Sunrise Stratford, LP

Financial Statements as of and for the
Year Ended December 31, 2020,
Other Financial Information, and
Independent Auditors' Reports

SUNRISE STRATFORD, LP

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INDEPENDENT AUDITORS' REPORT

To the Partners of Sunrise Stratford, LP:

We have audited the accompanying financial statements of Sunrise Stratford, LP (the "Partnership"), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, changes in partner's capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunrise Stratford, LP as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 14, 2021

SUNRISE STRATFORD, LP

BALANCE SHEET
AS OF DECEMBER 31, 2020

ASSETS	
CURRENT ASSETS:	
Accounts receivable—net of allowance for doubtful accounts of $49,555	$ 96,057
Prepaid expenses and other assets	48,362
Total current assets	144,419
UTILITY DEPOSIT	31,137
FURNITURE AND EQUIPMENT:	
Furniture, fixtures, and equipment	148,909
Construction in progress	12,922
Total property and equipment	161,831
Less accumulated depreciation	(101,710)
Property and equipment—net	60,121
MANAGEMENT RIGHTS INTANGIBLE—Net of accumulated amortization of $7,051,190	7,621,807
TOTAL ASSETS	$ 7,857,484
LIABILITIES AND PARTNER'S CAPITAL	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 931,312
Deferred revenue	161,480
Total current liabilities	1,092,792
Total liabilities	1,092,792
PARTNER'S CAPITAL	6,764,692
TOTAL LIABILITIES AND PARTNER'S CAPITAL	$ 7,857,484

See notes to financial statements.

SUNRISE STRATFORD, LP

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020

OPERATING REVENUE:	
Resident revenue	$ 5,900,384
Other revenue	425,214
Total operating revenue	6,325,598
OPERATING EXPENSES:	
Labor	3,371,943
General and administrative	1,261,854
Depreciation and amortization	501,486
Management fees to affiliate	453,113
Food	370,331
Utilities	252,974
Insurance	224,255
Repairs and maintenance	207,465
Ancillary expenses	70,216
Advertising and marketing	63,042
Bad debt expense	49,555
Taxes and licenses	25,514
Total operating expenses	6,851,748
OPERATING LOSS	(526,150)
GAIN ON ASSET DISPOSAL	8
NET LOSS	$ (526,142)

See notes to financial statements.

SUNRISE STRATFORD, LP

STATEMENT OF CHANGES IN PARTNER'S CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020

PARTNER'S CAPITAL—January 1, 2020	$ 7,365,472
Net loss	(526,142)
Contributions	6,199,855
Distributions	(6,274,493)
PARTNER'S CAPITAL—December 31, 2020	$ 6,764,692

See notes to financial statements.

SUNRISE STRATFORD, LP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from residents	$ 5,652,112
Cash received from residents who did not have a continuing care contract	26,075
Cash received from other sources	425,214
Cash paid for labor	(3,456,075)
Cash paid for administrative expenses	(1,547,782)
Cash paid for insurance	(224,993)
Cash paid for food	(370,331)
Cash paid for management fee	(453,113)
Net cash provided by operating activities	51,107
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(117,799)
Reimbursements of property and equipment	141,330
Net cash provided by investing activities	23,531
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions	6,199,855
Distributions	(6,274,493)
Net cash used in financing activities	(74,638)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS—Beginning of year	-
CASH AND CASH EQUIVALENTS—End of year	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS—Accrued capital expenditures	$ (2,977)

(Continued)

SUNRISE STRATFORD, LP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net loss	$ (526,142)
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for bad debt	49,555
Depreciation and amortization	501,486
Gain on disposal	(8)
Changes in operating assets and liabilities:	
Accounts receivable	(131,003)
Prepaid expenses and other assets	(23,225)
Accounts payable and accrued expenses	271,638
Deferred revenue	(91,194)
Net cash provided by operating activities	$ 51,107

See notes to financial statements. (Concluded)

SUNRISE STRATFORD, LP

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

1. ORGANIZATION AND PRESENTATION

Organization—On August 1, 2006, Sunrise Stratford, LP (the "Partnership"), a Delaware limited partnership, acquired all easements and rights for The Stratford ("Stratford"), a licensed residential care facility for the elderly, from Raiser Resources, LLC. The Partnership is a wholly owned subsidiary of Sunrise Senior Living, LLC, ("Sunrise") a Company that manages senior living communities.

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

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

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

The Trust is administered in accordance with the Trust agreement, which requires that the principal and income from investment of the principal be used for the benefit of the residents of Stratford, including, but not limited to, payment for medical and health-related costs, the replacement of fixtures and equipment, structural upgrades, other capital improvements, and interest-bearing loans to residents who become unable to pay their monthly fees or other fees. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by Stratford of San Mateo Homeowners Association. For the year ended December 31, 2020, the Partnership agreed to transfer $541,569 to the Trust. The transfer is calculated as net operating income adjusted for marketing expense, wages and benefits, bad debt, and commissions received on unit sales and is included in general and administrative expense in the statement of operations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Furniture and Equipment—Furniture and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 10 years. Depreciation expense was $12,386 in 2020.

The Partnership assesses the carrying value of held-for-use assets when events or changes in circumstances indicate that the carrying value may not be recoverable. We test the related assets held for use for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the related assets. The expected future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate and related assets are greater than their fair values. No impairment charges were recorded in 2020.

Management Rights—The Partnership acquired all easements and rights for Stratford as a part of the acquisition from Raiser Resources, LLC. The rights included the right to manage Stratford for a management fee and the right to transfer fees, including a commission of a percentage of the sale price on each condominium unit sold by an owner, plus a percentage of the appreciation in value. Management rights were recorded at fair value at acquisition and are being amortized using the straight-line method over the estimated useful life of 30 years. Amortization expense was $489,100 for the year ended December 31, 2020.

Management rights are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Partnership measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charges were recorded in 2020.

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

Upon sale of a condominium by an owner, the Partnership receives a commission of 7% of the sale price, net of transactions costs, plus a percentage of the appreciation in price of the condominium. These fees are recognized when received and are recorded in other revenue in the amount of $235,287 for 2020.

Future Service Obligation on CCRC Agreement—When the present value of estimated costs to be incurred under CCRC Agreements exceeds estimated revenues, the present values of such excess costs are accrued currently. The estimated future revenues assume a future increase in the monthly revenue commensurate with the monthly cost. The calculations at December 31, 2020, resulted in an expected positive net present value cash flow, and as such, no liability has been recorded in the accompanying financial statements.

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

The Partnership has no uncertain tax positions that require accrual at December 31, 2020.

The statute of limitations for the State of California to perform audits on the Partnership is four years and expires on October 15, 2025. The Partnership is currently not under an audit by any tax authorities. Tax years December 31, 2016, through December 31, 2020, are open and subject to California state audit.

3. COVID-19 PANDEMIC

The United States broadly continues to experience the pandemic caused by COVID-19, which has significantly disrupted, and likely will continue to significantly disrupt for some period, the global economy and the senior living industry. The extent to which the COVID-19 pandemic impacts the Partnership's operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence , including the scope, severity, and duration of the pandemic; the actions taken to contain the pandemic or mitigate its impact; and the direct and indirect economic effects of the pandemic and containment measures, among others. The COVID-19 pandemic could have material and adverse effect on the Partnership's financial condition, results of operations, and cash flows in the future.

In response to the pandemic, on March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) into law. The legislation provides liquidity and financial relief to certain businesses, among other things. Applications for assisted living facilities under the Phase 2 and Phase 3 general distribution of the CARES Act were submitted and some funding was received in 2020. The Partnership was included in the relief funding application submitted by Sunrise and was allocated $182,436 of total relief funding received based on its percentage of 2019 taxable revenue to Sunrise's total 2019 taxable revenue. The relief funding is included in Other revenue. There can be no assurance that all the funds requested will be received. The Partnership continues to review additional relief programs for which the Partnership may qualify.

The COVID-19 pandemic has impacted the Partnership's revenue and profitability in 2020. The Partnership incurred increased operational costs as additional health safety measures were adopted. Those costs included increased labor, property cleaning expenses and expenditures for personal protective equipment and supplies. Lowered occupancy levels and increased expenses at the community are expected to continue until the pandemic subsides.

4. TRANSACTIONS WITH AFFILIATES

The Partnership has a management agreement with Sunrise Senior Living Management, Inc. ("SSLMI"), a wholly owned subsidiary of Sunrise, to manage the facility. The agreement provided for a monthly fee of 7.1% of gross operating revenue. Total management fees incurred were $453,113 in 2020.

The Partnership obtained worker's compensation, professional and general liability, and property coverage through Sunrise Senior Living Insurance, Inc., a wholly owned subsidiary of Sunrise. Related expenses totaled $224,255 in 2020.

The Partnership and SSLMI do not settle cash received or paid in affiliated transactions at the subsidiary level; therefore, the affiliated activity between SSLMI and the Partnership for the year 2020 has been included in contributions and distributions in the statement of changes in partners' capital for the year ended December 31, 2020. Distributions represent cash collected from residents and subsequently remitted to Sunrise. Contributions represent the net of all other operating activities recorded through intercompany and paid by Sunrise, plus noncash financing activities.

5. CONTINGENCIES

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

6. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 14, 2021, the date these financial statements were issued. No subsequent events were identified.

* * * * * *

OTHER FINANCIAL INFORMATION

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INDEPENDENT AUDITORS' REPORT

To the Partners of Sunrise Stratford, LP:

We have audited the accompanying schedules of long-term debt, net operating expenses, and liquid reserve amount in Forms 5-1 through 5-5 (the "Schedules"), which comprise the Long-Term Debt Incurred in a Prior Fiscal Year, Long-Term Debt Incurred During the Fiscal Year, Calculation of Long-Term Debt Reserve Amount, Calculation of Net Operating Expenses, and Annual Reserve Certification, respectively, for Sunrise Stratford, LP (the "Partnership"), as of December 31, 2020, and for the year then ended, and the related notes to the Schedules.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express an opinion on the Schedules based on our 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 Schedules are free from material misstatement.

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

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

Opinion

In our opinion, the Schedules referred to above present fairly, in all material respects, the long-term debt, net operating expenses, and liquid reserve amount in Forms 5-1 through 5-5 of Sunrise Stratford, LP as of December 31, 2020, and for the year then ended, on the basis of financial reporting provisions of the California Health and Safety Code section 1792, as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007.

Basis of Accounting

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

Restriction on Use

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

Deloitte & Touche LLP

April 14, 2021

SUNRISE STRATFORD, LP

FORM 5-1—LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR (Including balloon debt)

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

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

SUNRISE STRATFORD, LP

FORM 5-2—LONG-TERM DEBT INCURRED DURING THE FISCAL YEAR
(Including balloon debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over Next 12 Months	(e) Reserve Requirement (See Instruction 5) (Columns (c) x (d))
NONE		$ -	$ -	$ -	$ -
TOTAL		$ -	$ -	$ -	$ -

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

SUNRISE STRATFORD, LP

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

Line		Total
[1]	Total from Form 5-1 bottom of Column (e)	$ -
[2]	Total from Form 5-2 bottom of Column (e)	$ -
[3]	Facility leasehold or rental payment paid by provider during fiscal year (including related payments, such as lease insurance)	$ -
[4]	Total amount required for long-term debt reserve	$ -

SUNRISE STRATFORD, LP

FORM 5-4—CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	Total
[1]	Total operating expenses from financial statements		$ 6,851,748
[2]	Deductions		
	a Interest paid on long-term debt (see instructions)	$ -	
	b Credit enhancement premiums paid for long-term debt (see instructions)	-	
	c Depreciation	12,386	
	d Amortization	489,100	
	e Revenues received during the fiscal year for services to persons who did not have a continuing care contract	26,075	
	f Extraordinary expenses approved by the department	-	
[3]	Total deductions		(527,561)
[4]	Net operating expenses		6,324,187
[5]	Divide Line 4 by 365 and enter the result		17,327
[6]	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		$ 1,299,525

SUNRISE STRATFORD, LP

FORM 5-5—ANNUAL RESERVE CERTIFICATION

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

[1]	Debt service reserve amount	$ -
[2]	Operating expense reserve amount	1,299,525
[3]	Total liquid reserve amount	$ 1,299,525

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

	Qualifying Asset Description		Amount Debt Service Reserve		Operating Reserve
[4]	Cash and cash equivalents		$ -		$ 17,218,968
[5]	Investment securities		-		-
[6]	Equity securities		-		-
[7]	Unused/available lines of credit		-		-
[8]	Unused/available letters of credit		-		-
[9]	Debt service reserve		-		(not applicable)
[10]	Other		-		-
	Total amount of qualifying assets listed for liquid reserve:	[11]	$ -	[12]	$ 17,218,968
	Total amount required	[13]	$ -	[14]	$ 1,299,525
	Surplus/(deficiency)	[15]	$ -	[16]	$ 15,919,443

Cash and cash equivalents reported in form 5-5 are held by the parent company, Sunrise (Note 6, Liquid Reserve Amount)

1. ORGANIZATION AND PRESENTATION

Organization—On August 1, 2006, Sunrise Stratford, LP (the "Partnership"), a Delaware limited partnership, acquired all easements and rights for The Stratford ("Stratford"), a licensed residential care facility for the elderly, from Raiser Resources, LLC. The Partnership is a wholly owned subsidiary of Sunrise Senior Living, LLC, ("Sunrise") a Company that manages senior living communities.

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

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

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

The Trust is administered in accordance with the Trust Agreement, which requires that the principal and income from investment of the principal be used for the benefit of the residents of Stratford, including, but not limited to, payment for medical and health-related costs, the replacement of fixtures and equipment, structural upgrades, other capital improvements, and interest-bearing loans to residents who become unable to pay their monthly fees or other fees. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by Stratford of San Mateo Homeowners Association. For the year ended December 31, 2020, the Partnership agreed to transfer $541,569 to the Trust. The transfer is calculated as net operating income adjusted for marketing expense, wages and benefits, bad debt, and commissions received on unit sales and is included in general and administrative expense in the statement of operations.

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

2. PURPOSE OF THE ANNUAL RESERVE CALCULATION

As the Partnership operates as a CCRC, the Partnership is required to file Forms 5-1 through 5-5 of the California Health and Safety Code section 1792 (the “Schedules”) as instructed under the State of California Department of Social Services (DSS) Annual Report Instructions issued on January 1, 2007, for the year ended December 31, 2020. The purpose of the Schedules is to determine the amount the Partnership must hold in its liquid reserves for debt service and operating expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE FROM NONCONTINUING CARE RESIDENTS

The Partnership has deducted $26,075 on Form 5-4 line 2 (e) for revenues received during the fiscal year for services to persons who did not have a continuing care contract. The revenue represents service fees received for nonresident revenues and short-term respite stays in assisted living for noncontinuing care residents.

5. COVID-19 PANDEMIC

The United States broadly continues to experience the pandemic caused by COVID-19, which has significantly disrupted, and likely will continue to significantly disrupt for some period, the global economy and the senior living industry. The extent to which the COVID-19 pandemic impacts the Partnership's operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence , including the scope, severity, and duration of the pandemic; the actions taken to contain the pandemic or mitigate its impact; and the direct and indirect economic effects of the pandemic and containment measures, among others. The COVID-19 pandemic could have material and adverse effect on the Partnership's financial condition, results of operations, and cash flows in the future.

In response to the pandemic, on March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) into law. The legislation provides liquidity and financial relief to certain businesses, among other things. Applications for assisted living facilities under the Phase 2 and Phase 3 general distribution of the CARES Act were submitted and some funding was received in 2020. The Partnership was included in the relief funding application submitted by Sunrise and was allocated $182,436 of total relief funding received based on its percentage of 2019 taxable revenue to Sunrise’s total 2019 taxable revenue. The relief funding is included in Other revenue. There can be no assurance that all the funds requested will be received. The Partnership continues to review additional relief programs for which the Partnership may qualify.

The COVID-19 pandemic has impacted the Partnership's revenue and profitability in 2020. The Partnership incurred increased operational costs as additional health safety measures were adopted. Those costs included increased labor, property cleaning expenses and expenditures for personal protective equipment and supplies. Lowered occupancy levels and increased expenses at the community are expected to continue until the pandemic subsides.

6. LIQUID RESERVE AMOUNT

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

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 14, 2021, the date these financial statements were issued. No subsequent events were identified.

* * * * * *