

## CERTIFICATE

**S-H OpCo Rancho Mirage, LLC DBA Brookdale Rancho Mirage**

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) SS:

The enclosed Annual Report for S-H OpCo Rancho Mirage, LLC DBA Brookdale Rancho Mirage and any amendments thereto are correct to the best of my knowledge and belief.

The continuing care contract form in use or offered to new residents at Brookdale Rancho Mirage has been approved by the Department.

As of the date of this certification, S-H OpCo Rancho Mirage, LLC is maintaining the required liquid reserve.

Coverup of Beus

Carrey Beers  
Secretary

Sworn and subscribed to before me,  
a Notary Public, this \_\_\_\_ day  
of April, 2018

(Notarial Seal)

## Notary

My commission expires: \_\_\_\_\_

**FORM 1-1**  
**RESIDENT POPULATION**

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	149
[2]	Number at end of fiscal year	112
[3]	Total Lines 1 and 2	261
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x.50
[5]	Mean number of continuing care residents	130.5
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	149
[7]	Number at end of fiscal year	134
[8]	Total Lines 6 and 7	283
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x.50
[10]	Mean number of all residents	141.5
[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).	92.23%

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

Line	Description	TOTAL
[1]	Total Operating Expenses (including depreciation and debt service- interest only)	\$ 11,031,000
[a]	Depreciation	\$ 289,000
[b]	Debt Service (Interest Only)	\$ -
[2]	Subtotal (add Line 1a and 1b)	\$ 289,000
[3]	Subtract Line 2 from Line 1 and enter result.	\$ 10,742,000
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	92.23%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$ 9,907,000
		x .001
[6]	Total Amount Due (multiply Line 5 by .001)	\$ 9,907

**PROVIDER:** S-H OpCo Rancho Mirage, LLC  
**COMMUNITY:** Brookdale Rancho Mirage

Vendor Number: 0000103714  
 Name DEPARTMENT OF SOCIAL SERVICES

Check Date: 04/23/2018  
 Check No. 00069595

Invoice Number	Invoice Date	Payment Message	Voucher ID	Bus. Unit	Pay on Behalf of:
		<u>Gross Amount</u>	<u>Discount Taken</u>	<u>Paid Amount</u>	
0420189907.00	04/20/2018	CCRC RENEWAL FEE		00012144	24674 Brookdale Rancho Mirage
		9,907.00	0.00	9,907.00	
TO ENSURE PAYMENTS, REMIT TO ADDRESS AND THE COMMUNITY NAME AND ADDRESS ARE REQUIRED ON YOUR INVOICES .					
Gross Amount Total	\$9,907.00	Discount Taken Total	\$0.00	Paid Amount Total	\$9,907.00

Tear Here

THE BACK OF THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK - HOLD AT AN ANGLE TO VIEW

Brookdale Senior Living Inc.  
 C/O 6737 West Washington Street,  
 Suite# 2300, Milwaukee, WI 53214  
 1-866-434-8312

Check Date: 04/23/2018  
 Vendor Number: 0000103714

Check No. 00069595  
 WELLS FARGO BANK NA  
 WELLS FARGO BANK NA  
 Van Wert, OH 45891  
 56-382/412

Pay \*\*\*\*\*NINE THOUSAND NINE HUNDRED AND SEVEN AND XX / 100 DOLLAR\*\*\*\*\*

Pay Amount  
 \$9,907.00\*\*\*

Pay To The Order Of DEPARTMENT OF SOCIAL SERVICES  
 744 P ST  
 MS 3-67  
 SACRAMENTO, CA 95814



Void After 90 Days

⑈00069595⑈

⑈041203824⑈

9620000514⑈





# CERTIFICATE OF LIABILITY INSURANCE

Page 1 of 2

DATE (MM/DD/YYYY)  
12/28/2017

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).

<b>PRODUCER</b> Willis of Illinois, Inc. c/o 26 Century Blvd P.O. Box 305191 Nashville, TN 372305191 USA	<b>CONTACT NAME:</b> Willis Towers Watson Certificate Center <b>PHONE (A/C No, Ext):</b> 1-877-945-7378 <b>FAX (A/C No):</b> 1-888-467-2378 <b>E-MAIL ADDRESS:</b> certificates@willis.com														
<b>INSURED</b> Brookdale Senior Living, Inc. 111 Westwood Place Suite 400 Brentwood, TN 37027	<table border="1"><thead><tr><th>INSURER(S) AFFORDING COVERAGE</th><th>NAIC #</th></tr></thead><tbody><tr><td>INSURER A: Underwriters at Lloyd's London</td><td>15792</td></tr><tr><td>INSURER B: Continental Insurance Company</td><td>35289</td></tr><tr><td>INSURER C: American Casualty Company of Reading, PA</td><td>20427</td></tr><tr><td>INSURER D: National Union Fire Insurance Company of P</td><td>19445</td></tr><tr><td>INSURER E: Columbia Casualty Company</td><td>31127</td></tr><tr><td>INSURER F:</td><td></td></tr></tbody></table>	INSURER(S) AFFORDING COVERAGE	NAIC #	INSURER A: Underwriters at Lloyd's London	15792	INSURER B: Continental Insurance Company	35289	INSURER C: American Casualty Company of Reading, PA	20427	INSURER D: National Union Fire Insurance Company of P	19445	INSURER E: Columbia Casualty Company	31127	INSURER F:	
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INSURER F:															

**COVERAGES**

CERTIFICATE NUMBER: W4887835

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, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS														
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> Professional Liability  GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PROJECT <input checked="" type="checkbox"/> LOC OTHER:			SB-LTCA-01635-17	12/31/2017	12/31/2018	<table border="1"><tr><td>EACH OCCURRENCE</td><td>\$ 1,000,000</td></tr><tr><td>DAMAGE TO RENTED PREMISES (Ea occurrence)</td><td>\$ 100,000</td></tr><tr><td>MED EXP (Any one person)</td><td>\$</td></tr><tr><td>PERSONAL &amp; ADV INJURY</td><td>\$ 1,000,000</td></tr><tr><td>GENERAL AGGREGATE</td><td>\$ 3,000,000</td></tr><tr><td>PRODUCTS - COMP/OP AGG</td><td>\$ 1,000,000</td></tr><tr><td>Deductible</td><td>\$ 100,000</td></tr></table>	EACH OCCURRENCE	\$ 1,000,000	DAMAGE TO RENTED PREMISES (Ea occurrence)	\$ 100,000	MED EXP (Any one person)	\$	PERSONAL & ADV INJURY	\$ 1,000,000	GENERAL AGGREGATE	\$ 3,000,000	PRODUCTS - COMP/OP AGG	\$ 1,000,000	Deductible	\$ 100,000
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B	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS ONLY <input checked="" type="checkbox"/> Comp & Coll <input checked="" type="checkbox"/> NON-OWNED AUTOS ONLY <input type="checkbox"/> Ded. \$1,000			4031698072	04/01/2017	04/01/2018	<table border="1"><tr><td>COMBINED SINGLE LIMIT (Ea accident)</td><td>\$ 1,000,000</td></tr><tr><td>BODILY INJURY (Per person)</td><td>\$</td></tr><tr><td>BODILY INJURY (Per accident)</td><td>\$</td></tr><tr><td>PROPERTY DAMAGE (Per accident)</td><td>\$</td></tr><tr><td></td><td>\$</td></tr></table>	COMBINED SINGLE LIMIT (Ea accident)	\$ 1,000,000	BODILY INJURY (Per person)	\$	BODILY INJURY (Per accident)	\$	PROPERTY DAMAGE (Per accident)	\$		\$				
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	\$																				
A	<input type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> EXCESS LIAB <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> CLAIMS-MADE DED RETENTION \$			SB-LTCA-01460-17	12/31/2017	12/31/2018	<table border="1"><tr><td>EACH OCCURRENCE</td><td>\$ 25,000,000</td></tr><tr><td>AGGREGATE</td><td>\$ 25,000,000</td></tr><tr><td></td><td>\$</td></tr></table>	EACH OCCURRENCE	\$ 25,000,000	AGGREGATE	\$ 25,000,000		\$								
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	\$																				
C	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N <input checked="" type="checkbox"/> No	N/A	5082521444	01/01/2018	01/01/2019	<table border="1"><tr><td><input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER</td><td></td></tr><tr><td>E.L. EACH ACCIDENT</td><td>\$ 1,000,000</td></tr><tr><td>E.L. DISEASE - EA EMPLOYEE</td><td>\$ 1,000,000</td></tr><tr><td>E.L. DISEASE - POLICY LIMIT</td><td>\$ 1,000,000</td></tr></table>	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER		E.L. EACH ACCIDENT	\$ 1,000,000	E.L. DISEASE - EA EMPLOYEE	\$ 1,000,000	E.L. DISEASE - POLICY LIMIT	\$ 1,000,000						
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E.L. DISEASE - EA EMPLOYEE	\$ 1,000,000																				
E.L. DISEASE - POLICY LIMIT	\$ 1,000,000																				
D	Crime			04-173-14-60	12/31/2017	12/31/2018	<table border="1"><tr><td>Limit</td><td>\$5,000,000</td></tr><tr><td>Deductible</td><td>\$50,000</td></tr></table>	Limit	\$5,000,000	Deductible	\$50,000										
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Deductible	\$50,000																				

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

Crime Coverage Includes: Inside/Outside Premises; Money Orders and Counterfeit Paper Currency; Depositors Forgery Coverage and Computer Coverage; Loss of Client Assets.

SEE ATTACHED

**CERTIFICATE HOLDER****CANCELLATION**

Brookdale Rancho Mirage 72201 Country Club Dr Rancho Mirage, CA 92270	<p>SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.</p> <p>AUTHORIZED REPRESENTATIVE <i>Andrea Paris</i></p>
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AGENCY CUSTOMER ID: \_\_\_\_\_

LOC #: \_\_\_\_\_



## ADDITIONAL REMARKS SCHEDULE

Page 2 of 2

AGENCY Willis of Illinois, Inc.		NAMED INSURED Brookdale Senior Living, Inc. 111 Westwood Place Suite 400 Brentwood, TN 37027	
POLICY NUMBER See Page 1		EFFECTIVE DATE: See Page 1	
CARRIER See Page 1	NAIC CODE See Page 1		

### ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,

FORM NUMBER: 25 FORM TITLE: Certificate of Liability Insurance

Insured: Brookdale Rancho Mirage, 72201 Country Club Dr, Rancho Mirage, CA 92270

Other Named Insured: BKD Twenty-One Management, Inc.

 INSURER AFFORDING COVERAGE: National Union Fire Insurance Company of Pittsburgh  
 POLICY NUMBER: 04-146-62-82      EFF DATE: 12/31/2017      EXP DATE: 12/31/2018

NAIC#: 19445

TYPE OF INSURANCE:	LIMIT DESCRIPTION:	LIMIT AMOUNT:
Employment Practices Liability	Aggregate	\$10,000,000
	Limit Incl	Defense Costs
	Retention	\$250,000

 INSURER AFFORDING COVERAGE: Columbia Casualty Company  
 POLICY NUMBER: 4031698069      EFF DATE: 04/01/2017      EXP DATE: 04/01/2018

NAIC#: 31127

TYPE OF INSURANCE:	LIMIT DESCRIPTION:	LIMIT AMOUNT:
Excess AL(15M x Primary)	Each Incident	\$15,000,000
	Aggregate	\$15,000,000

**S-H OpCo Rancho Mirage, LLC**

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

LBMC

MAKE A GOOD  
BUSINESS BETTER

## S-H OpCo Rancho Mirage, LLC

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## INDEPENDENT AUDITORS' REPORT

To the Member of  
S-H OpCo Rancho Mirage, LLC

We have audited the accompanying financial statements of S-H OpCo Rancho Mirage, LLC (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of S-H OpCo Rancho Mirage, LLC as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**LBMC, PC**

Brentwood, Tennessee  
March 28, 2018

**S-H OpCo Rancho Mirage, LLC**  
**Balance Sheets**  
**December 31, 2017 and 2016**  
**(in thousands)**

<b>Assets</b>			
		<b>2017</b>	<b>2016</b>
Current assets:			
Accounts receivable, net	\$	691	\$ 734
Other current assets		120	141
Total current assets		811	875
Restricted cash		3,632	2,712
Property and equipment, net		2,094	2,085
Other assets		233	241
Total assets	\$	<u>6,770</u>	<u>\$ 5,913</u>
<b>Liabilities and Member's Equity</b>			
Current liabilities:			
Accounts payable	\$	148	\$ 577
Accrued expenses		546	496
Tenant deposits		1	-
Deferred revenue		67	109
Total current liabilities		762	1,182
Deferred lease costs		470	521
Other long term liabilities		313	252
Total liabilities		1,545	1,955
Member's equity		5,225	3,958
Total liabilities and member's equity	\$	<u>6,770</u>	<u>\$ 5,913</u>

See accompanying notes to financial statements.

**S-H OpCo Rancho Mirage, LLC**  
**Statements of Operations**  
**For the years ended December 31, 2017 and 2016**  
**(in thousands)**

	<u>2017</u>	<u>2016</u>
Revenue:		
Resident services	<u>\$ 9,969</u>	<u>\$ 10,197</u>
Expenses:		
Community operating expense	6,804	6,801
General and administrative expense	1,450	1,471
Facility lease expense	1,776	1,782
Depreciation	289	62
Real estate tax	220	231
Management fees to related party	<u>492</u>	<u>498</u>
Total expenses	<u>11,031</u>	<u>10,845</u>
Net loss	<u><u>\$ (1,062)</u></u>	<u><u>\$ (648)</u></u>

See accompanying notes to financial statements.



**S-H OpCo Rancho Mirage, LLC**  
**Statements of Changes in Member's Equity**  
**For the years ended December 31, 2017 and 2016**  
**(in thousands)**

Balance as of December 31, 2015	\$ 2,864
Member contributions, net	1,742
Net loss	<u>(648)</u>
Balance as of December 31, 2016	3,958
Member contributions, net	2,329
Net loss	<u>(1,062)</u>
Balance as of December 31, 2017	<u><u>\$ 5,225</u></u>

See accompanying notes to financial statements.

**S-H OpCo Rancho Mirage, LLC**  
**Statements of Cash Flows**  
**For the years ended December 31, 2017 and 2016**  
**(in thousands)**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from residents	\$ 10,009	\$ 10,123
Cash paid to suppliers and employees	(9,293)	(8,493)
Cash paid for facility lease	(1,827)	(1,757)
Cash reimbursement from lessor for lessee incentive	-	199
Net cash provided by (used in) operating activities	<u>(1,111)</u>	<u>72</u>
Cash flows from investing activities:		
Decrease (increase) in restricted cash	(920)	139
Purchases of property and equipment	(298)	(1,953)
Net cash used in investing activities	<u>(1,218)</u>	<u>(1,814)</u>
Cash flows from financing activities - member contributions	<u>2,329</u>	<u>1,742</u>
Net change in cash	-	-
Cash at beginning of year	-	-
Cash at end of year	\$ <u>-</u>	\$ <u>-</u>
Reconciliation of net loss to net cash provided by (used in) operating activities:		
Net loss	\$ (1,062)	\$ (648)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	289	62
Straight-line lease expense (income)	(51)	25
Provision for doubtful accounts	135	234
(Increase) decrease in:		
Accounts receivable	(92)	(287)
Other current assets	21	(28)
Other assets	8	(89)
Increase (decrease) in:		
Accounts payable and accrued expenses	(379)	507
Deferred revenue	(42)	15
Tenant deposits	1	-
Deferred lease costs	-	199
Other long term liabilities	61	82
Net cash provided by (used in) operating activities	\$ <u>(1,111)</u>	\$ <u>72</u>

See accompanying notes to financial statements.

**S-H OpCo Rancho Mirage, LLC**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

*(dollars in thousands except as where otherwise stated)*

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**(1) Organization**

S-H OpCo Rancho Mirage, LLC (the "Company") is an operator of a senior living community (the "Community") in Rancho Mirage, California. The Company is committed to providing senior living solutions through a property that is designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Community offers a variety of living arrangements and services to accommodate all levels of physical ability and health. The Community has 24 memory care units, 90 assisted living units, and 45 skilled nursing beds on one campus.

**(2) Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The significant accounting policies have been summarized below.

The State of California (the "State"), under Health and Safety Code Chapter 10, requires the Company to provide financial statements that include cash flows presented using the direct method. In accordance with this requirement, the Company has presented cash flows and related reconciliations of net loss to cash flows provided by operating activities using the direct method for the years ended December 31, 2017 and 2016.

**Use of Estimates and Assumptions**

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported and disclosures of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

**Revenue Recognition**

***(1) Resident Fees***

Resident fee revenue is recorded when services are rendered and consists of fees for basic housing, support services and fees associated with additional services such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenue for certain skilled nursing services and ancillary charges is recognized as services are provided and is billed monthly in arrears.



**S-H OpCo Rancho Mirage, LLC**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

*(dollars in thousands except as where otherwise stated)*

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***(2) Community Fees***

Community fees are upfront fees paid by a resident in order to move into the Community. The fees are non-refundable and are recorded initially as deferred revenue. The deferred revenue amounts are amortized as resident fee revenue using the straight-line method over the estimated length of a resident's stay, which approximates 3 years. The deferred revenue related to community fees amounted to \$77 and \$72 as of December 31, 2017 and 2016, respectively, and is included in other long term liabilities on the accompanying balance sheets.

**Restricted Cash**

Restricted cash consist principally of deposits required by the California Department of Social Services ("CDSS").

**Accounts Receivable**

The Company reports accounts receivable net of an allowance for doubtful accounts, to represent its estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was \$265 and \$190 as of December 31, 2017 and 2016, respectively. The adequacy of the Company's allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, and analyses of receivable portfolios by payor source, receivables aging, and specific accounts. Adjustments are made to the allowance estimate as necessary. Late or interest charges on delinquent accounts are not recorded until collected.

Billings for services under third-party payor programs are recorded net of estimated retroactive adjustments, if any, under reimbursement programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. Contractual or cost related adjustments from Medicare or Medicaid are accrued when assessed (without regard to when the assessment is paid or withheld). Subsequent positive or negative adjustments to these accrued amounts are recorded in net revenues when known. At December 31, 2017 and 2016, approximately 40% and 42%, respectively, of the Company's accounts receivable was covered by various third-party payor programs, including Medicare and Medicaid. Approximately 38% of the Company's resident services revenue for the years ended December 31, 2017 and 2016 was attributable to various third-party payor programs, including Medicare and Medicaid programs.

**Property and Equipment**

Property and equipment are recorded at cost. Renovations and improvements, which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful life or remaining lease term. Maintenance and repair expenditures that do not improve or extend the life of assets are expensed as incurred. Depreciation is computed using the straight-line method using the following estimated useful lives:

**S-H OpCo Rancho Mirage, LLC**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

*(dollars in thousands except as where otherwise stated)*

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Leasehold Improvements	Shorter of the lease term or asset useful life
Furniture and equipment	3 – 7 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use are assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any amount in excess of fair value recognized as an expense in the current period. Undiscounted cash flow projections and estimates of fair value amounts are based on a number of assumptions such as revenue and expense growth rates, estimated holding periods and estimated capitalization rates.

**Deferred Move-in Costs**

Direct resident lease origination costs are initially deferred and amortized as community operating expenses over the estimated length of the resident's stay, which approximates 3 years. The deferred direct lease origination costs included in other assets amounted to \$233 and \$241 as of December 31, 2017 and 2016, respectively.

**Deferred Lease Costs**

Rent expense is recorded on a straight-line basis over the term of the lease. One or more option periods may be included in the lease term if the Company would incur a significant economic penalty by not renewing the lease. Lease escalations during the term of the lease create a deferred lease liability which represents the excess of rent expense to date over the actual rent paid to date. The Company's lease allows for reimbursements for normal tenant improvements paid by the Company up to a specified threshold. These reimbursements are accounted for as lease incentives as defined by Accounting Standards Codification 840, *Leases*, and are initially recorded as deferred liabilities upon receipt. The incentives are recorded on a straight-line basis as a reduction to lease expense over the term of the lease. The net amount of straight-line lease expense (income) recognized as a result of the amortization of this liability totaled (\$51) and \$25 during the years ended December 31, 2017 and 2016, respectively, and is included in facility lease expense on the accompanying statements of operations. As of December 31, 2017 and 2016, the Company had a deferred lease liability of \$470 and \$521, respectively.

**Income Taxes**

The Company is treated as a limited liability company for tax purposes. Generally, no provision for federal and state income taxes has been recorded as payment for income taxes is the responsibility of the individual member.

S-H OpCo Rancho Mirage, LLC

Notes to Financial Statements

December 31, 2017 and 2016

*(dollars in thousands except as where otherwise stated)*

**Community Operating Expenses**

Community operating expenses are incurred to maintain the operating activities of the Community and include salary and benefits for community employees, repairs and maintenance expenses, food, marketing and advertising, and insurance.

**General and Administrative Expenses**

General and administrative expenses are incurred to manage the Community's operations and generally include salary and benefits for employees and other general expenses such as communications and telephone and professional fees.

**Subsequent Events**

The Company has evaluated events subsequent to December 31, 2017 through the date the financial statements were available to be issued, March 28, 2018, and determined that no events have occurred which would require additional disclosure.

**(3) Property and Equipment**

Net property and equipment as of December 31, 2017 and 2016 consisted of the following:

	<b>2017</b>	<b>2016</b>
Leasehold improvements	\$ 1,334	\$ 37
Furniture and equipment	1,119	362
Construction in progress	13	1,768
	<u>2,466</u>	<u>2,167</u>
Accumulated depreciation	(372)	(82)
Property and equipment, net	<u>\$ 2,094</u>	<u>\$ 2,085</u>

For the years ended December 31, 2017 and 2016, the Company evaluated property and equipment for impairment and no charge was recorded.

**(4) Accrued Expenses**

Accrued expenses as of December 31, 2017 and 2016, consist of the following components:

	<b>2017</b>	<b>2016</b>
Accrued salaries and wages	\$ 249	\$ 236
Accrued vacation	116	125
Accrued insurance reserves	56	44
Other accrued expenses	125	91
	<u>\$ 546</u>	<u>\$ 496</u>



S-H OpCo Rancho Mirage, LLC

Notes to Financial Statements

December 31, 2017 and 2016

*(dollars in thousands except as where otherwise stated)*

(5) Related-Party Transactions

Management Agreement

On August 29, 2014, the Company entered into a long-term management agreement with BKD Twenty-one Management Company, Inc. ("BKD"), a related party. Subject to the terms of the agreement, BKD will receive a management fee equal to 5% of gross revenues plus incentives fees as defined in the agreement. Furthermore, out-of-pocket costs and expenses incurred on behalf of the Company by BKD are subject to reimbursement to BKD. The management contract extends through 2029, and has three five-year renewal options. The amount incurred for management fees were \$492 and \$498 for the years ended December 31, 2017 and 2016, respectively.

Community Lease

On August 29, 2014, the Company entered into a lease agreement (the "Lease") for the use of the Community from S-H Forty-Nine PropCo – California Pack, LP (the "PropCo" or "Lessor"), a related party. The term of the Lease is 15 years and is subject to three extension terms of five years each. The Lease contains a \$573 capital refurbishment project allowance for the Community. Under the terms of the Lease, approved capital refurbishment projects will be reimbursed by the Lessor up to the allowance amount. The monthly minimum rent will be increased from time to time for funding provided to the Company by the Lessor for any portion of the capital funding allowance. The Lease requires the payment of base rent which escalates annually through August 2029. Effective September 1, 2019, the base rents will be reset to the fair market value rental and will escalate under the terms of the Lease through August 2024. Beginning September 1, 2024, the base rents will be reset to the fair market value rental and will escalate under the terms of the Lease through the remainder of the term agreement ending in August 2029. Under the terms of the Lease, the fair market value rental is subject to agreement of the Company and the Lessor or will be determined by an appraiser if the parties do not reach an agreement. Additionally, the Lessor may issue notice to the Company requiring it to establish and maintain a repair and maintenance reserve. No such notice has been issued through the date the financial statements were available to be issued. The Company incurred rent expense of \$1,776 and \$1,782 for the years ended December 31, 2017 and 2016, respectively.

A summary of the lease expense and impact of straight-line adjustment for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cash basis payment	\$ 1,827	\$ 1,757
Straight-line change for deferred lease	(25)	39
Straight-line change for lessor reimbursements	(26)	(14)
Facility lease expense	<u>\$ 1,776</u>	<u>\$ 1,782</u>

**S-H OpCo Rancho Mirage, LLC**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

***(dollars in thousands except as where otherwise stated)***

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The aggregate amounts of future minimum lease payments, estimated for fair market value reassessment, under the agreement as of December 31, 2017, are as follows:

2018	\$	1,861
2019		1,917
2020		1,975
2021		2,034
2022		2,095
Thereafter		15,444
Total (through August 2029)	\$	<u>25,326</u>

As described above, the future lease payments under the Lease are subject to an adjustment to the fair market value rental beginning in September 2019 and September 2024. The future lease payments presented in the table above include an estimate of additional rent payments subsequent to the rent adjustment in 2019.

**Cash Management**

The Company does not maintain operating cash accounts as all operating cash activities are transacted by the member and settled to the Company through net member contributions on the Statements of Changes in Member's Equity.

Given the Company's cash management and the member's organizational structure including the PropCo, which is operated under common control, the member intends to continue to fund member contributions to the Company as needed.

**(6) Credit Risk**

The Company generally maintains cash on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

**(7) Commitments and Contingencies**

**Minimum Liquid Reserve**

The CDSS, under Health and Safety code section 1789, requires the Company to maintain minimum debt service and operating reserves for continuing care service providers based on certain financial calculations. The Company holds a reserve balance of \$3,632 and \$2,712 as of December 31, 2017 and 2016, respectively. No additional funding is expected to be required in 2018.

**Litigation**

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. However, management believes the amount of potential liability with respect to these actions will not materially affect the financial position or results of operations of the Company.



**S-H OpCo Rancho Mirage, LLC**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

*(dollars in thousands except as where otherwise stated)*

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**Insurance**

The delivery of personal and health care services entails an inherent risk of liability. Participants in the senior living and health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. Through Brookdale Senior Living, Inc ("Brookdale"), a related party, the Company currently maintains general and professional medical malpractice insurance policies under a master insurance program. In response to these conditions, Brookdale and the Company have increased the staff and resources involved in the quality assurance, compliance, and risk management.

Through Brookdale, the Company currently maintains \$1,000 for single incident and \$3,000 in aggregate for general liability and professional liability protection, with self-insured retentions of \$100 for single incident and \$650 in annualized aggregate. Through Brookdale, the Company participates in a self-insured workers' compensation program, with excess of loss coverage provided by third party carriers. The Company's coverage for workers' compensation and related programs included a shared loss worker compensation program through Brookdale. Brookdale maintains workers compensation coverage through a large deductible policy with a current deductible of \$1,000. Through the shared worker compensation program claims costs are allocated between all participants based on community type. Each participant is assigned a loss factor that is applied to budgeted payroll to accrue claims expense under the program to each participant. Through Brookdale, the Company participates in a self-insurance program for employee medical coverage. Loss reserves for employee medical coverage are recorded as liabilities by Brookdale with no allocation made to the Company. The resulting loss expenses incurred by Brookdale are allocated to the Company during the year.

Estimated claims reserves related to this self-insurance program are accrued for the ultimate cost of unpaid reported and unreported claims incurred. The reserves are adjusted regularly based on experience. The Company performs a continuing review of its claims and claim adjustment expense reserves, including its reserving techniques, through the engagement of an external actuarial firm. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company's results of operations and financial position in such period. Accrued insurance reserves were \$282 (\$56 in accrued expenses and \$226 in other long term liabilities) and \$223 (\$44 in accrued expenses and \$179 in other long term liabilities) as of December 31, 2017 and 2016, respectively.

**Healthcare Regulations**

The health care industry is subject to numerous laws and regulations of Federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid, or other state programs, fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant



**S-H OpCo Rancho Mirage, LLC**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

***(dollars in thousands except as where otherwise stated)***

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repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of the Company's participation in the Medicare and Medicaid programs, the Company is subject to various government reviews, audits and investigations to verify the Company's compliance with these programs and applicable laws and regulations. CMS has engaged a number of third party firms, including Recovery Audit Contractors ("RAC"), Zone Program Integrity Contractors ("ZPIC"), and Unified Program Integrity Contractors ("UPIC") to conduct extensive reviews of claims data to evaluate the appropriateness of billings submitted for payment. Audit contractors may identify overpayments based on coverage requirements, billing and coding rules or other risk areas. In addition to identifying overpayments, audit contractors can refer suspected violations of law to government enforcement authorities. An adverse determination of government reviews, audits and investigations may result in citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, or termination of participation in Medicare and Medicaid programs. The Company's costs to respond to and defend any such audits, reviews and investigations may be significant and are likely to increase in the current enforcement environment, and any resulting sanctions or criminal, civil or regulatory penalties could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow. While management believes all billings are proper and support is maintained, certain aspects of billing, coding and support are subject to interpretation and may be viewed differently by audit contractors. As amount of any recovery is unknown, management has not recorded any reserves related to audits and investigations at this time.

**Healthcare Reform**

The health care industry in the United States is subject to fundamental changes due to ongoing health care reform efforts and related political, economic and regulatory influences. Notably, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act") resulted in expanded health care coverage to millions of previously uninsured people beginning in 2014 and has resulted in significant changes to the United States health care system. To help fund this expansion, the Affordable Care Act outlines certain reductions for Medicare reimbursed services, including skilled nursing, home health, hospice and outpatient therapy services, as well as certain other changes to Medicare payment methodologies. This comprehensive health care legislation has resulted and will continue to result in extensive rulemaking by regulatory authorities, and also may be altered, amended, repealed, or replaced. It is difficult to predict the full impact of the Affordable Care Act due to the complexity of the law and implementing regulations, as well the Company's inability to foresee how CMS and other participants in the health care industry will respond to the choices available to them under the law. The Company also cannot accurately predict whether any new or pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on the Company's business. Similarly, while the Company can anticipate that some of the rulemaking that will be promulgated by regulatory authorities will affect the Company's business and the manner in which the Company is reimbursed by the federal reimbursements programs, the Company cannot accurately predict today the impact of those regulations on the Company's business. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act or any amended or



**S-H OpCo Rancho Mirage, LLC**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***(dollars in thousands except as where otherwise stated)***

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replacement legislation may increase costs, decrease revenues, expose the Company to expanded liability or require the Company to revise the ways in which it conducts business.

In addition to its impact on the delivery and payment for health care, the Affordable Care Act and the implementing regulations have resulted in and may continue to result in increases to the Company's costs to provide health care benefits to its employees. The Company also may be required to make additional employee-related changes to its business as a result of provisions in the Affordable Care Act or any amended or replacement legislation impacting the provision of health insurance by employers, which could result in additional expense and adversely affect the Company's results of operations and cash flow.

**LBMC**

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**BLC Glenwood-Gardens AL-LH, LLC**

**S-H OpCo Camarillo, LLC**

**S-H OpCo Carlsbad, LLC**

**S-H OpCo Carmel Valley, LLC**

**S-H OpCo Rancho Mirage, LLC**

**S-H OpCo San Juan Capistrano, LLC**

**Emeritus Corporation d/b/a Brookdale**

**Northridge, Brookdale Fountaingrove,**

**Brookdale Yorba Linda and Brookdale**

**San Dimas**

**2017 Client Service Communication**

# LBMC

MAKE A GOOD  
BUSINESS BETTER

The Members and Board of Directors

BLC Glenwood-Gardens AL-LH, LLC; S-H OpCo Camarillo, LLC; S-H OpCo Carlsbad, LLC; S-H OpCo Carmel Valley, LLC; S-H OpCo Rancho Mirage, LLC; S-H OpCo San Juan Capistrano, LLC; and Emeritus Corporation d/b/a Brookdale Northridge, Brookdale Fountain Grove, Brookdale Yorba Linda and Brookdale San Dimas (collectively the "Companies")

Dear Members and Board of Directors:

We have audited the continuing care reports Forms 5-1 through 5-5 ("the Reports"), prepared pursuant to the requirements of the report preparation provisions of California Health and Safety Code Section 1792, of the Companies for the year ended December 31, 2017, and have issued our report thereon dated April 25, 2018. Professional standards require that we provide you certain information related to the planned scope and timing of our audits. We have communicated such information in our engagement letter dated September 12, 2017. Professional standards also require that we communicate to you certain other matters related to our audits.

This information is intended solely for the use of the Members and Board of Directors, management and others within the aforementioned companies and is not intended to be, and should not be used by anyone other than these specified parties.

We appreciate the confidence you place in LBMC as your business advisor. We strive to help you stay compliant, manage risk, and improve performance in every way as you grow your business.

*LBMC, PC*

Brentwood, Tennessee  
April 25, 2018

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Internal control related matters.....	6
Client service is a priority.....	7



# Qualitative Assessments

Area	Detail
<b>Qualitative Aspects of Accounting Practices – Accounting Policies</b>	<p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We are not aware of any transactions entered into by the Companies during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the Reports in the proper period.</p>
<b>Qualitative Aspects of Accounting Practices - Estimates</b>	<p>Accounting estimates are an integral part of the Reports prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive due to: (i) their significance to the Reports; and (ii) possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Reports relate to:</p> <ul style="list-style-type: none"> <li>• <i>Calculation of revenue applicable to residents without a continuing care contract</i></li> <li>• <i>Depreciable lives of property and equipment</i></li> <li>• <i>Amortization period of resident leasehold intangibles</i></li> </ul> <p>We have reviewed and evaluated all areas where management's estimates significantly impact the Reports and have concluded that they are reasonable in the context of the Reports taken as a whole.</p>

## Interaction with Management, Independence, and Other Matters

Area	Detail
<b>Difficulties Encountered in Performing the Audit</b>	<p>For purposes of this report, "difficulties" may include matters such as:</p> <ul style="list-style-type: none"> <li>• the unavailability of, or significant delays in management's providing information,</li> <li>• an unreasonable time frame within which to complete the audit,</li> <li>• extensive unexpected effort required to obtain audit evidence, or</li> <li>• restrictions imposed on the auditor by management.</li> </ul> <p>We encountered no significant difficulties in performing and completing our audits.</p>
<b>Disagreements with Management</b>	<p>For purposes of this report, professional standards define "disagreements with management" as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the reports or the auditors' reports. We are pleased to report that no such disagreements arose during the course of our audits.</p>
<b>Management Consultations with Other Independent Accountants</b>	<p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the Companies' Reports or a determination of the type of auditors' opinion that may be expressed on those Reports, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.</p>
<b>Management Representations</b>	<p>We have requested certain representations from management that are included in the management representation letter dated April 25, 2018.</p>
<b>Independence</b>	<p>We are not aware of any relationships between our firm and the Companies that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from January 1, 2017 through the date of this report.</p>
<b>Corrected and Uncorrected Misstatements</b>	<p>Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of our audit procedures.</p>



## Internal Control Related Matters

In planning and performing our audit of the Reports, we considered the Companies' internal control over accounting and financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Reports, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control. Accordingly, we do not express an opinion on the effectiveness of the Companies' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Companies' Reports will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Client Service is a Priority

For additional information or if you have questions please contact the Audit Service Team Leaders.

Andrew S. Bissonnette  
615-309-2209 Direct  
abissonnette@lbmc.com

Laura L. McGregor  
615-309-2289 Direct  
lmcgregor@lbmc.com



**CONTINUING CARE  
RESERVE REPORT  
PART 5**

**LBMC**

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## **INDEPENDENT AUDITORS' REPORT**

The Member  
S-H OpCo Rancho Mirage, LLC:

We have audited the accompanying continuing care reserve report Forms 5-1 through 5-5 (the "Reports") of S-H OpCo Rancho Mirage, LLC (the "Company"), as of December 31, 2017. The Reports have been prepared by management using the report preparation provisions of California Health and Safety Code Section 1792.

### **Management's Responsibility**

Management is responsible for the preparation and fair presentation of the Reports in accordance with the requirements of California Health and Safety Code Section 1792; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of Reports that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the Reports 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 Reports are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Reports, 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 Reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of 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 Reports.

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 Reports present fairly, in all material respects, the liquid reserve requirements of the Company as of December 31, 2017, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

**Basis of Accounting**

The accompanying Reports were prepared in accordance with the report preparation provisions of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The Reports are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of the Company and for filing with the California Department of Social Services and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*L B M C, P C*

Brentwood, Tennessee  
April 25, 2018

**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))
1					
2					
3					
4					
5					
6					
7					
8					
			\$0.00	\$0.00	\$0.00

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

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**PROVIDER:** S-H OpCo Rancho Mirage, LLC



**FORM 5-2**  
**LONG-TERM DEBT INCURRED DURING 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))
1					
2					
3					
4					
5					
6					
7					
8					
<b>TOTAL:</b>		\$0.00	\$0.00	\$0.00	\$0.00

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

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**PROVIDER:** S-H OpCo Rancho Mirage, LLC

**FORM 5-3**  
**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

<b>Line</b>		<b>TOTAL</b>
1	Total from Form 5-1 bottom of Column (e)	\$ -
2	Total from Form 5-2 bottom of Column (e)	\$ -
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	\$ 1,776,000
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b>	<b>\$ 1,776,000</b>

**PROVIDER:** S-H OpCo Rancho Mirage, LLC

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

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		\$ 11,031,000
2	Deductions		
a	Interest paid on long-term debt (see instructions)	\$ 1,776,000	
b	Credit enhancement premiums paid for long-term debt (see instructions)	\$ -	
c	Depreciation	\$ 289,000	
d	Amortization	\$ -	
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$ 778,000	
f	Extraordinary expenses approved by the Department	\$ -	\$ 2,843,000
3	Total Deductions		\$ 8,188,000
4	Net Operating Expenses		\$ 22,433
5	Divide Line 4 by 365 and enter the result.		\$ 1,682,000
6	<b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount.		

**PROVIDER:** S-H OpCo Rancho Mirage, LLC

**COMMUNITY:** Brookdale Rancho Mirage

**FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E**

	<u>Rancho Mirage</u>
	<u>92.23%</u>
Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E)	\$ 778,000
Revenues received from continuing care residents	<u>9,234,000</u>
Cash received for "Resident Revenue"*	<u><u>\$ 10,012,000</u></u>

Cash received for Resident Revenue is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

\* Conversion of GAAP Resident Revenue to Cash Basis Resident Revenue

Revenue from Resident Services and Ancillary Services, per Statement of Operations	\$ 9,969,000
Less: Accounts Receivable at 12/31/17	691,000
Plus: Accounts Receivable at 12/31/16	<u>734,000</u>
Revenue from Resident Services, cash basis	<u><u>\$ 10,012,000</u></u>



FORM 5-5  
ANNUAL RESERVE CERTIFICATION

Provider Name: S-H OpCo Rancho Mirage, LLC

Fiscal Year Ended: December 31, 2017

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/17 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	\$ 1,776,000
[2] Operating Expense Reserve Amount	\$ 1,682,000
[3] Total Liquid Reserve Amount:	\$ 3,458,000

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

Qualifying Asset Description	Amount (market value at end of quarter)	
	Debt Service Reserve	Operating Reserve
[4] Cash and Cash Equivalents	\$ 1,776,000	\$ 1,856,000
[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)

Cash reserve account held at bank. See attached year end statement.

Total Amount of Qualifying Assets

Listed for Liquid Reserve:

Total Amount Required:

Surplus/(Deficiency):

[11]	\$ 1,776,000	[12]	\$ 1,856,000
[13]	\$ 1,776,000	[14]	\$ 1,682,000
[15]	\$ -	[16]	\$ 174,000

Signature:

Carrey Beers

(Authorized Representative)

Date: 4-24-18

Carrey Beers, Secretary

(Title)

S-H OpCo Rancho Mirage, LLC  
Additional Disclosure to Form 5-5  
December 31, 2017

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**Disclosures per H&SC section 1790(a)**

i The per capita costs of operation:

Form 1-2 1. Total Operating Expense	<u>\$11,031,000</u>
Form 1-1 7. Number at end of year	134
Total costs per resident	\$82,321

- ii The construction in progress was funded through the communities own funds, no new financing was made in FY 2016 for construction. In addition, there were no contingency amounts nor any funds set aside for future projects.

**Form 5-5 Qualifying Assets as of December 31, 2017:**

- Restricted cash account held at The Private Bank. Balance @ 12/31/17 = \$3,632,000.06 – see attached

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

	<b><u>RESIDENTIAL LIVING</u></b>	<b><u>ASSISTED</u></b>	<b><u>SKILLED NURSING</u></b>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) _____	N/A	\$3,414	\$9,464
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) _____	N/A	-3.0%	3.0%
<input type="checkbox"/> Check here if monthly service fees at this community were <u>not</u> 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 community.)			
[3] Indicate the date the fee increase was implemented: <u>1/1/2017</u> (If more than 1 increase was implemented, indicate the dates for each increase.)			
[4] Check each of the appropriate boxes:			
<input checked="" type="checkbox"/> Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.			
<input checked="" type="checkbox"/> All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.			
<input checked="" type="checkbox"/> 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.			
<input checked="" type="checkbox"/> 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.			
<input checked="" type="checkbox"/> The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.			
<input checked="" type="checkbox"/> The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.			
[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.			
PROVIDER: <u>S-H OpCo Rancho Mirage, LLC</u>			
COMMUNITY: <u>Brookdale Rancho Mirage</u>			



Form 7-1 Note

[5] Monthly service fees for AL decreased by -3.0% due to residents with higher rates and less discounts moving out. Residents were replaced with what appears to be residents with higher rates but more discounts. Skilled rates increased by 3.0% due to market adjustments.

**Continuing Care Retirement Community  
Disclosure Statement  
General Information**

Date Prepared: 4/27/18

FACILITY NAME: Brookdale Rancho Mirage

ADDRESS: 72201 Country Club Dr, Rancho Mirage, CA

ZIP CODE: 92270

PHONE: 760-340-5999

PROVIDER NAME: S-H OpCo Rancho Mirage, LLC

FACILITY OPERATOR: S-H OpCo Rancho Mirage, LLC

RELATED FACILITIES: Please see below for other CCRCs

RELIGIOUS AFFILIATION: None

YEAR # OF ☐ SINGLE ☒ MULTI-

MILES TO SHOPPING CTR: 1.5

OPENED: 2000 ACRES: 6.22 STORY STORY ☐ OTHER: \_\_\_\_\_

MILES TO HOSPITAL: .25

**NUMBER OF UNITS:**

**RESIDENTIAL LIVING**

APARTMENTS — STUDIO: 0

APARTMENTS — 1 BDRM: 0

APARTMENTS — 2 BDRM: 0

COTTAGES/HOUSES: 0

RLU OCCUPANCY (%) AT YEAR END: 0

**HEALTH CARE**

ASSISTED LIVING: 109 beds

SKILLED NURSING: 45 beds

SPECIAL CARE: 26 beds

DESCRIPTION: > Dementia Care

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☒ FOR-PROFIT ACCREDITED?: ☐ YES ☐ NO BY: \_\_\_\_\_

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

REFUND PROVISIONS: (Check all that apply) ☐ 90% ☐ 75% ☐ 50% ☐ FULLY AMORTIZED ☐ OTHER: \_\_\_\_\_

RANGE OF ENTRANCE FEES: \$ 2,000 - \$ 4,000 LONG-TERM CARE INSURANCE REQUIRED? ☐ YES ☒ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

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

> A resident representative meets with a representative of the governing body periodically to discuss budgeting and other resident matters.

**FACILITY SERVICES AND AMENITIES**

<b><u>COMMON AREA AMENITIES</u></b>	<b><u>AVAILABLE</u></b>	<b><u>FEE FOR SERVICE</u></b>	<b><u>SERVICES AVAILABLE</u></b>	<b><u>INCLUDED IN FEE</u></b>	<b><u>FOR EXTRA CHARGE</u></b>
BEAUTY/BARBER SHOP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (___ TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS (___/DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>			

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

PROVIDER NAME: S-H OpCo Rancho Mirage, LLC

**OTHER CCRCs**

Brookdale Carlsbad

Brookdale Carmel Valley

Brookdale Rancho Mirage

Brookdale San Juan Capistrano

Brookdale Camarillo

Brookdale Riverwalk

Brookdale Northridge

Brookdale San Dimas

Brookdale Fountaingrove

Brookdale Yorba Linda

**MULTI-LEVEL RETIREMENT COMMUNITIES**

N/A

**LOCATION (City, State)**

Carlsbad, CA

San Diego, CA

Rancho Mirage, CA

San Juan Capistrano, CA

Camarillo, CA

Bakersfield, CA

Northridge, CA

San Dimas, CA

Santa Rosa, CA

Yorba Linda, CA

**LOCATION (City, State)**

**PHONE (with area code)**

(760) 720-9898

(858) 259-2222

(760) 340-5999

(949) 248-8855

(805) 388-8086

(661) 587-0182

(818) 886-1616

(909) 394-0304

(707) 566-8600

(714) -777-9666

**PHONE (with area code)**

**FREE-STANDING SKILLED NURSING**

N/A

**LOCATION (City, State)**

**PHONE (with area code)**

**SUBSIDIZED SENIOR HOUSING**

N/A

**LOCATION (City, State)**

**PHONE (with area code)**

**NOTE:** PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.



PROVIDER NAME: S-H OpCo Rancho Mirage, LLC

	2014	2015	2016	2017
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b>				
(Excluding amortization of entrance fee income)	3,850,209	10,720,839	10,197,000	9,969,000
<b>LESS OPERATING EXPENSES</b>				
(Excluding depreciation, amortization, and interest)	3,628,599	10,687,042	10,792,000	10,742,000
<b>NET INCOME FROM OPERATIONS</b>	221,610	33,797	(592,000)	(773,000)
<b>LESS INTEREST EXPENSE</b>	-	-	1,782,000	1,776,000
<b>PLUS CONTRIBUTIONS</b>	101,636	127,000	1,742,000	2,329,000
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b>				
(excluding extraordinary items)	(6,745)	-	-	-
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	316,501	141,119	(635,000)	(220,000)
<b>NET CASH FLOW FROM ENTRANCE FEES</b>				
(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

\*\*\*\*\*

**FINANCIAL RATIOS** (see next page for ratio formulas)

	2015 CCAC Medians 50 <sup>th</sup> Percentile <i>(optional)</i>	2015	2016	2017
<b>DEBT TO ASSET RATIO</b>			.09	.07
<b>OPERATING RATIO</b>		1.00	1.07	1.08
<b>DEBT SERVICE COVERAGE RATIO</b>			(.37)	(.44)
<b>DAYS CASH ON HAND RATIO</b>				

\*\*\*\*\*

**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

	2014	%	2015	%	2016	%	2017
STUDIO	2,951	5.3%	3,107				
ONE BEDROOM	2,999	15.0%	3,448				
TWO BEDROOM	4,353	3.2%	4,493				
COTTAGE/HOUSE	-	-	-				
ASSISTED LIVING	2,909	7.4%	3,123	12.6%	3,518	(3.0%)	3,414
SKILLED NURSING	5,777	53.4%	8,861	3.7%	9,188	3.0%	9,464
SPECIAL CARE	3,351	11.7%	3,794	8.0%	4,098	(1.8%)	4,024

\*\*\*\*\*

**COMMENTS FROM PROVIDER:** > \_\_\_\_\_  
 > \_\_\_\_\_  
 > \_\_\_\_\_

PROVIDER NAME: S-H OpCo Rancho Mirage, LLC

**FINANCIAL RATIO FORMULAS**

**LONG-TERM DEBT TO TOTAL ASSETS RATIO**

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

**OPERATING RATIO**

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{Depreciation Expense} \\ - \text{Amortization Expense} \end{array}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

**DEBT SERVICE COVERAGE RATIO**

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{Interest, Depreciation, and Amortization Expenses} \\ \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

**DAYS CASH ON HAND RATIO**

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{Unrestricted Non-Current Cash \& Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

**NOTE:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.