresholds are not met. As of December 31, 2019, we have recorded a $1.3 million reduction in management fees related to the clawback provision.

6. TERMINATION OF LEASES AND SALE OF ASSETS TO WELLTOWER

In 2018, Welltower closed on the acquisition of the remaining properties leased by us and guaranteed by Marriott and terminated all the leases. We recorded an impairment loss of $5.8 million during 2018 related to the net assets held for sale at December 31, 2017. Welltower paid us $9.6 million representing the aggregate termination fee of $10 million less agreed-upon adjustments. Concurrently, we entered into new 25-year management agreements for each of the properties.

In accordance with the revised amortization period for the leased properties, we recognized approximately $13.2 million of amortization expense related to the in-place lease intangible assets and $6.4 million of amortization expense (recorded as lease expense) related to the below-market lease intangible assets during the year ended December 31, 2018 (see Note 13).

Included in resident fees for consolidated communities in 2018 was $8.4 million of revenue from nonrefundable entrance fees recognized upon the acquisition of the communities by Welltower, as we were relieved from the obligation to provide any further services covered by the entrance fee liabilities, and $0.3 million for acceleration of unamortized community fees at the acquisition date.

Included in other income (expense) in 2018 was $1 million for the payment of an early termination fee to Marriott for the early release of Marriott's guarantee obligations relating to these leases and a $0.5 million loss on deconsolidation of an entity associated with one of the communities purchased by Welltower that was previously consolidated by us due to control, which transferred to Welltower upon their acquisition.

7. 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 83.3% ownership interest. The following table details the restricted investments in marketable securities measured at fair value as of December 31, 2019 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted investments in marketable securities	$3,131	$3,131	$ -	$ -

	Fair Value Measurements at Reporting Date Using			
	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted investments in marketable securities	$2,483	$2,033	$ 450	$ -

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.

8. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	December 31,	
	2019	**2018**
Accounts receivable:		
Resident receivables	$ 1,956	$ 6,537
Receivables from managed communities	17,297	12,500
Receivable from The Carlisle		6,717
Receivable related to terminated leases	6,481	-
Income taxes receivable	4,824	-
Subordinated management fees	3,331	-
Other receivables	7,467	5,640
Total accounts receivable	41,356	31,394
Allowance for doubtful accounts	(248)	(528)
Total accounts receivable, net	$41,108	$30,866

Receivables from Managed Communities—Amounts due include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days. The communities are required to fund the biweekly payroll in advance of the pay date to ensure funding is available.

Receivable from The Carlisle—In October 2019, RealCo purchased substantially all of the condominium units at The Carlisle, a licensed residential care facility in San Francisco managed by us. In connection with the transaction, pursuant to a Confidential Full and Final Release and Settlement Agreement between the Homeowners' Association of The Carlisle (HOA) and us, the HOA agreed to a full mutual general release of all pending litigation claims against us (see Note 17) contingent upon meeting certain conditions including the purchase of the condominium units by Sunrise or a Sunrise-affiliated entity by October 31, 2019, and certain other conditions thereafter. As of December 31, 2019, the conditions have been fully satisfied and the litigation has been dismissed.

In addition, upon its acquisition of the condominium units, RealCo agreed to pay us for the repairs we had performed to replace The Carlisle's exterior building cladding. At Closing, we collected approximately $14.3 million from RealCo to reimburse the costs we had incurred and recorded in "Accounts receivable, net."

Receivables Related to Terminated Leases—In 2020, we will be reimbursed for capital expenditures paid on behalf of the two previously leased communities (see Note 3). We will also be reimbursed for amounts held in an account for regulatory reserves under state insurance requirements.

Subordinated Management Fees—On September 25, 2019, the owner of 11 of our communities refinanced the debt on the communities, restructured the ownership of the communities into one joint asset pool, and entered into a new 20-year management agreement with us. The agreement removes the subordination of certain management fees under the existing management agreements and provides us with reduced termination risk and incentives for future outperformance. In addition, the owner agreed to pay us approximately $5.8 million in subordinated management fees previously earned, but not paid and deemed uncollectible by us. The fees will be paid (i) upon the sale or refinance of the communities or (ii) from available operating funds at a rate of $0.5 million annually until such time as the entire amount due has been paid in full. We concluded that the management fees previously earned are now collectible and the criteria for a contract under ASC Topic 606 are met. Therefore, we recognized the previously earned revenue on a cumulative catch-up basis, adjusted for the effects of the time value of money using an imputed interest rate of 10.5%, resulting in a value of $3.2 million, as of the contract establishment date, September 25, 2019. This amount is reflected in "Management fees" in our consolidated statement of operations. In addition, we recognized $0.1 million of interest income relating to the subordinated management fees during the year ended December 31, 2019.

9. ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

Balance at December 31, 2017	$1,142
Provision for doubtful accounts	380
Write-offs	(994)
Balance at December 31, 2018	528
Provision for doubtful accounts	477
Write-offs	(370)
Deconsolidation	(387)
Balance at December 31, 2019	$ 248

10. 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.

Between 2016 and 2019, we have accepted notes receivable from our CEO related to transactions with RealCo (see Note 1) for his share of the purchase price. These notes bear interest at the London Interbank Offered Rate (LIBOR) at note inception, plus 4% and are due to mature between December 2023 and December 2026. We received principal and interest payments of $0.8 million for the year ended December 31, 2019. These notes had a carrying value of $1.5 million and $0.8 million at December 31, 2019 and 2018, respectively.

We have a note receivable from Greystone Partners II, LP related to the sale of certain subsidiary 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 $0.9 million and $0.8 million at December 31, 2019 and 2018, respectively.

11. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	Asset Lives	December 31, 2019	December 31, 2018
Land and land improvements	15 years	$ 8,729	$ 8,870
Building and building improvements	5–40 years	3,248	30,528
Furniture and equipment	3–10 years	18,727	20,734
Construction in progress		11,750	17,029
Total property and equipment		42,454	77,161
Less accumulated depreciation		(14,396)	(28,873)
Property and equipment—net		$ 28,058	$48,288

We recognized $5.9 million and $6.8 million of depreciation expense for the years ended December 31, 2019 and 2018, respectively.

We wrote off capitalized costs of $0.6 million and $1.4 million for the years ended December 31, 2019 and 2018, 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.

12. LEASES

We lease land, buildings, office space and certain equipment. Some of our leases include a renewal option to extend the term, ranging from five to 10 years.

The components of lease expense were as follows (in thousands):

	Classification	Year Ended December 31, 2019
Operating lease cost:		
Real estate lease expense	Community lease expense	$27,473
Office lease expense	General and administrative expense	2,265
Office lease expense	Ancillary expense	86
Finance lease cost:		
Amortization of leased assets	Depreciation and amortization	509
Interest on lease liabilities	Interest expense	23
Total		$30,356

Lease expense for operating leases for the year ended December 31, 2019 and 2018, included $21.5 million and $38.1 million of fixed lease payments, respectively, and

$0.3 million and $1.8 million of variable lease expense, respectively. Fixed lease payments included $2.3 million of office lease expense, in 2019 and 2018, which is included in general and administrative expense.

Maturities of lease liabilities as of December 31, 2019, are as follows (in thousands):

Years Ending December 31	**Operating Leases**	**Finance Leases**
2020	$ 6,110	$ 45
2021	6,169	25
2022	3,704	21
2023	1,035	13
2024		8
Thereafter		
Total lease payments	17,018	112
Less imputed interest	(1,400)	(11)
Total present value of lease liabilities	$15,618	$101

Supplemental balance sheet information related to leases was as follows (in thousands, except lease terms and discount rate):

	December 31, 2019
Right-of-use assets:	
Operating leases	$ 12,241
Finance leases	93
Total right-of-use assets, net	12,334
Lease liabilities:	
Operating leases	15,618
Finance leases	101
Total lease liabilities	15,719
Weighted-average remaining lease term (years):	
Operating leases	2.8
Finance leases	3.3
Weighted-average discount rate:	
Operating leases	6.26 %
Finance leases	6.31

Supplemental cash flow information related to leases was as follows (in thousands):

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 21,803
Financing cash flows from finance leases	134

13. INTANGIBLE ASSETS AND LIABILITIES

Intangible assets consist of the following (in thousands):

	Estimated Useful Lives	December 31, 2019	December 31, 2018
Management contracts, less accumulated amortization of $40,791 and $34,009 as of December 31, 2019 and 2018, respectively	1–29 years	$ 107,749	$ 116,138
Leaseholds, less accumulated amortization of $3,662 and $3,286 as of December 31, 2019 and 2018, respectively	3–4 years	846	1,222
Below-market lease intangible, less accumulated amortization of $0 and $45 as of December 31, 2019 and 2018, respectively [1]	0 years		44
Trademark	Indefinite	50,897	50,874
		$ 159,492	$ 168,278

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

	Estimated Useful Lives	December 31, 2019	December 31, 2018
Above-market lease liability, less accumulated amortization of $0 and $2,121 as of December 31, 2019 and 2018, respectively [1]	0 years	$ -	$ 1,709

[1] Effective on January 1, 2019, with the adoption of ASC 842, above- and below-market lease intangibles are reported within the right of use assets, net line on the consolidated balance sheets.

We recognized $7.3 million and $21.4 million of amortization expense related to our acquired management contracts and leaseholds for the years ended December 31, 2019 and 2018, respectively (see Note 6). We recorded an impairment charge of $2.1 million related to management contract intangible assets associated with six communities. The owner of these communities plans to sell or transition these underperforming communities

to a new operator during 2020 as part of an overall portfolio restructuring. We recognized $5.4 million of net amortization expense (and recorded as lease expense) related to our below-market lease asset and above-market lease liabilities for the year ended December 31, 2018 (see Note 6).

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

	Management Contracts Amortization	Leaseholds Amortization
2020	$ 4,543	$ 376
2021	6,605	376
2022	6,605	94
2023	6,605	
2024	6,605	
Thereafter	76,786	
	$ 107,749	$ 846

14. BANK CREDIT FACILITY

On July 31, 2018, we entered into a $150 million revolving credit facility with Bank of America (BoA), which includes a sublimit of $25 million for letters of credit. This credit facility replaced the $100 million revolving credit facility with BoA entered into in 2015. The credit facility has an initial term of three years and has a one-year extension option subject to a 25-basis-point extension fee. The credit facility has an initial interest rate, at our option, of LIBOR, plus 3.5% or prime rate, plus 2%. The unused fee is 35 basis points if usage is less than 50% and 30 basis points if usage is greater than or equal to 50%. Interest-only payments are due monthly with all principal due at maturity and the credit facility may 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 3.75x.
- Maximum net senior debt (excluding any project financing) to adjusted earnings before interest, taxes, depreciation, and amortization ("Senior Leverage Ratio") of 3.00x.
- Minimum fixed charge coverage ratio of total adjusted earnings before interest, taxes, depreciation, amortization, and rent expense to fixed charges of not less than 2.50x.
- Distributions are unrestricted while the Senior Leverage Ratio is less than or equal to 2.25x or restricted to 50% of excess cash after fixed charges and investments while the Senior Leverage Ratio is above 2.25x, with liquidity of at least $20 million.

At December 31, 2019, we had $65 million drawn on the revolving credit facility and we had utilized $3.2 million of the letter of credit availability, leaving us with undrawn capacity under the revolving credit facility of $24.4 million. We were in compliance with all financial covenants at December 31, 2019.

We paid $4.1 million and $3.4 million in interest on the credit facilities for the years ended December 31, 2019 and 2018, respectively. We capitalized $0 of interest for the years ended December 31, 2019 and 2018.

In 2018, we paid $1.7 million of finance costs related to the credit facility with the unamortized balance of $0.9 million and $1.4 million included in other assets, net as of December 31, 2019 and 2018, respectively.

15. INCOME TAXES

The provision for income taxes related to continuing operations was $1.4 million and $2.2 million for the years ended December 31, 2019 and 2018, respectively. The provision for income taxes related to minority interest was $0.3 million and $0 for the years ended December 31, 2019 and 2018, respectively. Our effective tax rate for continuing operations was 3.8% and (4.1)% for the years ended December 31, 2019 and 2018, respectively. Our tax provision is primarily related to taxes in the federal and state jurisdictions, foreign rate differentials, GILTI, work opportunity tax credits, disallowed meals and entertainment, interest and penalties for uncertain tax positions, and a valuation reserve against the net deferred tax assets in the US.

The 2019 provision reflects the following current rates for the US states and the foreign jurisdictions: 21% for US federal, 6.4% for the US-blended state rate—net of federal benefit, 19% for the UK, and 31% for Canada. The 2018 provision reflects the following current rates for the US states and the foreign jurisdictions: 21% for US federal, 6.5% for the US-blended state rate—net of federal benefit, 19% for the UK, and 31% for Canada.

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 compensation, capitalized startup costs, work opportunity tax credits, interest expense limitation, taxes, interest for uncertain tax positions, and federal and state net operating loss carryforwards. Total deferred tax assets net of valuation allowance as of December 31, 2019 and 2018, were $45.9 million and $49.0 million, respectively. Our deferred tax liabilities primarily consist of the difference between the book and tax basis in intangible and tangible property and prepaid expenses. The deferred tax liability primarily relates to purchase accounting. The transaction with Revera was a stock purchase, and therefore, there was no tax step up in the Sunrise's assets; however, GAAP standards revalued Sunrise's assets and liabilities to fair value. Total deferred tax liabilities as of December 31, 2019 and 2018, were $52.3 million and $55.1 million, respectively.

The 2019 provision reflects the following deferred rates for the US states and the foreign jurisdictions: 21% for US federal, 7% for the US-blended state rate—net of federal benefit, 17% for the UK, and 31% for Canada.

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 2018, we had a valuation allowance 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 2019, we reassessed the realizability of our net deferred tax assets and determined that a valuation allowance is required. No valuation allowance was recorded in Canada and the UK in either 2019 or 2018. At December 31, 2019 and 2018, our total valuation allowance on our net deferred tax asset was $15.1 million and $26.9 million, respectively.

At December 31, 2019, we have estimated US federal net operating loss carryforwards of $59.4 million, of which $49.4 million relate to our US consolidated return and $10.0 million relate to other separate company returns, which are carried forward to offset future taxable income in the US. Net operating losses generated after 2018 have an unlimited carryforward period, losses generated prior to 2018 can be carried forward for 20 years. The preacquisition 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, 2019, we had various state net operating loss carryforwards resulting in an ending deferred tax asset of $5.0 million. The deferred tax asset resulting from state net operating losses is based on the blended state tax rate while all other net operating loss carryforwards are gross and not tax effected. At December 31, 2019, we had Canadian net operating loss carryforwards of $0.6 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, 2019, we have no UK net operating loss carryforwards to offset future foreign taxable income, which have an unlimited carryforward period. In 2019, 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,	
	2019	**2018**
Current:		
Federal	$ 341	$1,132
State	453	1,104
Foreign	367	35
RealCo adjustments	102	
Total current expense	1,263	2,271
Deferred:		
Federal	641	139
State	(11)	119
Foreign	(537)	(347)
Total deferred benefit	93	(89)
Provision for income taxes	$1,356	$2,182

There was no income tax benefit or expense allocated to discontinued operations for 2019 and 2018. An income tax expense of $17,272 and $0.4 million was recorded to other comprehensive income in 2019 and 2018, respectively. During the fourth quarter, The Carlisle was sold to RealCo. Due to the fact the sale was to entities under common control, the tax expense of $0.1 million was recorded to equity.

Income taxes of $0 million and $12.8 million were paid in 2019 and 2018, respectively.

The differences between the amount that would have resulted from applying the domestic federal statutory tax rate (21%) 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, state income taxes, change in the valuation allowance of US subsidiaries, tax contingencies, global intangible low-taxed income, disallowed meals and entertainment, 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, 2019, was approximately $11.5 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 2019 and 2018 related to unrecognized tax benefits was a pretax expense of $0.9 million and $0.7 million, respectively. No penalties were recognized in the consolidated statements of operations for 2019 and 2018 related to unrecognized tax benefits.

The total amount of accrued liabilities for interest recognized in our consolidated balance sheets related to unrecognized tax benefits as of December 31, 2019 and 2018, was $6.6 million and $5.7 million, respectively. The total amount of accrued liabilities for penalties recognized in our consolidated balance sheets related to unrecognized tax benefits was $1.5 million and $1.5 million as of December 31, 2019 and 2018, respectively. To the extent that uncertain matters are settled favorably, this amount could reverse and decrease our effective tax.

Within the next 12 months, $4.3 million of 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 2015 remaining open and subject to audit. There are no state income tax returns under audit, with the years after 2014 and 2015 remaining open and subject to audit. There are no income tax returns under audit by the Canadian government, with the years after 2013 remaining open and subject to audit. In the UK, years after 2013 remain open and subject to audit and the 2013 income tax return is 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 2019.

16. SHARE-BASED COMPENSATION AND DEVELOPMENT INCENTIVE PLAN

Sunrise has provided awards under a Phantom Equity Plan, Phantom Warrants, and a Development Plan. Activity related to these plans for 2019 and 2018 is as follows (in thousands):

	Share-based and Incentive Compensation					
	Phantom Stock	Phantom Warrants	Development Plan Pool 1	Development Plan Pool 2	Development Plan Pool 3	Total
Balance at January 1, 2018	$ 24,251	$3,901	$ 36,606	$ -	$ -	$ 64,758
Compensation expense	11,980	1,370	9,746	6,511		29,607
Payments to participants	(2,626)					(2,626)
Balance at December 31, 2018	33,605	5,271	46,352	6,511	-	91,739
Compensation expense	11,606	2,668	9,287	38	14,950	38,549
Medicare tax and direct cost payments			(787)			(787)
Payments to participants	(11,689)		(52,569)			(64,258)
Balance at December 31, 2019	$ 33,522	$7,939	$ 2,283	$6,549	$14,950	$ 65,243

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, 2019, 599,750 units had been awarded, 100,000 units were issued as of July 1, 2014, July 1, 2015, January 1, 2016, January 1, 2017and January 1, 2018, and 99,750 units were issued as of January 1, 2019.

In 2019, we paid $9.6 million (95,500 units) to Participants upon vesting of their units awarded under the Equity Plan, plus an accelerated vested payout of $2.1 million related to terminations.

In 2018, we paid $2.4 million (25,090 units) to Participants upon vesting of their units awarded under the Equity Plan, plus an accelerated vested payout of $0.2 million related to terminations.

We recognized $11.6 million and $12.0 in share-based and incentive compensation expense relating to the units for the years ended December 31, 2019 and 2018, 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. 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. As of December 31, 2019, the total Phantom Warrants outstanding are 256,375.

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 $2.7 million and $1.4 million in stock compensation expense relating to the Warrants during the years ended December 31, 2019 and 2018, respectively.

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 3, 2016, the Compensation Committee approved the designation of eight real estate development projects as the first Portfolio ("Pool 1") with the portfolio commencement date of July 1, 2014, and the performance ending date of June 30, 2021. On December 3, 2017, the Compensation Committee approved the designation of six real estate development projects as the second Portfolio ("Pool 2") with the portfolio commencement date of January 1, 2016, and the performance ending date of December 31, 2022. On January 31, 2020, the Compensation Committee approved the designation of 13 real estate development projects as the third Portfolio ("Pool 3") with the portfolio commencement date of January 1, 2018, and the performance ending date of December 31, 2024.

The Compensation Committee shall determine the Portfolio Bonus Pool for each pool 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.

Pool 1 included the eight projects sold to RealCo in December 2016 (see Note 1). The RealCo asset sale transaction in September 2017 triggered the ending date for three of the eight projects in Pool 1. In May 2019, the RealCo asset sale transaction of five operating communities completed the sale of the first portfolio and ended the performance period for Pool 1 (see Note 5). The May 1, 2019 Purchase Agreement included an indemnification clause covering the representations and warranties, indemnities, covenants, and agreements in the Purchase Agreement for a period of 12 months after closing with a defined maximum indemnification amount. We reflected the maximum indemnification amount in the calculation of the Pool 1 value and held back $2.3 million from the Pool 1 payout. In June 2019, Sunrise paid the participants approximately $52.6 million, their pro rata share of the calculated value, less the holdback and $0.8 million in Medicare tax and other direct costs associated with the payment of the development plan bonuses. As of December 31, 2018, Sunrise had recorded a liability of $46.4 million for Pool 1 and the remaining balance was expensed during the six months ended June 30, 2019. The holdback liability is included in "Accounts payable and accrued expenses" in our consolidated balance sheets.

There is a potential for Welltower to pay an additional purchase price based on the performance of the five communities. The calculation will be based on the Net Operating Income (as defined in the Pooling Agreement) generated by the five communities in the third 12 full-calendar months following closing. Sunrise would be entitled to an additional developer incentive fee based on the additional purchase price, if any. In addition, Sunrise would be obligated to pay an additional amount for Pool 1 under the Development Plan. The amount of developer incentive fees to be received based on the Additional Purchase Price is dependent on the market and thus, is highly susceptible to factors outside of Sunrise's influence. In addition, the uncertainty about the amount of consideration is not expected to be resolved for a long period of time (i.e., 36 months). Therefore, at this time, Sunrise cannot estimate an amount it would receive whereby it is probable that a significant reversal in the amount of revenue recognized would not occur. Thus, $0 in revenue relating to the amount of developer incentive fees to be received based on the Additional Purchase Price will be recognized at this time. Similarly, Sunrise has not recognized any liability for additional payments for Pool 1 under the Development Plan as of December 31, 2019.

The estimated Portfolio Equity Value for Pool 2 and Pool 3 used the values provided in the independent enterprise valuation for the properties in Pool 2 and Pool 3. The estimated Portfolio Equity Value for Pool 2 resulted in an estimated Portfolio Bonus Pool of $11.7 million and $16.2 million at December 31, 2019 and 2018, respectively. The estimated Portfolio Equity Value for Pool 3 resulted in an estimated Portfolio Bonus Pool of $53.5 million at December 31, 2019. These estimates were based on information available at the time these consolidated financial statements were prepared. The actual amount of the Pool 2 and the Pool 3 Portfolio Bonus Pools, which will be payable upon the earlier of December 31, 2022, or December 31, 2024, respectively, or the date the last property in each pool 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 Equity Plan.

Based on the actual (Pool 1) and estimated (Pool 2 and Pool 3) Portfolio Bonus Pools and the elapsed performance periods for each respective pool, we recognized $24.3 million and $16.3 million in share-based compensation expense relating to the Development Plan for

the years ended December 31, 2019 and 2018, respectively. We expect to accrue the remaining expense related to Pool 2 and Pool 3 over the remaining performance period.

17. COMMITMENTS AND CONTINGENCIES

Letters of Credit—At December 31, 2019 and 2018, we had $3.2 million and $4.2 million, respectively, in letters of credit relating to operations, which are collateralized by the BoA revolving credit facility. Also we had $80.7 million in letters of credit relating to our Insurance Program as of both December 31, 2019 and 2018, which are fully cash collateralized.

Debt Guarantees—We have provided completion guarantees and principal guarantees on third-party debt associated with the RealCo properties and joint venture properties ranging from 20% to 25% based on certain performance criteria. The maximum exposure under the principal guarantees was $29.1 million as of December 31, 2019. 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, 2019. The remaining terms of the debt that we have guaranteed range from approximately two to five years as of December 31, 2019.

In February 2019, we entered into an Agreement for Guaranty Reimbursement ("Agreement") with Revera and Welltower. Under the Agreement, Revera and Welltower have agreed to execute a Reimbursement Agreement in connection with each community. The Reimbursement Agreements stipulate that in the event Sunrise actually pays funds on account of its guaranty of any of the above loans, Revera and Welltower will reimburse Sunrise for those amounts.

Cost Overrun Guarantees—We provided limited cost overrun guarantees in conjunction with the development of four senior living communities that are part of joint ventures created between an affiliate of Ventas, Inc. ("Ventas"), which has a 90% ownership interest in the joint ventures, and Suntas Sunrise Member PropCo, LLC ("Suntas"), which has a 10% ownership interest in the joint ventures. 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). We have agreed to fund any cost overruns with a maximum exposure of $4.8 million. In 2018, we recorded a liability for $1.2 million related to the cost overrun guarantees which was included in "Accounts payable and accrued expenses" in our consolidated balance sheets. In 2019, we recorded an additional liability of $1.2 million under these guarantees. These amounts are included in "Loss on financial guarantees" on our consolidated statement of operations.

In 2019, we made payments under the guarantees, reducing the liability to $0.5 million as of December 31, 2019, which is included in "Accounts payable and accrued expenses" in our consolidated balance sheets at December 31, 2019.

Legal Proceedings

Pending Lawsuits and Claims

California Pay Card Class Action—The Company was a defendant in a class-action lawsuit in the US District Court for the Central District of California, Los Angeles County.

In December 2016, the Company reached a related, confidential, nonpublic 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. On December 21, 2017, the Court entered the final approval order for the settlement in the amount of $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. On March 26, 2018, the Court entered final judgement and dismissed the case with prejudice. This matter is now concluded.

The Carlisle—On November 10, 2016, the Homeowners' Association of The Carlisle (HOA), an assisted living community in San Francisco managed by the Company, filed a lawsuit against the Company and others in the Superior Court of the State of California in the County of San Francisco, alleging, *inter alia,* that the Company purportedly breached the management agreement by failing to properly maintain the exterior walls of the building which purportedly resulted in water intrusion damage and necessitates replacement of the building's cladding. A trial was scheduled for June 10, 2019. Prior to the trial, the parties agreed on a plan of resolution, which was contingent on meeting certain conditions before the end of the year and the litigation was stayed while the parties progressed on this plan and timetable to resolve this litigation.

In October 2019, RealCo purchased substantially all of the condominium units at The Carlisle (see Note 8). In connection with the transaction, pursuant to a Confidential Full and Final Release and Settlement Agreement between the HOA and us, the HOA agreed to a full mutual general release of all pending litigation claims against us contingent upon meeting certain conditions, including the purchase of the condominium units by Sunrise or a Sunrise-affiliated entity by October 31, 2019, and certain other conditions thereafter. As of December 31, 2019, the conditions have been fully satisfied and the litigation has been dismissed.

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.

18. RELATED-PARTY TRANSACTIONS

Welltower—We manage 146 communities, wholly owned by Welltower; 116 in the US, including eight RealCo communities acquired on September 1, 2017, and May 1, 2019 (see Note 5), three in Canada, and 27 in the UK, under management agreements with initial terms of five to 15 years. In addition, we manage 22 venture communities where Welltower is a venture partner, four in the US, and 18 Gracewell communities in the UK.

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

	Year Ended December 31,					
	2019			2018		
	Wholly Owned	Joint Venture* Gracewell	Joint Venture* Other	Wholly Owned	Joint Venture* Gracewell	Joint Venture* Other
Management fees	$ 54,300	$ 4,448	$ 1,733	$ 50,741	$ 4,271	$ 1,584
Professional fees from development, marketing, and other	5,067	143	35	3,267	111	77
Reimbursed costs incurred on behalf of managed communities	543,603	9,366	14,297	498,756	8,968	14,130
Total revenues	$602,970	$13,957	$16,065	$552,764	$13,350	$15,791

* Excludes RealCo which is included in the next section.

From 2015 to 2017, we entered into new management contracts for 12 communities 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 percentage. The difference between the management fee revenue recorded and actual management fees received is included in other assets. This balance was $4.6 million and $3.5 million at December 31, 2019 and 2018, respectively.

In March 2018, Sunrise LLC's Board approved a one-time management fee abatement for the Welltower wholly owned communities resulting in a reduction of our management fees earned of approximately 0.19% of the Welltower wholly owned communities' revenues for the year ended December 31, 2018.

On December 31, 2018, Sunrise and Welltower entered into a Framework Agreement and an Amendment to the Manager Pooling Agreement (the "Amended Agreements"), which modified certain provisions of the original agreements and incorporated other new provisions. In conjunction with entering into the Amended Agreements, Sunrise will pay a one-time contract renegotiation fee to Welltower of $2 million that was recorded in "Due from affiliates, current" and "Contract modification costs" in the December 31, 2018, consolidated financial statements.

Reimbursed costs incurred on behalf of managed communities included $1.9 million and $0.5 million for Welltower's pro rata share of the Captive's net income for the years ended December 31, 2019 and 2018, respectively. See Note 1 for a discussion of the premium incentive rebate issued by the Captive in March 2018. Welltower's communities received $2.1 million of this rebate.

We incurred costs totaling $0.3 million and $0.9 million for communities wholly owned, or in a joint venture, by Welltower for which the communities were not obligated to reimburse us, for the years ended December 31, 2019 and 2018, respectively. These costs are included in "Costs incurred on behalf of managed communities" in our consolidated statements of operations.

Included in "Due from affiliates, current" is $8.3 million and $9.0 million due from Welltower communities as of December 31, 2019 and 2018, respectively. Amounts due include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days. The Welltower communities are required to fund the biweekly payroll in advance of the pay date to ensure funding is available.

"Due from affiliates, long term" of $13.1 million and $12.5 million at December 31, 2019 and 2018, respectively, represents an indemnification receivable from Welltower related to our uncertain tax positions.

Dividends of $3.0 million were paid to Welltower in the year ended December 31, 2018.

RealCo—We manage four communities owned by RealCo under management agreements with initial terms of 15 years and are currently developing or have entered into agreements to develop 18 additional communities wholly owned by or in joint ventures with RealCo (see Note 1). The development agreements provide for payment of a development fee to Sunrise as compensation for Sunrise's management of predevelopment activities and construction management services. The development fee is based on a percentage of budgeted costs, excluding land acquisition costs and contingencies. Sunrise may also be entitled to a developer incentive fee upon the earlier of (i) a direct or indirect sale of the facility, or (ii) five years after the opening date of the facility provided specified value thresholds are met.

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

	Year Ended December 31,	
	2019	**2018**
Management fees	$ 733	$ 1,300
Professional fees from development, marketing, and other	5,729	2,216
Reimbursed costs incurred on behalf of managed communities	10,852	18,233
Total revenues	$17,314	$21,749

Included in "Due from affiliates, current" are the following amounts due from RealCo as of December 31 (in thousands):

2019		**2018**	
Operating Communities	**Development Communities**	**Operating Communities**	**Development Communities**
$2,793	$5,562	$2,825	$4,926

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 land acquisition, construction, and preopening costs that will be reimbursed to us either from equity funding or construction loan draw requests, generally within 30 days.

Included in "Due to affiliates" is $1.4 million of equity funding received from the RealCo owners at December 31, 2019. This amount has been included in restricted cash as it is to be used for the payment of development costs incurred by the RealCo entities.

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 (see Note 1). There was 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 were not met. The amount ultimately owed to Welltower under the clawback provision was $0.8 million and is included as a reduction in the "Due from affiliates, current" balance as of December 31, 2019 and 2018.

During 2018, we sold a land parcel to a new 2018 PropCo within the RealCo structure. We received $3.5 million from RealCo representing the fair value of the land and costs incurred on the acquisition and subsequent entitlement of the land parcel. As this was a transaction under common ownership, the excess of the fair value paid by RealCo over our cost was recorded directly to equity, net of tax. In addition, one other new 2018 PropCo entity within the RealCo structure purchased a land parcel and reimbursed us $1.1 million for search costs incurred and deposits we had placed related to the land parcel. We entered into development agreements with the new 2018 PropCos with terms similar to those discussed above.

During 2019, 10 new 2019 PropCo entities within the RealCo structure purchased land parcels and reimbursed us $11.8 million for search costs incurred and deposits we had placed related to the land parcels. We entered into a development agreement with each of the new 2019 PropCos with terms similar to those discussed above.

In October 2019, Sunrise Carlisle PropCo, LLC, an entity under the RealCo structure purchased the assets of our wholly owned subsidiary, Sunrise of Carlisle, LP. We received approximately $14.3 million from Sunrise Carlisle PropCo, LLC for its assets, including our cost in four Sunrise-owned condominium units, and for reimbursement of costs we had incurred related to repairs to the exterior building cladding (See Note 8). As this was a transaction under common ownership, the $0.4 million excess of the fair value paid by Sunrise Carlisle PropCo, LLC over our cost was recorded directly to equity, net of tax. We entered into a management agreement with Sunrise of Carlisle, LP, to manage the community.

On May 1, 2019, Revera and a member of Sunrise LLC's senior management sold their interests in five operating communities (see Note 5). Following the sale of the interests, these communities became wholly owned by Welltower, remaining under management by Sunrise. There is a clawback provision in the management agreements whereby we agree to reimburse Welltower up to a maximum of the management fees paid to us for the communities during the first three years after the Closing Date if certain income thresholds are not met. In 2019, we recorded a $1.3 million reduction in management fees due to the clawback provision.

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). On September 1, 2017, Revera sold its interest in three RealCo operating communities to Welltower (see Note 1). 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 (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 18 communities owned by Revera through its interest in RealCo (see Note 1).

In October 2018, we entered into a new management agreement for one Gracewell community in the UK owned by Revera. The agreement has a term of 15 years. Total management fees earned were approximately $127,000 and $31,000 for the years ended December 31, 2019 and 2018, respectively. Included in "Due from affiliates, current" is $0.1 million and $0.9 million due from this community as of December 31, 2019 and 2018, respectively. Amounts due include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days. Amounts due at December 31, 2018, also included preopening costs related to this community.

RFAC—In June 2018, RFHC paid $12 million to RFAC as repayment of tax debt arising under a Tax Sharing Agreement between RFHC and RFAC. The payment reduced RFHC's current tax liability for the amount due as of December 31, 2017, and also included an estimate of the amount owed for 2018.

AllyAlign Health (AAH)—On January 19, 2017, we formed a joint venture with AAH to establish and operate Medicare Advantage Special Needs Plans (MASNPs) in various states. As of December 31, 2019, we have contributed $14.2 million for an 83.3% interest in the joint venture, which is included in our consolidated financial statements. AAH has contributed $2.8 million for the remaining 16.7% interest, which is recorded as a noncontrolling interest. Sunrise and AAH entered into a management services agreement when the joint venture was formed.

As of December 31, 2019, the joint venture has made $13.0 million in contributions to fund startup working capital and statutory equity requirements for various wholly owned subsidiaries. The amounts contributed, less operating losses paid are held in interest-bearing cash accounts controlled by either us or AAH or US Government T-bills and are classified as restricted cash or restricted investments in our consolidated balance sheet.

Sunrise Advantage Plans—On January 1, 2018, operations commenced for Sunrise Medicare Advantage and Sunrise Medicare Advantage Special Needs Plans (SAPs) doing business in the states of Illinois, Pennsylvania, New York, and Virginia. The SAPs are wholly owned subsidiaries of the joint venture. The joint venture has expensed $0.8 million and $0.6 million of management fees to AAH for the year ended December 31, 2019 and 2018, respectively. These fees are included in our consolidated statement of operations in general and administrative expense with 16.7% and 21% recorded as loss attributable to noncontrolling interests for the years ended December 31, 2019 and 2018, respectively. In the fall of 2018, we took over the obligation from AAH to employ licensed sales agents on behalf of the SAPs. AAH's fee under the management services agreement was offset by 4% to account for these costs. The agents are now employed by us.

Spectrum—We recorded expense of $3.0 million and $4.8 million for the years ended December 31, 2019 and 2018, 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. In April 2019, we received a $1.8 million dividend from Spectrum.

Potential Development Agreement—In 2018, Sunrise entered into an Agreement with Poland Hill, LLC ("Poland Hill"), to reserve for Sunrise the right to enter into a joint venture (JV) at Sunrise's option to develop a new facility on land currently owned by Poland Hill. The members of Poland Hill are a group of three families, some of whom are represented by family trusts. One of the families are the parents-in-law of a Sunrise former executive. The Sunrise executive was not directly involved in the negotiations related to the Agreement. Should the parties agree to enter into a JV to develop a facility, the Agreement would be subject to the standard approval procedures by Sunrise's Board.

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

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

	December 31,	
	2019	**2018**
Accounts payable and accrued expenses	$ 18,746	$ 18,345
Accrued salaries and bonuses	59,566	51,434
Payroll funds in transit	(34,772)	
Accrued employee health and other benefits	38,995	36,725
Equity plan, warrants, development plan liabilities	13,329	11,074
Other accrued expenses	11,929	23,803
	$107,793	$141,381

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

	December 31,	
	2019	**2018**
Uncertain tax position	$19,632	$ 18,636
Lease liabilities, including above-market lease liability—net[1]		3,627
Liability for future performance obligation		16,008
Deferred revenue from nonrefundable entrance fees		41,961
Refundable entrance fees		4,888
Equity plan, warrants, development plan liabilities	51,914	80,666
Other long-term liabilities	3,216	3,748
	$74,762	$169,534

[1] Effective on January 1, 2019 with the adoption of ASC 842, straight-line and above-market lease liabilities are reported within the right of use assets, net line on the consolidated balance sheet.

20. 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, subject to

limitations imposed by nondiscrimination testing purposes. The Plan provides an employer match dependent upon compensation levels and years of service. The Plan does not provide for any additional discretionary matching contributions beyond the employer match. Matching contributions were $2.2 million for both years ended December 31, 2019 and 2018.

21. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 20, 2020, the date these consolidated financial statements were issued. Other than the events identified within, there were no other subsequent events identified.

In February of 2020, as part of an organizational restructure, the employment of the chief financial officer was terminated. As of the date of issuance of these financial statements, the terms of his separation have not been finalized.

Subsequent to December 31, 2019, there was a global outbreak of a new strain of coronavirus, COVID-19. The global and domestic response to the COVID-19 outbreak continues to rapidly evolve. Thus far, certain responses to the COVID-19 outbreak have included mandates from federal, state and/or local authorities that required temporary closure of or imposed limitations on the operations of certain businesses, none of those actions have directly impacted the Company. The COVID-19 outbreak and associated responses could negatively impact operations during the subsequent months. We have taken measures to mitigate the impact on operations of the Company and have not seen any material impacts so far.

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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, 2019
(In thousands, except share amounts)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ -	$ 7,340	$ -	$ 7,340
Accounts receivable, net	-	41,108	-	41,108
Due from affiliates	-	17,276	(482)	16,794
Restricted cash	-	25,372	-	25,372
Prepaid expenses and other current assets	-	12,286	-	12,286
Total current assets	-	103,382	(482)	102,900
PROPERTY AND EQUIPMENT, Net	-	28,058	-	28,058
RIGHT-OF-USE ASSETS, Net	-	12,334	-	12,334
NOTES RECEIVABLE	-	2,400	-	2,400
INTANGIBLE ASSETS, Net	-	159,492	-	159,492
GOODWILL	-	92,395	-	92,395
INVESTMENT IN EQUITY INTEREST	-	6,268	-	6,268
RESTRICTED CASH	-	75,071	-	75,071
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	-	3,131	-	3,131
DUE FROM AFFILIATES	-	13,092	-	13,092
INVESTMENT IN SUBSIDIARY	126,625	-	(126,625)	-
OTHER ASSETS, Net	-	5,660	-	5,660
TOTAL ASSETS	$126,625	$501,283	$(127,107)	$500,801
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ -	$107,793	$ -	$107,793
Due to affiliates	482	1,600	(482)	1,600
Current lease liabilities	-	5,115	-	5,115
Deferred revenue	-	1,907	-	1,907
Entrance fees	-		-	-
Self-insurance liabilities	-	31,309	-	31,309
Total current liabilities	482	147,724	(482)	147,724
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	-	65,000	-	65,000
SELF-INSURANCE LIABILITIES	-	66,805	-	66,805
DEFERRED INCOME TAX LIABILITIES, Net	-	6,403	-	6,403
LONG-TERM LEASE LIABILITIES	-	10,604	-	10,604
OTHER LONG-TERM LIABILITIES, Net	-	74,762	-	74,762
Total liabilities	482	371,298	(482)	371,298
EQUITY:				
Common stock, $0.01 par, 722,765 shares issued and outstanding	7	-	-	7
Additional paid-in capital	172,729	-	-	172,729
Member's capital	-	173,218	(173,218)	-
Accumulated deficit	(38,874)	(38,874)	38,874	(38,874)
Accumulated other comprehensive loss	-	(7,719)	-	(7,719)
Share of subsidiary's other comprehensive loss	(7,719)	-	7,719	-
Total stockholders' equity	126,143	126,625	(126,625)	126,143
Noncontrolling interests	-	3,360	-	3,360
Total equity	126,143	129,985	(126,625)	129,503
TOTAL LIABILITIES AND EQUITY	$126,625	$501,283	$(127,107)	$500,801

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, 2018
(In thousands, except share amounts)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ -	$ 44,409	$ -	$ 44,409
Accounts receivable, net	-	30,866	-	30,866
Due from affiliates	-	18,325	(482)	17,843
Restricted cash	-	20,303	-	20,303
Prepaid expenses and other current assets	-	22,498	-	22,498
Total current assets	-	136,401	(482)	135,919
PROPERTY AND EQUIPMENT, Net	-	48,288	-	48,288
NOTES RECEIVABLE	-	1,617	-	1,617
INTANGIBLE ASSETS, Net	-	168,278	-	168,278
GOODWILL	-	92,307	-	92,307
INVESTMENT IN EQUITY INTEREST	-	8,451	-	8,451
RESTRICTED CASH	-	93,367	-	93,367
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	-	2,483	-	2,483
DUE FROM AFFILIATES	-	12,516	-	12,516
INVESTMENT IN SUBSIDIARY	91,215	-	(91,215)	-
OTHER ASSETS, Net	-	10,469	-	10,469
TOTAL ASSETS	$ 91,215	$574,177	$ (91,697)	$573,695
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ -	$141,381	$ -	$141,381
Due to affiliates	482	324	(482)	324
Deferred revenue	-	1,998	-	1,998
Entrance fees	-	1,315	-	1,315
Self-insurance liabilities	-	24,161	-	24,161
Total current liabilities	482	169,179	(482)	169,179
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	-	65,000	-	65,000
SELF-INSURANCE LIABILITIES	-	67,338	-	67,338
DEFERRED INCOME TAX LIABILITIES, Net	-	6,078	-	6,078
OTHER LONG-TERM LIABILITIES, Net	-	169,534	-	169,534
Total liabilities	482	477,129	(482)	477,129
EQUITY:				
Common stock, $0.01 par, 722,765 shares issued and outstanding	7	-	-	7
Additional paid-in capital	172,289	-	-	172,289
Member's capital	-	172,778	(172,778)	-
Accumulated deficit	(73,137)	(73,137)	73,137	(73,137)
Accumulated other comprehensive loss	-	(8,426)	-	(8,426)
Share of subsidiary's other comprehensive loss	(8,426)	-	8,426	-
Total stockholders' equity	90,733	91,215	(91,215)	90,733
Noncontrolling interests	-	5,833	-	5,833
Total equity	90,733	97,048	(91,215)	96,566
TOTAL LIABILITIES AND EQUITY	$ 91,215	$574,177	$ (91,697)	$573,695

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, 2019 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING REVENUE:				
Management fees	$ -	$ 118,939	$ -	$ 118,939
Resident fees for consolidated communities	-	109,672	-	109,672
Ancillary services	-	9,339	-	9,339
Professional fees from development, marketing and other	-	41,367	-	41,367
Sunrise Advantage plan revenue	-	11,501	-	11,501
Reimbursed costs incurred on behalf of managed communities	-	1,162,675	-	1,162,675
Total operating revenue	-	1,453,493	-	1,453,493
OPERATING EXPENSES:				
Community expense for consolidated communities	-	76,212	-	76,212
Community lease expense	-	27,826	-	27,826
Depreciation and amortization	-	13,810	-	13,810
Impairment	-	3,972	-	3,972
Ancillary expenses	-	9,125	-	9,125
Provision for doubtful accounts	-	477	-	477
General and administrative	-	103,653	-	103,653
Share-based and incentive compensation	-	38,549	-	38,549
Development and idle land costs	-	5,469	-	5,469
Provision for abandoned projects	-	608	-	608
Transaction costs	-	1,124	-	1,124
Loss on financial guarantees	-	1,157	-	1,157
Sunrise Advantage plan expense	-	17,668	-	17,668
Costs incurred on behalf of managed communities	-	1,173,574	-	1,173,574
Total operating expenses	-	1,473,224	-	1,473,224
LOSS FROM OPERATIONS	-	(19,731)	-	(19,731)
OTHER NON-OPERATING INCOME (EXPENSE):				
Interest income	-	2,140	-	2,140
Interest expense	-	(4,777)	-	(4,777)
Other expense	-	(972)	-	(972)
Total other non-operating expense	-	(3,609)	-	(3,609)
GAIN ON SALE OF REAL ESTATE	-	1,807	-	1,807
GAIN ON TERMINATION OF LEASES	-	57,271	-	57,271
LOSS FROM INVESTMENT IN EQUITY INTEREST	-	(410)	-	(410)
EQUITY IN INCOME OF SUBSIDIARY	34,263	-	(34,263)	-
INCOME BEFORE PROVISION FOR INCOME TAXES	34,263	35,328	(34,263)	35,328
PROVISION FOR INCOME TAXES	-	(1,356)	-	(1,356)
NET INCOME	34,263	33,972	(34,263)	33,972
LESS LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, NET OF TAX	-	291	-	291
NET INCOME ATTRIBUTABLE TO STOCKHOLDERS	$ 34,263	$ 34,263	$ (34,263)	$ 34,263

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, 2018
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING REVENUE:				
Management fees	$ -	$ 112,960	$ -	$ 112,960
Resident fees for consolidated communities	-	161,918	-	161,918
Ancillary services	-	8,255	-	8,255
Professional fees from development, marketing and other	-	9,146	-	9,146
Sunrise Advantage plan revenue	-	2,542	-	2,542
Reimbursed costs incurred on behalf of managed communities	-	1,098,223	-	1,098,223
Total operating revenue	-	1,393,044	-	1,393,044
OPERATING EXPENSES:				
Community expense for consolidated communities	-	107,124	-	107,124
Community lease expense	-	37,605	-	37,605
Depreciation and amortization	-	28,424	-	28,424
Impairment of leases	-	8,694	-	8,694
Ancillary expenses	-	8,279	-	8,279
Provision for doubtful accounts	-	380	-	380
General and administrative	-	100,969	-	100,969
Share-based and incentive compensation	-	29,607	-	29,607
Development and idle land costs	-	3,169	-	3,169
Provision for abandoned projects	-	1,430	-	1,430
Loss on financial guarantee	-	1,239	-	1,239
Contract modification costs	-	2,000	-	2,000
Sunrise Advantage plan expense	-	5,932	-	5,932
Costs incurred on behalf of managed communities	-	1,105,186	-	1,105,186
Total operating expenses	-	1,440,038	-	1,440,038
LOSS FROM OPERATIONS	-	(46,994)	-	(46,994)
OTHER NON-OPERATING INCOME (EXPENSE):				
Interest income	-	1,136	-	1,136
Interest expense	-	(4,069)	-	(4,069)
Other expense	-	(3,461)	-	(3,461)
Total other non-operating expense	-	(6,394)	-	(6,394)
LOSS ON SALE OF REAL ESTATE	-	(51)	-	(51)
LOSS FROM INVESTMENT IN EQUITY INTEREST	-	(407)	-	(407)
EQUITY IN LOSS OF SUBSIDIARY	(54,975)	-	54,975	-
LOSS BEFORE PROVISION FOR INCOME TAXES	(54,975)	(53,846)	54,975	(53,846)
PROVISION FOR INCOME TAXES	-	(2,182)	-	(2,182)
NET LOSS	(54,975)	(56,028)	54,975	(56,028)
LESS LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, NET OF TAX	-	1,053	-	1,053
NET LOSS ATTRIBUTABLE TO STOCKHOLDERS	$ (54,975)	$ (54,975)	$ 54,975	$ (54,975)

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
YEAR ENDED DECEMBER 31, 2019
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
NET INCOME	$ 34,263	$ 33,972	$ (34,263)	$ 33,972
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	-	691	-	691
Unrealized gain on investments	-	16	-	16
Share of subsidiary's other comprehensive income	707	-	(707)	-
Comprehensive income	34,970	34,679	(34,970)	34,679
LESS COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	275	-	275
COMPREHENSIVE INCOME ATTRIBUTABLE TO STOCKHOLDERS	$ 34,970	$ 34,954	$ (34,970)	$ 34,954

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, 2018 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
NET LOSS	$ (54,975)	$ (56,028)	$ 54,975	$ (56,028)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	-	(1,437)		(1,437)
Unrealized loss on investments	-	(6)		(6)
Share of subsidiary's other comprehensive loss	(1,443)	-	1,443	-
Comprehensive loss	(56,418)	(57,471)	56,418	(57,471)
LESS COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	1,059	-	1,059
COMPREHENSIVE LOSS ATTRIBUTABLE TO STOCKHOLDERS	$ (56,418)	$ (56,412)	$ 56,418	$ (56,412)

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, 2019 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Noncontrolling Interests	Eliminations	Consolidated Total
BALANCE—January 1, 2019	$ 90,733	$ 91,215	$ 5,833	$ (91,215)	$ 96,566
Net income (loss)	34,263	34,263	(291)	(34,263)	33,972
Sale of assets under common control, net of tax	440	440	(1,517)	(440)	(1,077)
Contributions from noncontrolling interests	-	-	843	-	843
Distributions on behalf of noncontrolling interests	-	-	(1,508)	-	(1,508)
Foreign currency translation adjustments	-	691	-	-	691
Unrealized gain on non-equity investments of noncontrolling interests	-	16	-	-	16
Share of subsidiary's other comprehensive loss	707	-	-	(707)	-
BALANCE—December 31, 2019	$126,143	$126,625	$ 3,360	$(126,625)	$129,503

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, 2018 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Noncontrolling Interests	Eliminations	Consolidated Total
BaALANCE—January 1, 2018	$162,098	$162,580	$ 5,821	$(162,580)	$167,919
Net loss	(54,975)	(54,975)	(1,053)	54,975	(56,028)
Dividends to stockholders	(15,000)	(15,000)	-	15,000	(15,000)
Sale of asset under common control, net of tax	730	730	-	(730)	730
Distributions between entities	12,000	(12,000)	-	-	-
Balance transfers between entities	(12,000)	12,000	-	-	-
Contributions from noncontrolling interests	-	-	889	-	889
Distributions on behalf of noncontrolling interests	-	-	(745)	-	(745)
Termination of leases	-	-	(141)	-	(141)
Foreign currency translation adjustments	-	(1,437)	-	-	(1,437)
Unrealized loss on non-equity investments of noncontrolling interests	-	(6)	(5)	-	(11)
Cumulative impact from adopting ASU No. 2016-01 on January 1, 2018	-	(677)	1,067	-	390
Share of subsidiary's other comprehensive loss and cumulative adjustment	(2,120)	-	-	2,120	-
BALANCE—December 31, 2018	$ 90,733	$ 91,215	$ 5,833	$ (91,215)	$ 96,566

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, 2019 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING ACTIVITIES:				
Net income	$ 34,263	$ 33,972	$ (34,263)	$ 33,972
Adjustments to reconcile net income to net cash used in operating activities:				
Equity in income of subsidiary	(34,263)	-	34,263	-
Gain on sale of real estate	-	(1,807)	-	(1,807)
Gain on termination of leases	-	(57,271)	-	(57,271)
Loss from investment in equity interest	-	410	-	410
Net gain on investments in marketable equity securities	-	(512)	-	(512)
Depreciation and amortization	-	13,810	-	13,810
Impairment	-	3,972	-	3,972
Amortization of future performance obligation	-	(3,769)	-	(3,769)
Amortization of deferred endowment	-	(6,381)	-	(6,381)
Amortization of other deferred revenue	-	(1,090)	-	(1,090)
Provision for abandoned projects	-	608	-	608
Provision for doubtful accounts	-	477	-	477
Lease expense in excess of payments	-	6,649	-	6,649
Interest accretion on note receivable	-	(153)	-	(153)
Amortization of loan issue costs	-	552	-	552
Deferred income taxes	-	125	-	125
Share-based and incentive compensation expense	-	38,549	-	38,549
Deconsolidation of controlled entities	-	(6,360)	-	(6,360)
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	-	(3,593)	-	(3,593)
Due from/due to affiliate	-	4,574	-	4,574
Prepaid expenses and other current assets	-	8,426	-	8,426
Other assets	-	(56)	-	(56)
(Decrease) increase in:				
Accounts payable, accrued expenses and other liabilities	-	(17,733)	-	(17,733)
Share-based and incentive compensation liability	-	(65,020)	-	(65,020)
Self-insurance liabilities	-	6,615	-	6,615
Deferred revenue	-	(86)	-	(86)
Net cash used in operating activities	-	(45,092)	-	(45,092)
INVESTING ACTIVITIES:				
Distribution from investment in equity interests	-	1,773	-	1,773
Capital expenditures, net of reimbursed costs transferred to RealCo	-	(5,435)	-	(5,435)
Increase in notes receivable	-	(979)	-	(979)
Payments from notes receivable	-	354	-	354
Purchase of investments in marketable securities	-	(1,275)	-	(1,275)
Proceeds from the sale of investments in marketable securities	-	1,153	-	1,153
Net cash used in investing activities	-	(4,409)	-	(4,409)
FINANCING ACTIVITIES:				
Contributions from non-controlling interests	-	842	-	842
Distributions on behalf of non-controlling interests	-	(1,503)	-	(1,503)
Lease payments—financing	-	(134)	-	(134)
Net cash used in financing activities	-	(795)	-	(795)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	-	(50,296)	-	(50,296)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of Year	-	158,079	-	158,079
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of Year	$ -	$107,783	$ -	$107,783
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION—Decrease in accrued capital expenditures	$ -	$ (218)	$ -	$ (218)

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 YEAR ENDED DECEMBER 31, 2018 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING ACTIVITIES:				
Net loss	$ (54,975)	$ (56,028)	$ 54,975	$ (56,028)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Equity in loss of subsidiary	54,975	-	(54,975)	-
Loss on sale of real estate	-	51	-	51
Loss from investment in equity interest	-	407	-	407
Net loss on investments in marketable equity securities	-	225	-	225
Depreciation and amortization	-	28,424	-	28,424
Impairment of leases	-	8,694	-	8,694
Amortization of future performance obligation	-	(4,083)	-	(4,083)
Amortization of deferred endowment	-	(13,839)	-	(13,839)
Amortization of other deferred revenue	-	(1,567)	-	(1,567)
Provision for abandoned projects	-	1,430	-	1,430
Provision for doubtful accounts	-	380	-	380
Amortization of leases, including above and below market lease intangibles	-	4,006	-	4,006
Interest accretion on note receivable	-	(123)	-	(123)
Amortization of loan issue costs	-	477	-	477
Deferred income taxes	-	(97)	-	(97)
Share-based and incentive compensation expense	-	29,607	-	29,607
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	-	9,666	-	9,666
Due from/due to affiliate	(1)	18,855	-	18,854
Prepaid expenses and other current assets	-	(3,214)	-	(3,214)
Other assets	-	(89)	-	(89)
(Decrease) increase in:				
Accounts payable, accrued expenses and other liabilities	(12,000)	11,963		(37)
Share-based and incentive compensation liability	-	(2,626)	-	(2,626)
Self-insurance liabilities	-	6,404	-	6,404
Deferred revenue	-	(1,030)	-	(1,030)
Net cash (used in) provided by operating activities	(12,001)	37,893	-	25,892
INVESTING ACTIVITIES:				
Proceeds from termination of leases	-	7,791	-	7,791
Sale of asset to RealCo	-	3,479	-	3,479
Sale of Severna Park	-	(586)	-	(586)
Acquisition of management contracts	-	(29)	-	(29)
Capital expenditures	-	(18,562)	-	(18,562)
Increase in notes receivable	-	(209)	-	(209)
Payments from notes receivable	-	1	-	1
Investments acquired	-	(1,464)	-	(1,464)
Proceeds from investments sold	-	2,690	-	2,690
Net cash used in investing activities	-	(6,889)	-	(6,889)
FINANCING ACTIVITIES:				
Dividends to stockholders	(15,000)	-	-	(15,000)
Distributions between entities	27,000	(27,000)	-	-
Borrowings on credit facility	-	65,000	-	65,000
Repayment of credit facility	-	(65,000)	-	(65,000)
Loan issue costs paid	-	(1,651)	-	(1,651)
Contributions from non-controlling interests	-	889	-	889
Distributions on behalf of non-controlling interests	-	(744)	-	(744)
Net cash provided by (used in) financing activities	12,000	(28,506)	-	(16,506)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1)	2,498	-	2,497
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of Year	1	155,581	-	155,582
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of Year	$ -	$ 158,079	$ -	$ 158,079
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION—Decrease in accrued capital expenditures	$ -	$ (139)	$ -	$ (139)

See notes to consolidated financial statements.

Sunrise Stratford, LP

Financial Statements as of and for the Year Ended December 31, 2019, Other Financial Information, and Independent Auditors' Reports

SUNRISE STRATFORD, LP

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INDEPENDENT AUDITORS' REPORT

To the Partners of Sunrise Stratford, LP:

We have audited the accompanying financial statements of Sunrise Stratford, LP (the "Partnership"), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunrise Stratford, LP as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Partnership has changed its method of accounting for revenue recognition as of January 1, 2019, due to adoption of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. Our opinion is not modified with respect to this matter.

April 23, 2020

SUNRISE STRATFORD, LP

BALANCE SHEET
AS OF DECEMBER 31, 2019

ASSETS

CURRENT ASSETS:	
Accounts receivable—net of allowance for doubtful accounts of $18,134	$ 14,609
Prepaid expenses and other assets	25,137
Total current assets	39,746
UTILITY DEPOSIT	31,137
FURNITURE AND EQUIPMENT:	
Furniture, fixtures, and equipment	183,531
Construction in progress	2,407
Total property and equipment	185,938
Less accumulated depreciation	(92,885)
Property and equipment—net	93,053
MANAGEMENT RIGHTS INTANGIBLE—Net of accumulated amortization of $6,562,090	8,110,907
TOTAL ASSETS	$ 8,274,843

LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 656,697
Deferred revenue	252,674
Total current liabilities	909,371
TOTAL LIABILITIES	909,371
PARTNERS' CAPITAL	7,365,472
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 8,274,843

See notes to financial statements.

SUNRISE STRATFORD, LP

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING REVENUE:	
Resident revenue	$5,714,066
Other revenue	779,716
Total operating revenue	6,493,782
OPERATING EXPENSES:	
Labor	3,366,989
General and administrative	1,029,969
Depreciation and amortization	492,297
Management fees to affiliate	465,054
Food	361,001
Utilities	212,353
Repairs and maintenance	211,898
Insurance	180,904
Advertising and marketing	93,505
Ancillary expenses	25,501
Taxes and licenses	18,582
Bad debt expense	15,584
Total operating expenses	6,473,637
OPERATING INCOME	20,145
LOSS ON ASSET DISPOSAL	248
NET INCOME	$ 19,897

See notes to financial statements.

SUNRISE STRATFORD, LP

STATEMENT OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019

PARTNERS' CAPITAL—January 1, 2019	$ 8,438,437
Net income	19,897
Contributions	5,680,925
Distributions	(6,773,787)
PARTNERS' CAPITAL—December 31, 2019	$ 7,365,472

See notes to financial statements.

SUNRISE STRATFORD, LP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from residents who did have a continuing care contract	$ 5,692,980
Cash received from residents who did not have a continuing care contract	96,024
Cash received from other sources	779,716
Cash paid for labor	(3,371,882)
Cash paid for administrative expenses	(1,112,126)
Cash paid for insurance	(209,933)
Cash paid for food	(361,001)
Cash paid for management fee	(465,054)
Net cash provided by operating activities	1,048,724
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(83,526)
Reimbursements of property and equipment	127,664
Net cash provided by investing activities	44,138
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions	5,680,925
Distributions	(6,773,787)
Net cash used in financing activities	(1,092,862)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	0
CASH AND CASH EQUIVALENTS—Beginning of year	-
CASH AND CASH EQUIVALENTS—End of year	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS—	
Accrued capital expenditures	$ (1,501)

(Continued)

SUNRISE STRATFORD, LP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$	19,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debt		15,584
Depreciation and amortization		492,297
Loss on disposal		248
Changes in operating assets and liabilities:		
Accounts receivable		(30,193)
Prepaid expenses and other assets		382,928
Accounts payable and accrued expenses		62,832
Deferred revenue		105,131
Net cash provided by operating activities	$	1,048,724

See notes to financial statements.

(Concluded)

SUNRISE STRATFORD, LP

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

1. ORGANIZATION AND PRESENTATION

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

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

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

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

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

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

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

The Trust is administered in accordance with the Trust agreement, which requires that the principal and income from investment of the principal be used for the benefit of the residents of Stratford, including—but not limited to—payment for medical and health-related costs, the replacement of fixtures and equipment, structural upgrades, other capital improvements, and interest-bearing loans to residents who become unable to pay their monthly fees or other fees. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by Stratford of San Mateo Homeowners Association. For the year ended December 31, 2019, the Partnership agreed to transfer $222,526 to the Trust. The transfer is calculated as net operating income adjusted for marketing expense, wages and benefits, bad debt, and commissions received on unit sales and is included in general and administrative expense in the statement of operations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Furniture and Equipment—Furniture and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 10 years. Depreciation expense was $3,197 in 2019.

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

that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate and related assets are greater than their fair values. No impairment charges were recorded in 2019.

Management Rights—The Partnership acquired all easements and rights for Stratford as a part of the acquisition from Raiser Resources, LLC. The rights included the right to manage Stratford for a management fee and the right to transfer fees, including a commission of a percentage of the sale price on each condominium unit sold by an owner, plus a percentage of the appreciation in value. Management rights were recorded at fair value at acquisition and are being amortized using the straight-line method over the estimated useful life of 30 years. Amortization expense was $489,100 for the year ended December 31, 2019.

Management rights are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Partnership measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charges were recorded in 2019.

Revenue Recognition and Deferred Revenue—Operating revenue consists of resident fee revenue. Revenue from resident fees and services is predominantly service based. We recognize revenue for resident care services in accordance with the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Although there are various tasks and activities performed by us under the contracts, we have determined that all resident care services are a single performance obligation, which is satisfied over time as the services are rendered. Agreements with residents are generally for a term of one year and are cancelable by residents with 30- to 90-day notice. The Partnership bills the residents one month in advance of the services being rendered, and therefore, cash payments received for services are recorded as deferred revenue until the services are rendered and the revenue is earned.

Upon sale of a condominium by an owner, the Partnership receives a commission of 7% of the sale price, net of transactions costs, plus a percentage of the appreciation in price of the condominium. These fees are recognized when received and are recorded in other revenue in the amount of $744,790 for 2019.

Future Service Obligation on CCRC Agreement—When the present value of estimated costs to be incurred under CCRC Agreements exceeds estimated revenues, the present values of such excess costs are accrued currently. The estimated future revenues assume a future increase in the monthly revenue commensurate with the monthly cost. The calculations at December 31, 2019, resulted in an expected positive net present value cash flow, and as such, no liability has been recorded in the accompanying financial statements.

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

The Partnership has no uncertain tax positions that require accrual at December 31, 2019.

The statute of limitations for the State of California to perform audits on the Partnership is four years and expires on October 15, 2024. The Partnership is currently not under an audit by any tax authorities. Tax years December 31, 2015, through December 31, 2019, are open and subject to California state audit.

New Accounting Standards

We adopted ASC 606, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and requires entities to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. Subsequent to ASU No. 2014-09, the Financial Accounting Standards Board issued several related ASUs to clarify the application of the new revenue recognition standard, collectively ASU No. 2014-09. We adopted ASU No. 2014-09 on January 1, 2019, using the modified retrospective method. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning retained earnings. We have determined that the adoption of ASU 2014-09 did not result in an adjustment to retained earnings as of January 1, 2019.

We evaluated our various revenue streams to identify whether they would be subject to the provisions of ASC 606 and any differences in timing, measurement, or presentation of revenue recognition. A significant source of our revenue is generated from resident contracts whereby we recognize resident fees and services monthly, as services are provided. Under ASC 606, the pattern and timing of recognition of income from these contracts is consistent with the prior accounting model. Thus, the adoption of ASC 606 did not materially impact the financial statements.

3. TRANSACTIONS WITH AFFILIATES

The Partnership has a management agreement with Sunrise Senior Living Management, Inc. (SSLMI) to manage the facility. The agreement provided for a monthly fee of 7.1% of gross operating revenue. Total management fees incurred were $465,054 in 2019.

The Partnership obtained worker's compensation, professional and general liability, and property coverage through Sunrise Senior Living Insurance, Inc., an affiliate of Sunrise. Related expenses totaled $180,904 in 2019.

The Partnership and SSLMI do not settle cash received or paid in affiliated transactions at the subsidiary level; therefore, the affiliated activity between SSLMI and the Partnership for the year 2019 has been included in contributions and distributions in the statement of changes in partners' capital for the year ended December 31, 2019. Distributions represent cash collected from residents and subsequently remitted to Sunrise. Contributions represent the net of all other operating activities recorded through intercompany and paid by Sunrise, plus noncash financing activities.

4. CONTINGENCIES

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

5. SUBSEQUENT EVENTS

As a result of the spread of the COVID-19 coronavirus during 2020, economic uncertainties have arisen as of the date of the financial statements. The extent of the impact of COVID-19 on the Partnership's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on the Partnership's tenants/residents and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Partnership's financial condition or results of operations is uncertain. The Partnership has reviewed subsequent events through April 23, 2020, the date the financial statements were available for issuance. Other than as already disclosed, there have been no events subsequent to the balance sheet date that require disclosures or adjustments in these financial statements.

* * * * * *

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INDEPENDENT AUDITORS' REPORT

To the Partners of
Sunrise Stratford, LP:

We have audited the accompanying schedules of long-term debt, net operating expenses, and liquid reserve amount in Forms 5-1 through 5-5 (the "Schedules"), which comprise the Long-Term Debt Incurred in a Prior Fiscal Year, Long-Term Debt Incurred During the Fiscal Year, Calculation of Long-Term Debt Reserve Amount, Calculation of Net Operating Expenses, and Annual Reserve Certification, respectively, for Sunrise Stratford, LP (the "Partnership"), as of December 31, 2019, and for the year then ended, and the related notes to the Schedules.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedules referred to above present fairly, in all material respects, the long-term debt, net operating expenses, and liquid reserve amount in Forms 5-1 through 5-5 of Sunrise Stratford, LP as of December 31, 2019, and for the year then ended, on the basis of financial reporting provisions of the California Health and Safety Code section 1792 as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007.

Basis of Accounting

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

Restriction on Use

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

April 23, 2020

Red Fox Holding Corporation/Sunrise Senior Living, LLC

Consolidated Financial Statements

[See reports attached]

Sunrise Stratford, LP

Form 5-1 -
Long-Term Debt Incurred In a Prior Fiscal Year
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b)+(c)+(d))
None					
		TOTAL:			

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

Sunrise Stratford, LP

Form 5-2 -
Long-Term Debt Incurred During the Fiscal Year
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (Columns (c) x (d))
None					
		TOTAL:			

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

Sunrise Stratford, LP

Form 5-3 -
Calculation of Long-Term Debt Reserve Amount

Line		Total
[1]	Total from Form 5-1 bottom of Column (e)	$ -
[2]	Total from Form 5-2 bottom of Column (e)	$ -
[3]	Facility leasehold or rental payment paid by provider during fiscal year. (Including related payments such as lease insurance)	$ -
[4]	Total Amount Required For Long-Term Debt Reserve:	$ -

Sunrise Stratford, LP

Form 5-4 -
Calculation of Net Operating Expenses

Line			Amounts	Total
[1]	Total operating expenses from financial statements			6,473,637
[2]	Deductions			
	a	Interest paid on long term debt (see instructions)	$ -	
	b	Credit enhancement premiums paid for long-term debt (see instructions)	-	
	c	Depreciation	3,197	
	d	Amortization	489,100	
	e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	96,024	
	f	Extraordinary expenses approved by the Department	-	
[3]	Total Deductions			$ (588,321)
[4]	Net Operating Expenses			$ 5,885,316
[5]	Divide Line 4 by 365 and enter the result			$ 16,124
[6]	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.			$ 1,209,300

Sunrise Stratford, LP

Form 5-5 -
Annual Reserve Certification

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

		Amount
[1]	Debt Service Reserve Amount	$ -
[2]	Operating Expense Reserve Amount	$ 1,209,300
[3]	Total Liquid Reserve Amount	$ 1,209,300

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

		Amount	
	Qualifying Asset Description	Debt Service Reserve	Operating Reserve
[4]	Cash and Cash Equivalents		
[5]	Investment Securities		
[6]	Equity Securities		
[7]	Unused/Available Lines of Credit		
[8]	Unused/Available Letters of Credit		
[9]	Debt Service Reserve		(not applicable)
[10]	Other:		
	Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] $ -	[12] $ -
	Total Amount Required	[13] $ -	[14] $ 1,209,300
	Surplus/(Deficiency)	[15] $ -	[16] $ (1,209,300)

Form 5-5
Annual Reserve Certification

Provider Name: Sunrise Stratford LP
Fiscal Year Ended: December 31, 2019

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for for the period ended December 31, 2019 and are in compliance with those requirements.

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

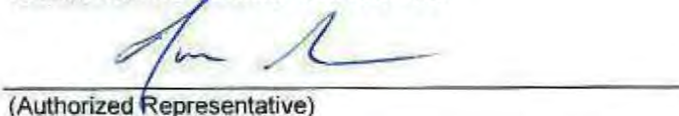
		Amount
[1]	Debt Service Reserve Amount	$ -
[2]	Operating Expense Reserve Amount	$ 1,209,300
[3]	**Total Liquid Reserve Amount**	**$ 1,209,300**

Qualifying assets sufficient to fulfill the above requirements are held as follows **(SEE NOTE below)**:

	Qualifying Asset Description	Amount: Debt Service Reserve	Amount: Operating Reserve
[4]	Cash and Cash Equivalents*		$ 7,339,597
[5]	Investment Securities		
[6]	Equity Securities		
[7]	Unused/Available Lines of Credit		
[8]	Unused/Available Letters of Credit		
[9]	Debt Service Reserve		(not applicable)
[10]	Other: (describe qualifying asset)		
	Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] $ -	[12] $ 7,339,597
	Total Amount Required	[13] $ -	[14] $ 1,209,300
	Surplus/(Deficiency)	[15] $ -	[16] $ 6,130,297

NOTE No cash and cash equivalents are held by Sunrise Stratford, LP. Cash is consolidated and held by Sunrise Senior Living, LLC. In order to provide a more complete portrayal of the assets available to meet the required reserves, DSS has requested Form 5-5 be revised to reflect the qualifying assets from the audited financial statements of Sunrise Senior Living, LLC.

SCHEDULE REVISIONS- UNAUDITED



(Authorized Representative)

5/20/2020
(Date)

Acting CFO
(Title)

FORM 5-5

PART OF FORM 5-5, DESCRIPTION OF RESERVES AND ADDITIONAL DISCLOSURES

Provider Name: Sunrise Stratford, LP

Fiscal Year Ended: December 31, 2019

Calculation of Per Capita Cost of Operations

Description	Current Year 2019	
Operating Expenses (Form 5-4, line 1)	$	6,473,637
Depreciation (Form 5-4, line 2c)	$	3,197
Net Operating Expenses	$	6,470,440
Mean # of all residents (Form 1-1, line 10)		78
Per Capita Cost of Operations	$	82,954.36

FORM 5-5

Annual Reserve Certification

Supplemental Information

Year End Dec 31, 2019

Cash

Cash on Hand

Bank Name	GL Amount	Type
Bank of Scotland	1,334,237.50	Operating
Bank of Scotland	117,793.72	Operating
RBS	1,275,718.79	Operating
BOA	64.11	Operating
BOA	5,379,431.55	Operating
BOA	(3,558,789.94)	Operating
Key Bank	1,881,163.21	Operating
Key Bank	15,906.18	Operating
Key Bank	(64,865.17)	Operating
BOA	685,037.01	Operating
TD Bank	(32,839.90)	Operating
RBS	(426.89)	Operating
Bank of Scotland	11,856.10	Operating
	7,044,286.27	Operating

Key Bank and BOA	(191,984.31)	Payroll
TD Bank	11,712.07	Payroll
BOA	163,307.95	Payroll
	(16,964.29)	Payroll

Negative Balance represents Outstanding Payroll Checks that have not been Cashed

BOA	**312,275.08**	Tax EFT Payments

Total Cash on Hand **7,339,597.06**

SUNRISE STRATFORD, LP

NOTES TO ANNUAL RESERVE CALCULATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

1. ORGANIZATION AND PRESENTATION

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

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

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

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

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

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

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

The Trust is administered in accordance with the Trust Agreement, which requires that the principal and income from investment of the principal be used for the benefit of the residents of Stratford, including—but not limited to—payment for medical and health-related costs, the replacement of fixtures and equipment, structural upgrades, other capital improvements, and interest-bearing loans to residents who become unable to pay their monthly fees or other fees. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by Stratford of San Mateo Homeowners Association. For the year ended December 31, 2019, the Partnership agreed to transfer $222,526 to the Trust. The transfer is calculated as net operating income adjusted for marketing expense, wages and benefits, bad debt, and commissions received on unit sales and is included in general and administrative expense in the statement of operations.

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

2. PURPOSE OF THE ANNUAL RESERVE CALCULATION

As the Partnership operates as a CCRC, the Partnership is required to file Forms 5-1 through 5-5 of the California Health and Safety Code section 1792 (the "Schedules") as instructed under the State of California Department of Social Services (DSS) Annual Report Instructions issued on January 1, 2007, for the year ended December 31, 2019. The purpose of the Schedules is to determine the amount the Partnership must hold in its liquid reserves for debt service and operating expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE FROM NONCONTINUING CARE RESIDENTS

The Partnership has deducted $96,024 on Form 5-4 line 2 (e) for revenues received during the fiscal year for services to persons who did not have a continuing care contract. The revenue represents service fees received for nonresident revenues and short-term respite stays in assisted living for noncontinuing care residents.

5. LIQUID RESERVE AMOUNT

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

6. SUBSEQUENT EVENTS

As a result of the spread of the COVID-19 coronavirus during 2020, economic uncertainties have arisen as of the date of the financial statements. The extent of the impact of COVID-19 on the Partnership's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on the Partnership's tenants/residents and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Partnership's financial condition or results of operations is uncertain. The Partnership has reviewed subsequent events through April 23, 2020, the date the financial statements were available for issuance. Other than as already disclosed, there have been no events subsequent to the balance sheet date that require disclosures or adjustments in these financial statements.

* * * * * *

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 04/21/2020

FACILITY NAME: The Stratford

ADDRESS: 601 Laurel Ave, San Mateo ZIP CODE: 94401 PHONE: 650-342-4106

PROVIDER NAME: Sunrise Stratford LP FACILITY OPERATOR: Sunrise Senior Living Management LLC

RELATED FACILITIES: RELIGIOUS AFFILIATION: None

YEAR OPENED: 1992 # OF ACRES: 1+/- ❑ SINGLE STORY ☑ MULTI-STORY ❑ OTHER: MILES TO SHOPPING CTR: 1+/- MILES TO HOSPITAL: 1+/-

* *

NUMBER OF UNITS:

RESIDENTIAL LIVING

APARTMENTS – STUDIO: 0
APARTMENTS – 1 BDRM: 3
APARTMENTS – 2 BDRM: 62
COTTAGES/HOUSES: 0
RLU OCCUPANCY (%) AT YEAR END: 93.2%

HEALTH CARE

ASSISTED LIVING: 9
SKILLED NURSING:
SPECIAL CARE:
DESCRIPTION: >
>

* *

TYPE OF OWNERSHIP: ❑ NOT-FOR-PROFIT ☑ FOR- PROFIT ACCREDITED?: ☑ YES ❑ NO BY: DSS

FORM OF CONTRACT: *(Check all that apply)* ☑ CONTINUING CARE ❑ LIFE CARE ❑ ENTRANCE FEE ❑ FEE FOR SERVICE ❑ ASSIGNMENT OF ASSETS ☑ EQUITY ❑ MEMBERSHIP ❑ RENTAL

REFUND PROVISIONS: *(Check all that apply)* ❑90% ❑75% ❑50% ❑FULLY AMORTIZED ☑OTHER: Unit Sale

RANGE OF ENTRANCE FEES: $315,000 - $1,500,000 **LONG-TERM CARE INSURANCE REQUIRED?** ❑ YES ■ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: No

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: Health & Financial

RESIDENT REPRESENTATIVE(S) TO, AND RESIDENT MEMBER(S) ON, THE BOARD (briefly describe provider's compliance and residents' role): > see attached

>

* *

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☐	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☐	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☐	☐
SWIMMING POOL-INDOOR	☑	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☐	☐
OTHER Dining Room	☑	☑

SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING (4 TIMES/MONTH)	☑	☐
MEALS (1 /DAY)	☑	☐
SPECIAL DIETS AVAILABLE	☑	☐
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☐	☐
APARTMENT MAINTENANCE	☐	☑
CABLE TV	☑	☐
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☑
PERSONAL HOME CARE	☑	☑
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☑
OTHER Assisted Living	☑	☑

All providers are required by Health and Safety Cod e section 1789.1 to provide this report to prospect ive residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility opera tions which may influence financial reporting. Con sumers are encouraged to ask questions of the continuing c are retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Sunrise Stratford, LP

	Community*	CCRC/MLRC/ LIFECARE	Street	City	State	Zip
1	Alta Loma, Sunrise of	AL	9519 Baseline Road	Rancho Cucamonga	91730	CA
2	Belmont, Sunrise of	AL	1010 Alameda de Las Pulgas	Belmont	94002	CA
3	Beverly Hills, Sunrise of	AL	201 North Crescent Drive	Beverly Hills	90210	CA
4	Bonita, Sunrise of	AL	3302 Bonita Road	Chula Vista	91910	CA
5	Brandford Square	AL	1180 N Brandford Avenue	Placentia	92870	CA
6	Brush Creek, Senior Living	AL	4225 Wayvern Drive	Santa Rosa	93901	CA
7	Burlingame, Sunrise of	AL	1818 Trousdale Drive	Burlingame	94010	CA
8	Canyon Crest, Sunrise of	AL	5265 Chapala Drive	Riverside	92507	CA
9	Carlisle, The	IL	1450 Post Street	San Francisco	94109	CA
10	Carmichael, Sunrise of	AL	5451 Fair Oaks	Carmichael	95608	CA
11	Claremont, Sunrise of	AL	2053 North Towne Avenue	Claremont	91711	CA
12	Danville, Sunrise of	AL	1027 Diablo Road	Danville	94526	CA
13	Fair Oaks CA, Sunrise of	AL	4820 Hazel Avenue	Fair Oaks	95628	CA
14	Fresno, Sunrise of	AL	7444 North Cedar Avenue	Fresno	93720	CA
15	Fullerton, Sunrise of	AL	2226 North Euclid Street	Fullerton	92835	CA
16	Grandview, Senior Living	AL	4061 Grand View Blvd	Los Angeles	90066	CA
17	Hermosa Beach, Sunrise of	AL	1837 Pacific Coast Highway	Hermosa Beach	90254	CA
18	Huntington Beach, Sunrise of	AL	7401 Yorktown Avenue	Huntington Beach	92648	CA
19	La Costa, Sunrise of	AL	7020 Manzanita Street	Carlsbad	92008	CA
20	La Palma, Sunrise of	AL	5321 La Palma Avenue	La Palma	90623	CA
21	Mission Viejo, Sunrise of	AL	26151 Country Club Drive	Mission Viejo	92691	CA
22	Monterey, Sunrise of	AL	1110 Cass St.	Monterey	93940	CA
23	Oakland Hills, Sunrise of	AL	11889 Skyline Boulevard	Oakland	94619	CA
24	Pacific Beach, Sunrise of	AL	810 Turquoise Street	San Diego	92109	CA
25	Palo Alto, Sunrise of	AL	2701 El Camino Real	Palo Alto	94306	CA
26	Palos Verdes, Sunrise of	AL	25535 Hawthonre Blvd	Torrance	90504	CA
27	Petaluma, Sunrise of	AL	815 Wood Sorrel Drive	Petaluma	94954	CA
28	Playa Vista, Sunrise of	AL	5555 Playa Vista Drive	Playa Vista	90094	CA
29	Pleasanton, Sunrise of	AL	5700 Pleasanton Hill Rd	Pleasanton	94588	CA
30	Rocklin, Sunrise of	AL	6100 Sierra College Boulevard	Rocklin	95677	CA
31	Sabre Spring, Sunrise of	AL	12515 Springhurst Dr	San Diego	92128	CA
32	Sacramento, Sunrise of	AL	345 Munroe Street	Sacramento	95825	CA
33	San Marino, Sunrise of	AL	8332 Huntington Drive	San Gabriel	91775	CA
34	San Mateo, Sunrise of	AL	955 South El Camino Road	San Mateo	94402	CA
35	San Rafael, Sunrise of	AL	111 Merrydale Road	San Rafael	94903	CA
36	San Ramon, Senior Living	AL	9199 Fircrest Lane	San Ramon	94583	CA
37	Santa Monica, Sunrise of	AL	1313 15th Street	Santa Monica	90404	CA
38	Seal Beach, Sunrise of	AL	3850 Lampson Avenue	Seal Beach	90740	CA
39	Serra, Senior Living	AL	1320 Padre Drive	Salinas	93901	CA
40	Silver Creek, Senior Living	AL	4855 San Felipe Road	San Jose	95135	CA
41	Sonoma, Senior Living	AL	91 Napa Road	Sonoma	95476	CA
42	Sterling Canyon, Sunrise of	AL	25815 McBean Parkway	Valencia	91355	CA
43	Stratford, The	CCRC	601 Laurel Avenue	San Mateo	94401	CA
44	Studio City, Sunrise of	AL	4610 Coldwater Canyon	Studio City	91604	CA
45	Sunnyvale, Sunrise of	AL	633 S. Knickerbocker Drive	Sunnyvale	94087	CA
46	Tustin, Sunrise of	AL	12291 South Newport Avenue	Santa Ana	92705	CA
47	Walnut Creek, Sunrise of	AL	2175 Ygnacio Valley Road	Walnut Creek	94598	CA
48	West Hills, Sunrise of	AL	9012 Topanga Canyon Road	West Hills	91304	CA
49	Westlake Village, Sunrise of	AL	3101 Townsgate Road	Westlake Village	91361	CA
50	Wood Ranch, Sunrise at	AL	190 Tierra Rejada Road	Simi Valley	93065	CA
51	Woodland Hills, Sunrise of	AL	20461 Ventura Boulevard	Woodland Hills	91364	CA
52	Yorba Linda, Sunrise of	AL	4792 Lakeview Avenue	Yorba Linda	92886	CA

*** This list reflects Sunrise owend/operated communities in the State of California only.**
A complete list of all Sunrise owned/operated communities is available upon request.

PROVIDER NAME: Sunrise Stratford, LP

	2016	2017	2018	2019
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$ 5,717,213	$ 5,936,304	$ 6,148,449	$ 6,493,782
LESS OPERATING EXPENSES (excluding depreciation, amortization & interest)	$ 5,576,050	$ 5,792,963	$ 6,050,607	$ 5,981,340
NET INCOME (LOSS) FROM OPERATIONS	**$ 141,163**	**$ 143,341**	**$ 97,842**	**$ 512,442**
LESS INTEREST EXPENSE	$ -	$ -	$ -	$ -
PLUS CONTRIBUTIONS	$ -	$ -	$ -	$ -
PLUS NONOPERATING INCOME (EXPENSES) (excluding extraordinary items)	$ -	$ -	$ -	$ -
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	**$ 141,163**	**$ 143,341**	**$ 97,842**	**$ 512,442**
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits less Refunds)	$ -	$ -	$ -	$ -

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
None	$ -	0.000%			

PROVIDER NAME: Sunrise Stratford, LP

FINANCIAL RATIOS

	2017 CCAC Medians 50th percentile (optional)	2017	2018	2019
Debt to Asset ratio		0.00%	0.00%	0.00%
Operating Ratio		101.93%	97.28%	92.11%
Debt Service Coverage Ratio		0.00%	0.00%	0.00%
Days Cash on Hand ratio		0	0	0

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2016	%	2017	%	2018	%	2019
STUDIO							
ONE BEDROOM	$ 5,199	5.0%	$ 5,459	6.5%	$ 5,814	4.0%	$ 6,047
TWO BEDROOM	$ 10,398	5.0%	$ 10,918	6.5%	$ 11,628	4.0%	$ 12,093
COTTAGE/HOUSE							
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER: **RESIDENT REPRESENTATIVE ON BOARD (SEE ATTACHED)**

PROVIDER NAME: Sunrise Stratford, LP

Financial Ratio Formulas

LONG TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long term debt less Current Portion}}{\text{Total Assets}} = \mathbf{0.00\%}$$

Long term debt, less current maturities		
Total Assets	$	8,274,843

OPERATING RATIO

$$\frac{\text{Total Operating Expenses - Depeciation Expense - Amortization Expense}}{\text{Total Operating Revenues - Amortization of Deferred Entrance Fees}} = \mathbf{92.11\%}$$

Total Operating Expenses	$	6,473,637
Depreciation Expense	$	3,197
Amortization Expense	$	489,100
Total Operating Revenues	$	6,493,782
Amortization of Deferred Entrance Fees		

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses + Interest, Depreciation and Amortization Expense - Amortization of Deferred Revenue + Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}} = \mathbf{0.00\%}$$

Excess of Revenues over Expenses	$	20,145
Interest Expense	$	-
Depreciation Expense	$	3,197
Amortization Expense	$	489,100
Amortization of Deferred Revenue	$	-
Net Proceeds from Entrance Fees	$	-
Annual Debt Service	$	-

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments + Unrestricted Non-Current Cash and Investments}}{\text{(Operating Expenses - Depreciation - Amortization)/365}} = \mathbf{0}$$

Unrestricted Non-Current Cash and Investments	$	-
Operating Expenses	$	6,473,637
Depreciation & Amortization Expense	$	492,297

THE STRATFORD

RESIDENT REPRESENTATION

The COA holders at The Stratford are Sunrise Stratford GP, LLC (as general partner of Sunrise Stratford, LP, the owner of the easements) and Sunrise Senior Living, LLC (SSLLLC) (the ultimate owner of Sunrise Stratford, LP and of Sunrise Stratford GP, LLC). SSLLLC is itself subject to ultimate ownership by Public Sector Pension Investment Board, a Canadian crown corporation, and Health Care REIT, Inc., a publicly traded corporation. Given this structure, there is no governing body as such that makes decisions about The Stratford on which a resident might serve, either as a resident representative or a full-fledged member. The regional and local managers employed by Sunrise Senior Living Management, Inc. (SSLMI), also as subsidiary of SSLLLC, make decisions regarding matters like fee increases, expansion or contraction of services, or other changes that would result in budget variances. Accordingly, residents can best convey their concerns, and ensure that their opinions are effectively relayed, to the COA holders by meeting with the regional and local managers responsible for The Stratford. With this in mind, the Sunrise Senior Living Regional Director of Operations for the Western Region and the Executive Director of The Stratford are meeting on a semi-annual basis with a resident selected by the Board of The Stratford of San Mateo Homeowners' Association in order to obtain input on relevant matters such as economic performance, building and plant issues, and general resident service questions. In addition, they are meeting with the resident to discuss any specific changes to in the foregoing areas.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly service fees at beginning of reporting period: (Indicate range, if applicable)	$6,047 to $12,093		
[2] Indicate percentage of increase in fees imposed during reporrting period: (Indicate range, if applicable)	4.00%	0.00%	0.00%

[ ] Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and the community.)

[3] Indicate the date the fee increase was implemented: 1/1/2019

[4] Check each of the appropriate boxes:

[X] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[X] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

Date of Notice: 10/31/2018 **Method of Notice: Letter**

[X] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

Date of Meeting: 09/15/18

[X] At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

[X] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases. **Date of Notice: 09/25/18**

[X] The governing body of the provider, or the designated representative of the provider posted notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

Date of Posting: 10/1/2018 **Location of Posting: Mailboxes**

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Sunrise Stratford, LP

COMMUNITY: The Stratford

Attachment to FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

In determining the rate increase for monthly service fees at our community, the following data points were analyzed to determine the proper rate increases. Points considered included a comparison between where current fiscal year operations/budget to prior year's performance and projected increase in expenses over current period operations. All factors considered allow for The Stratford to measure our current and projected operation performance through our Net Operating Margin (NOM) which is used as a benchmark to ensure our core business of delivering services to our residents is sustainable. The findings are noted below.

Current Operations:

Operating revenue for the current fiscal year ending December 31st, 2019 was $6,493,782 and operating expenses were $6,473,637 for net operating gain of $19,897 and a net operating margin (NOM) of 0.3%. This compared to budgeted NOM of (5.3%) and to prior year operating revenue of $6,148,449, operating expenses of $6,559,156, net operating loss of ($410,707) and a NOM of (6.7%).

Principal Projected Increases in Expenses:

The following are budgeted increases in expenses as compared to projected year-end operations:
- Salaries and wages by $351,080 or 13.2%
- Employee benefits and payroll taxes by $50,328 or 10.8%

Rationale for Monthly Fee Increase - 2020

In order to cover the projected increase in expense and change in per capita cost of operations, 2.5% monthly fee increase at The Stratford was approved by the Sunrise Board of Directors and is expected to yield a NOM of 2.7%.

PROVIDER: Sunrise Stratford, LP

COMMUNITY: The Stratford

KEY INDICATORS REPORT

Sunrise Stratford, LP

Acting Chief Financial Officer Signature

Date Prepared: 4/30/20

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators

	2015	2016	2017	2018	2019	Projected 2020	Forecast 2021	2022	2023	2024	Preferred Trend Indicator
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	99%	97%	96%	98%	96%	93%	93%	93%	93%	93%	N/A
MARGIN PROFITABILTIY INDICATORS											
2. Net Operating Margin (%)	5.85%	5.08%	3.55%	2.19%	3.57%	3.93%	3.93%	3.93%	3.93%	3.93%	↑
3. Net Operating Margin - Adjusted (%)	5.85%	5.08%	3.55%	2.19%	3.57%	3.93%	3.93%	3.93%	3.93%	3.93%	↑
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	↑
5. Days Cash on Hand (Unrestricted)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	↑
CAPITAL STRUCTURE INDICATORS											
6. Deferred Reveue from Entrance Fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	N/A
7. Net Annual E/F Proceeds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	N/A
8. Unrestricted Net Assets	$ 10,166,250	$ 9,883,785	$ 9,869,793	$ 9,147,207	$ 8,243,706	$ 8,241,163	$ 8,248,663	$ 8,253,663	$ 8,258,663	$ 8,263,663	N/A
9. Annual Capital Asset Expenditures	$ 26,075	$ 16,798	$ 17,155	$ 88,536	$ (129,614)	$ 28,594	$ 22,000	$ 22,000	$ 22,000	$ 22,000	N/A
10. Annual Debt Service Coverage - Revenue Basis (x)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	↑
11. Annual Debt Service Coverage (x)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	↑
12. Annual Debt Service/Revenue (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	↓
13. Average Annual Effective Interest Rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	↓
14. Unrestricted Cash & Investments/Long Term Debt (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	↑
15. Average Age of Facility (years)	24	25	26	27	28	29	30	31	32	33	↓

Attachment to KIR

SIGNIFICANT VARIANCE EXPLANATION

Line 9 Annual Capital Asset Expenditures

During 2019, The Stratford incurred $85,027 in new fixed asset purchases and construction in process, partially offset by reimbursements from our Homeowners Association (HOA) of $127,665 and fixed asset retirements of $86,976. The net effect resulted in a credit of $129,614.

PROVIDER: Sunrise Stratford, LP

COMMUNITY: The Stratford