

July 28, 2023

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

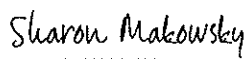
RE: Watermark Carlotta LLC / Carlotta

Enclosed, please find the following, along with the annual Continuing Care Providers Fee Fund payment:

- 1 copy of:
 - Annual Report Checklist
 - Form 1-1 / Form 1-2
 - Certification of Managing Member
 - Evidence of Insurance
 - Annual Audited Financial Statement
 - Audited Reserve Reports
 - Form 7-1 and related attachments
 - Disclosure Statement

Please let us know if you have any questions or need further information.

Sincerely

DocuSigned by:

785D38FC8A57424...
Sharon Makowsky
Authorized Representative

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED: December 31, 2022

PROVIDER(S):

Watermark Carlotta, LLC

CCRC(S):

The Fountains at Carolotta

PROVIDER CONTACT PERSON:

Adi Jain

TELEPHONE NUMBER:

646-945-5512

E-MAIL ADDRESS:

ajain@welltower.com

A complete annual report must consist of 3 copies of all of the following:

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$11,587.17
 - If applicable, late fee in the amount of: \$1,000.00
- Certification by the provider’s **Chief Executive Officer** that:
 - The reports are correct to the best of his/her knowledge.
 - Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - The provider is maintaining the required liquid reserves and, when applicable, the required refund reserve.
- Evidence of the provider’s fidelity bond, as required by H&SC section 1789.8.
- Provider’s audited financial statements, with an accompanying certified public accountant’s opinion thereon.
- Provider’s audited reserve reports (prepared on Department forms), with an accompanying certified public accountant’s opinion thereon. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).
- “Continuing Care Retirement Community Disclosure Statement” for **each** community.
- Form 7-1, “Report on CCRC Monthly Service Fees” for **each** community.
- Form 9-1, “Calculation of Refund Reserve Amount”, if applicable.
- Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider’s annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.

July 28, 2023

Allison Nakatomi, Manager
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Department of Social Services
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RE: Watermark Carlotta, LLC / Carlotta

Sharon Makowsky
I, ~~Allison~~, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2022 for Watermark Carlotta are true and correct to the best of my knowledge.

The Watermark Carlotta continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

Watermark Carlotta are maintaining the required liquid reserve.

Watermark Carlotta do not offer refundable Contracts.

Sincerely

DocuSigned by:

Sharon Makowsky

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Sharon Makowsky

Authorized Representative

FORM 1-1:RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	172
[2]	Number at end of fiscal year	150
[3]	Total Lines 1 and 2	322
		x.50
[4]	Multiply Line 3 by “.50” and enter result on Line 5.	
[5]	Mean number of continuing care residents	161
All Residents		
[6]	Number at beginning of fiscal year	231
[7]	Number at end of fiscal year	204
[8]	Total Lines 6 and 7	435
		x.50
[9]	Multiply Line 8 by “.50” and enter result on Line 10.	
[10]	Mean number of <i>all</i> residents	217
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	74.19

FORM 1-2: ANNUAL PROVIDER FEE

Line	TOTAL
[1] Total Operating Expenses (including depreciation and debt service - interest only)	15,989,882.00
[a] Depreciation	371,646.00
[b] Debt Service (Interest Only)	0.00
[2] Subtotal (add Line 1a and 1b)	371,646.00
[3] Subtract Line 2 from Line 1 and enter result.	15,618,236.00
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	74.19
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	11,587,169.00
[6] Total Amount Due (multiply Line 5 by .001)	\$ 11,587.17

PROVIDER: Watermark Carlotta LLC

COMMUNITY: The Fountains at the Carlotta

**ADDITIONAL REMARKS SCHEDULE**

AGENCY Alliance Insurance Group		NAMED INSURED Watermark Carlotta, LLC c/o Watermark Fountains Investments, LLC 41505 Carlotta Drive Palm Desert, CA 92211	
POLICY NUMBER SEE PAGE 1			
CARRIER SEE PAGE 1	NAIC CODE SEE P 1	EFFECTIVE DATE: SEE PAGE 1	

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,
FORM NUMBER: ACORD 25 FORM TITLE: Certificate of Liability Insurance

Description of Operations/Locations/Vehicles:
30 days notice of cancellation other than 10 days for non-payment of premium.

Terrorism not included in above policies.

SPECIFIC HOLDER DETAILS:

Named Insured Includes: Watermark Carlotta, LLC
dba: The Fountains at The Carlotta
Insured Location: 41505 Carlotta Drive. Palm Desert, CA 92211

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

Line	TOTAL
1	Total from Form 5-1 bottom of Column (e) <u>0</u>
2	Total from Form 5-2 bottom of Column (e) <u>0</u>
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) <u>3,512,048</u>
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: <u>3,512,048</u>

PROVIDER: Watermark Carlotta, LLC

FORM 5-4: CALCULATION OF NET OPERATING EXPENSES

Line	Description	Amounts	TOTAL
1	Total operating expenses from financial statements		15,989,882
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	0	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	0	
c.	Depreciation	371,646	
d.	Amortization	0	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	7,950,857	
f.	Extraordinary expenses approved by the Department	0	
3	Total Deductions		8,322,503
4	Net Operating Expenses		7,667,379
5	Divide Line 4 by 365 and enter the result (divided by actual days December 2021 - December 2022)		19,362
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount		1,452,155
	PROVIDER: Watermark Carlotta, LLC		
	COMMUNITY: The Fountains at The Carlotta		

FORM 5-5: ANNUAL RESERVE CERTIFICATION

Provider Name: Watermark Carlotta LLC

Fiscal Year Ended: December 1, 2021 - December 31, 2022

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended.

December 31, 2022

and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>3,512,048</u>
[2] Operating Expense Reserve Amount	<u>1,452,155</u>
[3] Total Liquid Reserve Amount:	<u>4,964,203</u>

Qualifying assets sufficient to fulfill the operating reserve and debt service requirements, based on market value at end of fiscal year were applicable, are held as follows:

Qualifying Asset Description	Debt Service Reserve	Operating Reserve
[4] Cash and Cash Equivalents	<u>3,513,000</u>	<u>1,453,000</u>
[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:	_____	_____

Qualifying assets used in these reserves are described as follow:

State of California – Health and Human Services Agency

California Department of Social Services

Total Amount of Qualifying Assests

Listed for Reserve Obligation: [11] 3,513,000 [12] 1,453,000

Reserve Obligation Amount: [13] 3,512,048 [14] 1,452,155

Surplus/(Deficiency): [15] 952 [16] 845

Signature:

DocuSigned by:

Sharon Makowsky

(Authorized Representative)

Date: 7/31/2023

Authorized Representative

(Title)

FORM 7-1 REPORT ON CCRC MONTHLY CARE FEES

Complete **Form 7-1** to report the monthly care fee increase (MCFI) for **each** community operated by the Provider. If no adjustments were made during the reporting period for a community, indicate by checking the box below **Line [2]**. Providers must complete a separate Form 7-1 for each of their continuing care retirement communities.

1. On **Line 1**, enter the amount of monthly care fees for each level of care at the *beginning* of the reporting period.
2. On **Line 2**, indicate the percentage(s) of increase in fees implemented during the *reporting* period.
3. On **Line 3**, indicate the date the fee increase was implemented. If more than one (1) increase was implemented, indicate the date(s) for each increase.
4. Check *each* of the appropriate boxes.
5. Provide a detailed explanation for the increase in monthly care fees including the total dollar amount for the community overall and corresponding percentage increase for each level of care in compliance with the Health and Safety Code. The explanation shall set forth the reasons, by department cost centers, for any increase in monthly care fee. It must include if the change in monthly care fees is due to any actual or projected costs related to any other CCRC community or enterprise affiliated with the provider or parent company.

The methodology used to budget future costs should align with one or more of the following factors: "projected costs, prior year per capita costs and economic indicators." Describe the methodology used for single or multiple communities. If there are multiple MCFI percentages, i.e., by level of care, a separate explanation for each MCFI will be required.

Also, if there is a positive result of operations, the provider will need to explain how the funds will be used and/or distributed consistent with disclosures made in the applicable sections of the Continuing Care Contract.

This attachment should include the data used in the Monthly Care Fee Increase meeting presentation provided to residents, which will also include actual results and an explanation of any variances.

NOTE: Providers shall retain all documents related to the development of adjusted fees at their respective communities for a period of at least three years, i.e., budgets, statements of operations, cost reports, used near the end of the prior fiscal year to develop adjustments implemented in the current reporting period. These documents must be available for review upon request by the Department.

FORM 7-1
REPORT ON CCRC MONTHLY CARE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	MEMORY CARE	SKILLED NURSING
Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)	2,695 - 4,195	3,900 - 4,900	N/A	N/A
Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	5%	5%	N/A	N/A

- Check here if monthly care 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 community.)
3. Indicate the date the fee increase was implemented: March 1, 2022
(If more than one (1) increase was implemented, indicate the dates for each increase.)
4. Check each of the appropriate boxes:

 - Each fee increase is based on the Provider's projected costs, prior year per capita costs, and economic indicators.
 - All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
Date of Notice: January 3, 2022 **Method of Notice:** Letter
 - At least 30 days prior to the increase in fees, the designated representative of the Provider convened a meeting that all residents were invited to attend. **Date of Meeting:** January 26, 2022
 - 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.
 - The Provider distributed the documents to all residents to all residents by [Optional - check all that apply]:
 - Emailed the documents to those residents for whom the provider had email addresses on file
 - Placed hard copies in resident cubby
 - Placed hard copies at designated locations
 - Provided hard copies to residents upon request, and/or
 - Other: [please describe] _____
 - Date of Notice:** _____

- The Provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

Date of Notice: January 3, 2022

- 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.

Date of Posting: _____ **Location of Posting:** _____

- Providers evaluated the effectiveness of consultations during the annual budget planning process at a minimum of every two years by the continuing care retirement community administration. The evaluation, including any policies adopted relating to cooperation with residents was made available to the resident association or its governing body, or, if neither exists, to a committee of residents at least 14 days prior to the next semiannual meeting of residents and the Provider's governing body and posted a copy of that evaluation in a conspicuous location at each facility.

Date of Posting: _____ **Location of Posting:** _____

5. On an attached page, provide a detailed explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code.

PROVIDER: Watermark Carlotta LLC

COMMUNITY: The Fountains at the Carlotta

CARLOTTA

FORM 7-1 [5] Requirement:

Explanation of Increases in Monthly Care Fees, Fiscal YE December 31, 2022

In 2022, the Independent Living, Assisted Living and Skilled Nursing monthly service fees were increased 5% due to increased labor costs (due to a minimum wage increase in California in 2022) and related employee benefits, increased maintenance costs, increased sales and marketing costs along with the ongoing capital improvements across the campus. Management at The Fountains at the Carlotta is very sensitive to keeping the rate increases as low as possible.

The percentage increase was determined in order to maintain the overall community contribution margin, utilizing the 2020 and 2021 budget numbers, and the anticipated increase in costs for 2022. Budgeted contribution margin for 2021 was 13.1% and for 2022 was 16.6%.

A rate increase letter, giving a 60 day notice, was delivered to each resident on the first business day of January 2022 to notify them of the March 1st increase date. The rate increase was discussed at the monthly resident meeting on January 26, 2022. Notices for the monthly resident meeting were posted on all public bulletin boards and on the monthly calendar of events that is distributed to every resident.

Any positive result of operations will be retained and applied towards future capital needs.

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE STATEMENT

Date Prepared: 6/28/23

Facility Name: The Fountains of Carlotta

Address: 41505 Carlotta Dr Palm Des | Zip Code:92211 | Phone:760-565-5991

Provider Name:

Watermark Carlotta, LLC

Facility Operator:Watermark Carlotta, LLC

Religious Affiliation: None

Year Opened: 1985 # of Acres:20 Miles to Shopping Center: 1 Miles to Hospital: 5

Single Story Multi-Story Other:Both

Number of Units:

Residential Living	Number of Units	Health Care	Number of Units
Apartments – Studio:	<u>0</u>	Assisted Living:	<u>36</u>
Apartments – 1 Bdrm:	<u>22</u>	Skilled Nursing:	<u>46</u>
Apartments – 2 Bdrm:	<u>88</u>	Special Care:	<u>N/A</u>
Cottages/Houses:	<u>64</u>	Description:	<u></u>

RLU Occupancy (%) at Year End:80.3%

Type of Ownership: Not for Profit
 For Profit

Accredited? Yes By:
 No

Form of Contact: Continuing Care Life Care Entrance Fee Fee for Service
(Check all that apply) Assignment of Assets Equity Membership Rental

Refund Provisions: Refundable 90% 50%
(Check all that apply) Repayable 75% Other:

Range of Entrance Fees: \$100,000 - \$275,000

Long-Term Care Insurance Required? Yes No

Health Care Benefits Included in Contract:10 Lifecare Days in Skilled Nursing

Entry Requirements: Min Age:60 Prior Profession:N/A Other:N/A

Resident Representative(s) to, and Resident Members on, the Board:

(briefly describe provider’s compliance and residents’ roles):A meeting was held with the residents at least 60 days prior to the annual rate change. Significant factors relating to budgets and methods used to determine the rate increase were discussed .

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.

Facility Services and Amenities

Common Area Amenities	Available	Fee for Service	Services Available	Included in Fee	For Extra Charge
Beauty/Barber Shop	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Housekeeping (<u>2</u> Times/ Month at \$_____each)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Billiard Room	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Bowling Green	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Meals (<u>1</u> /Day)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Card Rooms	<input type="checkbox"/>	<input type="checkbox"/>	Special Diets Available	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Chapel	<input type="checkbox"/>	<input type="checkbox"/>			
Coffee Shop	<input type="checkbox"/>	<input type="checkbox"/>	24-Hour Emergency Response	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Craft Rooms	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Activities Program	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Exercise Room	<input checked="" type="checkbox"/>	<input type="checkbox"/>	All Utilities Except Phone	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Golf Course Access	<input type="checkbox"/>	<input type="checkbox"/>	Apartment Maintenance	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Library	<input type="checkbox"/>	<input type="checkbox"/>	Cable TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Putting Green	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Linens Furnished	<input type="checkbox"/>	<input type="checkbox"/>
Shuffleboard	<input type="checkbox"/>	<input type="checkbox"/>	Linens Laundered	<input type="checkbox"/>	<input type="checkbox"/>
Spa	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Medication Management	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Swimming Pool – Indoor	<input type="checkbox"/>	<input type="checkbox"/>	Nursing/Wellness Clinic	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Swimming Pool – Outdoor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Personal Home Care	<input type="checkbox"/>	<input type="checkbox"/>
Tennis Court	<input type="checkbox"/>	<input type="checkbox"/>	Transportation – Personal	<input type="checkbox"/>	<input type="checkbox"/>
Workshop	<input type="checkbox"/>	<input type="checkbox"/>	Transportation – Prearranged	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other: _____	<input type="checkbox"/>	<input type="checkbox"/>	Other: _____	<input type="checkbox"/>	<input type="checkbox"/>

Provider Name: Watermark Carlotta, LLC

Affiliated CCRCs	Location (city, state)	Phone (with area code)
N/A		

Multi-Level Retirement Communities	Location (city, state)	Phone (with area code)
N/A		

Free-Standing Skilled Nursing	Location (city, state)	Phone (with area code)
N/A		

Subsidized Senior Housing	Location (city, state)	Phone (with area code)
N/A		

NOTE: Please indicate if the facility is a life care facility.

Provider Name: Watermark Carlotta, LLC

Income and Expenses [Year]	2019	2020	2021	2022
Income from Ongoing Operations				
Operating Income (Excluding amortization of entrance fee income)	15,667,387	15,092,852	11,690,904	15,546,488
Less Operating Expenses (Excluding depreciation, amortization, and interest)	17,605,873	16,849,001	13,835,753	19,130,284
Net Income From Operations	(1,938,486)	(1,756,149)	(2,144,849)	(3,583,796)
Less Interest Expense	10,575	8,966	29,141	43,698
Plus Contributions	0	0	0	0
Plus Non-Operating Income (Expenses) (Excluding extraordinary items)	43	384	16,793,497	182
Net Income (Loss) Before Entrance Fees, Depreciation And Amortization	(1,949,018)	(1,764,731)	14,619,507	(3,627,312)
Net Cash Flow From Entrance Fees (Total Deposits Less Refunds)	2,727,616	697,269	1,839,089	2,742,759

Description of Secured Debt (as of most recent fiscal year end)

Lender	Outstanding Balance	Interest Rate	Date of Origination	Date of Maturity	Amortization Period
N/A property is leased					

Financial Ratios (see last page for ratio formulas)

Financial Ratios [Year]	CCAC Medians 50th Percentile (optional)	2020	2021	2022
Debt to Asset Ratio		177.57	2,006.44	79.07
Operating Ratio		88.84	93.49	123.05
Debt Service Coverage Ratio		69.24	667.42	25.12
Days Cash On Hand Ratio		1	4	2.3

Provider Name: Watermark Carlotta, LLC

Historical Monthly Service Fees *(Average Fee and Change Percentage)*

Residence/Service [Year]	2019	%	2020	%	2021	%	2022	%
Studio								
One Bedroom	2,600	5.0	2,730	4.5	2,880	5.0	3,024	5.0
Cottage/House	3,516	5.0	3,692	4.5	3,895	5.0	4,090	5.0
Assisted Living	3,710	5.0	3,896	4.5	4,110	5.0	4,315	5.0
Skilled Living	10,085	5.0	10,589	4.5	11,171	5.0	11,730	5.0
Special Care								

Comments from Provider:

Financial Ratio Formulas

Long-Term Debt to Total Assets Ratio

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

Operating Ratio

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

Debt Service Coverage Ratio

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

Days Cash On Hand Ratio

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

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.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Combined Financial Report
December 31, 2022



Independent Auditor's Report

RSM US LLP

The Member
WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Opinion

We have audited the combined financial statements of WELL Trevi CCRC Tenant, LLC, WELL Trevi Bronson SNF LLC and WELL Trevi Carlotta SNF LLC (the Companies), which comprise the combined balance sheet as of December 31, 2022, and the related combined statements of operations, member's equity (deficit) and cash flows for the period from October 25, 2021 (inception) to December 31, 2022, and the related notes to the combined financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Companies as of December 31, 2022, and the results of their operations and their cash flows for the period from October 25, 2021 (inception) to December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Companies and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies' ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Combined Balance Sheet
December 31, 2022

Assets

Current assets:

Cash	\$	122,428
Accounts receivable, net		1,433,148
Prepaid expenses and other current assets		531,028
Due from affiliates		760,000
Due from seller		224,325
Total current assets		<u>3,070,929</u>

Operating equipment:

Leasehold improvements		1,399,179
Furniture, fixtures and equipment		4,126,309
Construction in progress		153,902
Total operating equipment		<u>5,679,390</u>

Less accumulated depreciation		<u>(722,897)</u>
Total operating equipment, net		<u>4,956,493</u>

Right of use assets—operating leases		55,945,596
Restricted cash		6,000,000
Other assets		42,213
Note receivable from affiliate		18,846,925
Other receivables from affiliate		<u>27,129,459</u>

Total assets		<u>\$ 115,991,615</u>
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See notes to combined financial statements.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Combined Statement of Operations
Period from October 25, 2021 to December 31, 2022

<hr/>	
Operating revenue:	
Healthcare revenue, net of contractual allowances	\$ 8,180,268
Resident fees	17,534,000
Amortization of entrance fees	5,949,060
Other operating revenue	338,199
Total operating revenue	<u>32,001,527</u>
Operating expenses:	
Wages and benefits	10,366,384
Lease expense	5,145,202
Depreciation	722,897
Ancillary and therapy expenses	1,682,572
General and administrative	854,076
Provision for bad debts	92,455
Food	1,192,361
Supplies	470,212
Utilities	1,608,046
Insurance	862,953
Taxes and license fees	1,542,249
Repairs and maintenance	1,599,220
Management fees	1,647,521
Occupancy costs	467,693
Professional services	4,236,640
Total operating expenses	<u>32,490,481</u>
Loss from operations	<u>(488,954)</u>
Other (expense) income:	
Interest expense	(44,959)
Interest income	772,234
Total other income	<u>727,275</u>
Net income	<u><u>\$ 238,321</u></u>

See notes to combined financial statements.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Combined Statement of Cash Flows
Period from October 25, 2021 to December 31, 2022

Cash flows from operating activities:	
Net income	\$ 238,321
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	722,897
Amortization of entrance fees	(5,949,060)
Loss on disposal of operating equipment	79,287
Interest income on note receivable from affiliate added to principal	(771,952)
Provision for bad debts	92,455
Changes in operating assets and liabilities:	
Accounts receivable	(1,525,603)
Prepaid expenses and other current assets	(152,739)
Other assets	1,000
Accounts payable and accrued expenses	2,280,351
Deferred revenue	(17,882)
Security and reservation deposits	(164,170)
Net cash used in operating activities	<u>(5,167,095)</u>
Cash flows from investing activities:	
Purchases of operating equipment	(2,309,779)
Payment for acquisition, net of restricted cash acquired	(3,429,416)
Due from seller	(224,325)
Net cash used in investing activities	<u>(5,963,520)</u>
Cash flows from financing activities:	
Contributions from member	9,436,830
Advances from affiliates, net	4,108,823
Repayment of entrance fees	(4,370,536)
Entrance fees received	8,077,926
Net cash provided by financing activities	<u>17,253,043</u>
Net change in cash and restricted cash	6,122,428
Cash and restricted cash, beginning of period	<u>-</u>
Cash and restricted cash, end of period	<u>\$ 6,122,428</u>
Reconciliation of cash and restricted cash:	
Cash	\$ 122,428
Restricted cash	6,000,000
Cash and restricted cash	<u>\$ 6,122,428</u>
Supplemental disclosure of cash flow information:	
Cash paid for amounts included in measurement of operating lease liabilities	<u>\$ 5,078,567</u>
Supplemental disclosures of noncash investing and financing activity:	
Right of use assets obtained in exchange for operating lease liabilities	<u>\$ 59,600,052</u>
Note receivable and other receivables from affiliate to offset the transfer refundable entrance fees and resident contract liabilities	<u>\$ 45,204,432</u>

See notes to combined financial statements.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Notes to Combined Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The Companies consider the effects of resident credit risk for residents entering its independent and assisted living facilities, and also consider the impact of government programs on credit risk for residents entering its long-term care facility. Accordingly, accounts receivable are stated net of an allowance for doubtful accounts. The Companies provide an allowance for doubtful accounts on its outstanding receivables balance based on its collection history and an estimate of uncollectible accounts. Generally, accounts receivable are considered to be past due after 30 days. Accounts receivable are written off when deemed uncollectible on a specific-identification basis.

Operating equipment: Operating equipment purchased as part of the acquisition is accounted for at fair value in accordance with the accounting guidance for purchase and acquisition accounting. Operating property acquired after acquisition is recorded at cost. Maintenance and repairs are charged to expense as incurred. Leasehold improvements are amortized over the shorter of the economic life or lease term. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets or lease period, as follows:

	<u>Years</u>
Leasehold improvements	5-15
Furniture, fixtures and equipment	5-7

Construction in progress includes project costs related to the construction of capital improvements and renovations at the Communities. These costs are allocated to the appropriate fixed asset accounts upon the completion of construction.

The Companies evaluate the recoverability of the carrying value of the operating equipment whenever events or circumstances indicate the carrying amount may not be recoverable. If the operating equipment is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use of the operating equipment is less than the carrying amount of the operating equipment, then the operating equipment is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount exceeds the fair value. No impairment was recognized during the period from October 25, 2021 (inception) to December 31, 2022.

Refundable entrance fees and resident contract liabilities: The Companies' independent living resident contracts offer its CCRC residents preferential access to assisted living or the skilled nursing community. Once a resident permanently transfers to assisted living or the skilled nursing community, their independent living contract is terminated, and the refundable portion of the entrance fee is repaid to the resident when triggered per the terms of the residency agreement. Assisted living and skilled nursing community contracts are month to month. Preferential access is offered from the assisted living to the skilled nursing community. A CCRC resident receives up to 10 free days in the skilled nursing community per year until they permanently transfer. The skilled nursing community is not considered to be a continued care unit.

The Companies provide housing to senior residents under a residency agreement that provides the resident with the right to live in a specific independent living unit as long as the resident's health and other circumstances allow them to live independently. The resident pays a one-time entrance fee that is either nonrefundable or partially refundable, and a monthly service fee. The contracts vary and can range from 0% to 90% refundable. Refunds are due upon termination of the contract and upon re-occupancy of the unit by the next resident.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Notes to Combined Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Companies' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Companies' estimate the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. Subsequent changes that are determined to be the result of an adverse change in the residents' ability to pay are recorded as bad debt.

Other operating revenue: Other operating revenue consists of amounts that are incidental to the operations of the Companies' facilities and includes activities such as beauty and barber shop services, guest meals, and other miscellaneous items. These services generally have fixed prices and are considered distinct performance obligations, which are satisfied as the goods or services are provided. Revenue is recognized as performance obligations are satisfied.

Income taxes: The Companies are limited liability companies and are not subject to income tax. No provision has been made for income taxes, since the liability for such taxes, if any, is that of the sole member of the Parent Company. The Companies have no uncertain tax positions as of December 31, 2022.

From time to time, the Companies may be subject to penalties assessed by various taxing authorities, which will be classified as operating expenses, if they occur.

Purchase accounting: In determining the allocation of the purchase price of the Communities to net assets acquired and liabilities assumed, the Companies make estimates of fair value using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. The Companies assign the purchase price for the community to assets acquired and liabilities assumed based on their determined fair values in accordance with the provisions of ASC 805, Business Combinations (ASC 805). The determination of fair value involves the use of significant judgment and estimation.

Working capital assets acquired and working capital liabilities assumed are valued on a carryover/cost basis which approximates fair value.

Operating equipment was valued based upon the replacement cost.

Refundable entrance payments associated with resident contracts, assumed at the purchase date by the Landlord and subsequently transferred to the Companies with a note receivable from affiliate and other receivables from affiliates (see Note 4), with various refundable terms are recorded at carryover/cost basis, which approximates the known amount that will be paid to the resident upon termination of the contract and re-occupancy of the unit by the next resident. The refundable entrance fee transfer from the Landlord was outside of the business combination as Landlord was the acquirer of the refundable entrance payments.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Notes to Combined Financial Statements

Note 3. Accounts Receivable and Healthcare Revenue Recognition

Accounts receivable for healthcare revenue are presented net of allowances for contractual discounts (explicit price concessions) and estimated uncollectible accounts. The allowance for contractual discounts is related to residents covered by Medicare, Medicaid and private insurance. The allowance for doubtful accounts is an estimate of amounts that will not be collected from self-pay residents. At December 31, 2022, the allowance for doubtful accounts totaled approximately \$35,000.

The Companies have determined that the nature, amount, timing and uncertainty of healthcare revenue and cash flows are primarily affected by the method of reimbursement. The Medicare program is a large source of healthcare revenue for the Companies. Revenue from the Medicare program totaled approximately 14.8% of total operating revenue for the period from October 25, 2021 (inception) to December 31, 2022.

Healthcare revenue, net of contractual discounts, by major payor class, was as follows for the year ended December 31:

Medicare	\$ 849,697
Medicaid	4,731,316
Insurance	2,007,931
Self-pay	591,324
	<u>\$ 8,180,268</u>

Note 4. Related-Party Transactions

Note receivable from affiliate and other receivable from affiliates: Concurrent with the acquisition (see Note 2), the Companies entered into a note receivable with the Landlord and other receivables with the Landlord totaling \$18,074,973 and \$27,129,459, respectively, which were used to transfer the refundable entrance fees and resident contract liabilities, which the Landlord acquired as part of the acquisition.

The note receivable bears interest at 4.1% and is due on demand. Until the note receivable is paid in full, quarterly interest only payments are to be made commencing April 1, 2022. Interest income on the note receivable totaled \$771,952 from affiliate for the period from October 25, 2021 (inception) to December 31, 2022. Unpaid accrued interest income totaling \$771,952 at December 31, 2022, is included in note receivable from affiliate on the combined balance sheet.

Other receivables from affiliates do not bear interest and are due on demand. Management of the affiliate does not intend to call the other receivables and therefore they are excluded from current assets on the combined balance sheets.

Operating leases: Effective December 1, 2021, Master Leases were executed with the Landlord to lease all of the real property and related rights of the Communities to the Companies. The initial term of the leases are 15 years and the Companies have two 10-year renewal term options subsequent to the initial term. Future minimum rent to be paid under the Master Leases is \$4,687,908 per year through the year ended December 31, 2035, and \$4,297,249 during the year ended December 31, 2036. The monthly rent shall be revised to the then current fair market value on each third anniversary of the Master Leases. Total lease costs paid to the Landlord totaled \$5,078,567 during the period from October 25, 2021 (inception) to December 31, 2022.

WELL Trevi CCRC Tenant, LLC
WELL Trevi Bronson SNF LLC
WELL Trevi Carlotta SNF LLC

Notes to Combined Financial Statements

Note 6. Management Agreement

Effective December 1, 2021, The Companies have a contractual agreement with a third-party (the Manager), under which management and operational services are provided to the Companies through December 31, 2024. The management fee is equal to 5% of revenues, as defined in the management agreement, and totaled \$1,647,521 for the period from October 25, 2021 (inception) to December 31, 2022.

Note 7. Commitments and Contingencies

From time to time, the Companies are 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 Companies does not believe the ultimate resolution of these matters will have a material adverse effect on the Companies' financial statements.

The Manager has provided the Companies limited indemnifications against actions taken on behalf of the Companies in the Manager's capacity as manager. The Manager's indemnity rights may not protect the Companies against all of the risks and possible losses faced by the Companies from the Manager's role as manager.

Note 8. Subsequent Events

In preparing the financial statements, the Companies evaluated subsequent events occurring through July 28, 2023, the date the financial statements were available to be issued, in accordance with the Companies' procedures related to disclosure of subsequent events.

WELL Trevi CCRC Tenant, LLC, by Division

	Fountains at Bronson Place		WELL Trevi CCRC Tenant, LLC		WELL Trevi Bronson SNF LLC		WELL Trevi Carlotta SNF LLC		Eliminations		Total
Liabilities and Member's Equity											
Current liabilities:											
Accounts payable and accrued expenses	\$ 1,438,462	\$ 880,605	\$ -	\$ 2,319,067	\$ 46,732	\$ 13,665	\$ -	\$ -	\$ -	\$ 2,379,464	
Deferred revenue	22,004	20,635	-	42,639	-	-	-	-	-	42,639	
Security and reservation deposits	180	117,000	-	117,180	-	-	-	-	-	117,180	
Refundable entrance fees, current portion	-	1,885,454	-	1,885,454	-	-	-	-	-	1,885,454	
Operating lease liabilities, current portion	1,481,892	3,206,016	-	4,687,908	-	-	-	-	-	4,687,908	
Due to affiliates	1,340,000	2,555,928	8,639,743	12,535,671	1,938,464	2,057,259	(11,662,571)	-	-	4,868,823	
Total current liabilities	4,282,538	8,665,638	8,639,743	21,587,919	1,985,196	2,070,924	(11,662,571)	-	-	13,981,468	
Long-term liabilities:											
Refundable entrance fees, less current portion	3,713,724	12,790,967	-	16,504,691	-	-	-	-	-	16,504,691	
Resident contract liability, less current portion	18,666,081	5,906,536	-	24,572,617	-	-	-	-	-	24,572,617	
Operating lease liabilities, less current portion	16,203,039	35,054,649	-	51,257,688	-	-	-	-	-	51,257,688	
Total long-term liabilities	38,582,844	53,752,152	-	92,334,996	-	-	-	-	-	92,334,996	
Total liabilities	42,865,382	62,417,790	8,639,743	113,922,915	1,985,196	2,070,924	(11,662,571)	-	-	106,316,464	
Member's equity (deficit)	3,822,535	(1,643,293)	10,207,982	12,387,224	(1,404,014)	(1,308,059)	-	-	-	9,675,151	
Total liabilities and member's equity	\$ 46,687,917	\$ 60,774,497	\$ 18,847,725	\$ 126,310,139	\$ 581,182	\$ 762,865	\$ (11,662,571)	\$ -	\$ -	\$ 115,991,615	

FORM 5-3
FOUNTAINS AT CARLOTTA AND WELL TREVI CARLOTTA SNF LLC
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line	TOTAL
1 Total from Form 5-1 bottom of Column (e)	<u>\$0</u>
2 Total from Form 5-2 bottom of Column (e)	<u>\$0</u>
3 Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	<u>\$3,512,048</u>
4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u><u>\$3,512,048</u></u>

PROVIDER: Watermark Carlotta, LLC

FORM 5-5
FOUNTAINS AT CARLOTTA AND WELL TREVI CARLOTTA SNF LLC
ANNUAL RESERVE CERTIFICATION

Provider Name: Watermark Carlotta, LLC
 Fiscal Year Ended: December 31, 2022

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2022 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$3,512,048
[2] Operating Expense Reserve Amount	\$1,452,155
[3] Total Liquid Reserve Amount:	\$4,964,203

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	\$3,513,000	\$1,453,000
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letter of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:		
(describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation	[11] \$3,513,000	[12] \$1,453,000
Reserve Obligation Amount	[13] \$3,512,048	[14] \$1,452,155
Surplus/(Deficiency):	[15] \$952	[16] \$845
Per Capita Cost of Operation:	\$ 73,686	
Total Operating Expense		\$ 15,989,882
Number of Residents		217

No other reserves are set aside except as listed above.

Signature:

 (Authorized Representative)

Date:

 (Title)