WATERMARK
RETIREMENT COMMUNITIES®

May 27, 2022

Continuing Care Branch
California Department of Social Services
744 P Street, M.S. 9-14-91
Sacramento, CA 95814

Re: **Continuing Care Annual Report**

Ms. Nakatomi,

Enclosed please find the Annual Fiscal Filing ("Annual Report") for Watermark Carlotta, LLC ("Community"). The Community is located at 41-505 Carlotta Drive, Palm Desert, CA 92211.

The Annual Report and accompanying materials are in connection with the certificate of authority for the Community to the California Department of Social Services ("DSS"). Enclosed are two copies as requested by DSS.

If you have any questions regarding the enclosed or require additional information, please do not hesitate to contact me. Thank you for your assistance.

Sincerely,

WATERMARK RETIREMENT COMMUNITIES, LLC on behalf of
WATERMARK CARLOTTA, LLC

Kate Wattis
Licensing and Compliance Manager

Encl.

FISCAL YEAR ENDED:
_12_/_31_/_2021_

ANNUAL REPORT CHECKLIST

PROVIDER(S): _Watermark Carlotta, LLC______________________________

____

CCRC(S): _The Fountains at the Carlotta______________________________

____

PROVIDER CONTACT PERSON: _Kate Wattis______________________________

TELEPHONE NO.: (_520_) _392-7624_ EMAIL: _kwattis@watermarkcommunities.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: $_9,813.00_
☐ If applicable, late fee in the amount of: $__________

☒ 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.

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	167
[2]	Number at end of fiscal year	172
[3]	Total Lines 1 and 2	339
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	170
	All Residents	
[6]	Number at beginning of fiscal year	176
[7]	Number at end of fiscal year	231
[8]	Total Lines 6 and 7	407
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	203
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.83

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$12,185,742
[a]	Depreciation	$404,909	
[b]	Debt Service (Interest Only)	$0	
[2]	Subtotal (add Line 1a and 1b)		$404,909
[3]	Subtract Line 2 from Line 1 and enter result.		$11,780,833
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		83%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$9,812,537
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$9,813

PROVIDEI Watermark Carlotta, LLC
COMMUN The Fountains at the Carlotta

WELLTOWER TRS HOLDCO LLC
FOUNTAINS at the CARLOTTA
41-505 CARLOTTA DRIVE
PALM DESERT, CA 92211
(760) 346-5420

No. 1629
Check Date: 5/24/2022

CALIF DEPT OF SOCIAL SERVICES- CALIF DEPT OF SOCIAL SERVICES 744 P STREET, MS 8-3-90 SACRAMENTO CA 95814 US 1555

Invoice	Inv. Date	.	Gross Amount	Discount Amount	Net Amount Paid
CMP*CAR ANNUL DISTMT22	05/20/22		$9,813.00	$0.00	$9,813.00
		TOTALS:	**$9,813.00**	**$0.00**	**$9,813.00**

Detach at Perforation Before Depositing Check

Page 1 of 1

THE FACE OF THIS DOCUMENT HAS A COLORED BACKGROUND ON WHITE PAPER, A VOID PANTOGRAPH AND MICROPRINTING. THIS DOCUMENT ALSO CONTAINS A GENUINE WATERMARK

VOID VOID VOID VOID VO

WELLTOWER TRS HOLDCO LLC
FOUNTAINS at the CARLOTTA
41-505 CARLOTTA DRIVE
PALM DESERT, CA 92211
(760) 346-5420

Bank of America
91-170/1221 AZ

Check No. 1629

Check Date
05/24/2022

PAY *Nine Thousand Eight Hundred Thirteen and 00/100 Dollars*

$9,813.00

Void After 90 Days

TO THE ORDER OF
CALIF DEPT OF SOCIAL SERVICES- CALIF DEPT OF SOCIAL SERVICES
744 P STREET, MS 8-3-90
SACRAMENTO CA 95814
US

VOID VOID VOID VOID VO

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Watermark Carlotta, LLC

May 25, 2022

Continuing Care Branch
California Department of Social Services
744 P Street, M.S. 9-14-91
Sacramento, CA 95814

ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as certification on behalf of Watermark Carlotta, LLC ("Watermark") to the California Department of Social Services of the following matters regarding the enclosed annual report for 2021:

1. The accompanying annual report is correct to the best of my knowledge.

2. Each continuing care contract form currently in use and/or offered to new residents at The Fountains at The Carlotta is in the name of Watermark Carlotta, LLC, the Diana and David Freshwater Living Trust dated January 20, 2004, and the Barnes Family Revocable Trust and has been approved by the Department.

3. The liquid reserves required by California law are held in a separate bank account with Wells Fargo under the name of the Provider, Watermark Carlotta, LLC.

4. The refund reserve required by California law are also included in the above-mentioned account.

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

Sincerely,

David Freshwater
Authorized Signatory

Diana and David Freshwater Living Trust
Dated January 20, 2004

May 25, 2022

Continuing Care Branch
California Department of Social Services
744 P Street, M.S. 9-14-91
Sacramento, CA 95814

ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as certification on behalf of the Diana and David Freshwater Living Trust dated January 20, 2004 (the "Freshwater Trust") to the California Department of Social Services of the following matters regarding the enclosed annual report for 2021:

1. The information about the Freshwater Trust in the accompanying annual report for The Fountains at The Carlotta is correct to the best of my knowledge.

2. Each continuing care contract form currently in use and/or offered to new residents at The Fountains at The Carlotta is in the name of Watermark Carlotta, LLC ("Watermark"), the Diana and David Freshwater Living Trust dated January 20, 2004, and the Barnes Family Revocable Trust and has been approved by the Department.

3. The liquid reserves required by California law are held in a separate bank account with Wells Fargo under the name of the Provider, Watermark Carlotta, LLC.

4. The refund reserve required by California law are also included in the above-mentioned account.

5. The Freshwater Trust does not and will not ever assume the role that Watermark Carlotta, LLC and Watermark Retirement Communities, LLC have as the subtenant and manager respectively, and as co-holders of the RCFE license. The Freshwater Trust is not responsible for any duties beyond the scope of its role as a financial guarantor of the continuing care contracts.

6. As a financial guarantor under the COA, the Freshwater Trust will ensure that the financial provisions of the continuing care contract are performed and fulfilled in the event that Watermark Carlotta, LLC is unable to meet its financial obligations.

7. The Freshwater Trust maintains the funds required to fulfill its role as a financial guarantor under the Certificate of Authority. The authorized signatory of the Freshwater

Trust certifies in the event that Watermark Carlotta, LLC is unable to fulfill its financial obligations under the continuing care contracts.

Please feel free to contact us if you have any question about our submission.

Sincerely,

David Freshwater
Authorized Signatory

Barnes Family Revocable Trust

May 25, 2022

Continuing Care Branch
California Department of Social Services
744 P Street, M.S. 9-14-91
Sacramento, CA 95814

ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as certification on behalf of the Barnes Family Revocable Trust (the "Barnes Trust") to the California Department of Social Services of the following matters regarding the enclosed annual report for 2021:

1. The information about the Barnes Trust in the accompanying annual report for The Fountains at The Carlotta is correct to the best of my knowledge.

2. Each continuing care contract form currently in use and/or offered to new residents at The Fountains at The Carlotta is in the name of Watermark Carlotta, LLC ("Watermark"), the Diana and David Freshwater Living Trust dated January 20, 2004 ("Freshwater Trust"), and the Barnes Family Revocable Trust and has been approved by the Department.

3. The liquid reserves required by California law are held in a separate bank account with Wells Fargo under the name of the Provider, Watermark Carlotta, LLC.

4. The refund reserve required by California law are also included in the above-mentioned escrow account.

5. The Barnes Trust does not and will not ever assume the role that Watermark Carlotta, LLC and Watermark Retirement Communities, LLC have as subtenant and manager respectively, and as co-holders of the RCFE license. The Barnes Trust is not responsible for any duties beyond the scope of its role as a financial guarantor of the continuing care contracts.

6. As a financial guarantor under the COA, the Barnes Trust will ensure, jointly with the Barnes Trust, that the financial provisions of the continuing care contract are performed and fulfilled in the event that Watermark Carlotta, LLC is unable to meet its financial obligations.

7. The Barnes Trust maintains the funds required to fulfill its role as a financial guarantor under the Certificate of Authority. The authorized signatory of the Barnes Trust certifies that in the event that Watermark Carlotta, LLC is unable to fulfill its financial obligations under the continuing care contracts.

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

Sincerely,

David Barnes
Authorized Signatory

ACORD

EVIDENCE OF COMMERCIAL PROPERTY INSURANCE

DATE (MM/DD/YYYY): 05/26/2021

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

PRODUCER NAME, CONTACT PERSON AND ADDRESS: Marsh USA, Inc 1166 Avenue of the Americas New York, NY 10036 CN117548300-NSAM-Prop-20-21 PHONE (A/C, No, Ext):	COMPANY NAME AND ADDRESS: See Attached Schedule of Insurers NAIC NO: IF MULTIPLE COMPANIES, COMPLETE SEPARATE FORM FOR EACH
FAX (A/C, No): E-MAIL ADDRESS:	POLICY TYPE: Property
CODE: SUB CODE:	
AGENCY CUSTOMER ID #:	
NAMED INSURED AND ADDRESS: Colony Capital, Inc. 515 S. Flower Street, 44th Floor Los Angeles, CA 90071	LOAN NUMBER: POLICY NUMBER: See Attached EFFECTIVE DATE: 11/01/2020 EXPIRATION DATE: 11/01/2021 CONTINUED UNTIL TERMINATED IF CHECKED: ☐
ADDITIONAL NAMED INSURED(S):	THIS REPLACES PRIOR EVIDENCE DATED:

PROPERTY INFORMATION (ACORD 101 may be attached if more space is required) ☒ BUILDING OR ☒ BUSINESS PERSONAL PROPERTY

LOCATION / DESCRIPTION

Re: The Fountains at Carlotta, 41505 Carlotta Drive, Palm Desert, CA 92211

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 EVIDENCE OF PROPERTY INSURANCE 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.

COVERAGE INFORMATION

PERILS INSURED: BASIC ☐ BROAD ☐ SPECIAL ☒

COMMERCIAL PROPERTY COVERAGE AMOUNT OF INSURANCE: $ 400,000,000 DED: SEE ATTACHED

	YES	NO	N/A	
☒ BUSINESS INCOME ☒ RENTAL VALUE	X			If YES, LIMIT: Included — X Actual Loss Sustained; # of months:
BLANKET COVERAGE	X			If YES, indicate value(s) reported on property identified above: $
TERRORISM COVERAGE	X			Attach Disclosure Notice / DEC
IS THERE A TERRORISM-SPECIFIC EXCLUSION?		X		
IS DOMESTIC TERRORISM EXCLUDED?		X		
LIMITED FUNGUS COVERAGE	X			If YES, LIMIT: 50,000,000 DED: 10,000
FUNGUS EXCLUSION (If "YES", specify organization's form used)	X			
REPLACEMENT COST	X			
AGREED VALUE		X		
COINSURANCE		X		If YES, %
EQUIPMENT BREAKDOWN (If Applicable)	X			If YES, LIMIT: INCLUDED IN LIMIT DED: SEE ATTACHED
ORDINANCE OR LAW - Coverage for loss to undamaged portion of bldg	X			If YES, LIMIT: INCLUDED IN LIMIT DED: SEE ATTACHED
- Demolition Costs	X			If YES, LIMIT: INCLUDED IN LIMIT DED: SEE ATTACHED
- Incr. Cost of Construction	X			If YES, LIMIT: INCLUDED IN LIMIT DED: SEE ATTACHED
EARTH MOVEMENT (If Applicable)	X			If YES, LIMIT: See Attached DED: See Attached
FLOOD (If Applicable)	X			If YES, LIMIT: See Attached DED: See Attached
WIND / HAIL INCL ☒ YES ☐ NO Subject to Different Provisions:		X		If YES, LIMIT: See Attached DED: See Attached
NAMED STORM INCL ☒ YES ☐ NO Subject to Different Provisions:		X		If YES, LIMIT: See Attached DED: See Attached
PERMISSION TO WAIVE SUBROGATION IN FAVOR OF MORTGAGE HOLDER PRIOR TO LOSS	X			

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

ADDITIONAL INTEREST

NYC-011120977-01

☐ CONTRACT OF SALE ☐ LENDER'S LOSS PAYABLE ☐ LOSS PAYEE ☐ MORTGAGEE	LENDER SERVICING AGENT NAME AND ADDRESS
NAME AND ADDRESS Colony Capital, Inc. 515 S. Flower Street 44th Floor Los Angeles, CA 90071	AUTHORIZED REPRESENTATIVE of Marsh USA Inc. Manashi Mukherjee Manashi Mukherjee

AGENCY CUSTOMER ID: CN117648300
LOC #: New York

ACORD

ADDITIONAL REMARKS SCHEDULE

AGENCY		NAMED INSURED
Marsh USA, Inc.		Colony Capital, Inc. 515 S. Flower Street, 44th Floor Los Angeles, CA 90071
POLICY NUMBER		
CARRIER	NAIC CODE	EFFECTIVE DATE:

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,
FORM NUMBER: 28 FORM TITLE: Evidence of Commercial Property Insurance

"All Risks" Markets:

Primary $25,000,000
Endurance American Specialty Insurance Company / Policy No: GPR10010924004: 90%
Interstate Fire and Casualty / Policy No: RTX20007220: 10%

$25,000,000 xs $25,000,000
ACE American Insurance Company / Policy No: CX D37870598 002: 46%
Starr Surplus Lines Insurance Company / Policy No: SLSTPTY11380320: 10%
Continental Casualty Company / Policy No: RMP 6073217529: 20%
Aspen Specialty Insurance / Policy No: PX00EG220: 4%
Ironshore Specialty Insurance Company / Policy No: 1000370114-02: 10%
Interstate Fire and Casualty / Policy No: RTX20007220: 10%

$50,000,000 xs $50,000,000
Starr Surplus Lines Insurance Company / Policy No: SLSTPTY11380320: 5%
HDI Specialty/ Policy No: PR0306820000: 10%

$100,000,000 xs $100,000,000
Starr Surplus Lines Insurance Company / Policy No: SLSTPTY11380320: 15%

$200,000,000 xs $200,000,000
Starr Surplus Lines Insurance Company / Policy No: SLSTPTY11380320: 50%
XL Bermuda / Policy No: XL PRP 2067649 20: 50%

$150,000,000 xs $50,000,000
Westport Insurance Corporation / Policy No. NAP 2000292 07: 15%
Princeton Excess and Surplus Lines Insurance Company / Policy No: 78-A3-ZP-0000841-01: 25%
Everest Indemnity Insurance Company / Policy No: RP5CF00254-201: 20%
AIG Specialty Insurance Company / Policy No: 21585832: 15%
Interstate Fire and Casualty / Policy No: RTX20007220: 10%

Excess California Earthquake:
$30,000,000 xs $50,000,000 CA EQ Only
Everest Indemnity Insurance Company / Policy No: 8400008428-201: 68.33%
HDI Global Specialty SE / Policy No: TR0001486-09552-20: 16.67%
General Security Indemnity Company of Arizona / Policy No: B1180D201016824: 15.00%

$200,000,000 Terrorism
HamiltonRe / Policy No. WTLS200068 - 100%

365 days extended period of indemnity
Business Income is on an Actual Loss Sustained basis and not limited to time

CAT Limits:
USD $400,000,000 per occurrence and in the annual aggregate for the peril of Flood except;
USD $100,000,000 per occurence and in the annual aggregate for the peril of flood occuring in Special Flood Hazard Areas

USD $200,000,000 per occurrence and in the annual aggregate for the peril of Earthquake except;
USD $80,000,000 per occurrence and in the annual aggregate for the peril of Earthquake in California

AGENCY CUSTOMER ID: CN117648300

LOC #: New York

ACORD®

ADDITIONAL REMARKS SCHEDULE

AGENCY Marsh USA, Inc.	NAMED INSURED Colony Capital, Inc. 515 S. Flower Street, 44th Floor Los Angeles, CA 90071
POLICY NUMBER	
CARRIER / NAIC CODE	EFFECTIVE DATE:

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,

FORM NUMBER: 28 FORM TITLE: Evidence of Commercial Property Insurance

USD $400,000,000 per occurrence for the peril of Named Windstorm

Deductibles:

$10,000 except;

Flood:

$100,000 for loss caused by the peril of Flood; except;

$500,000 building / $500,000 contents / $100,000 time element for Special Flood Hazard Areas

Earthquake

$100,000 per occurrence for Earthquake except;

5% actual value per unit of insurance at time of loss subject to a minimum of $100,000 for California Earthquake

$25,000 for Hawaii, Alaska & Puerto Rico Earthquake

3% actual value per unit of insurance at time of loss subject to a minimum of $100,000 for Pacific Northwest

3% actual value per unit of insurance at time of loss subject to a minimum of $100,000 for New Madrid

Wind (Including Named Windstorm)

3% actual value per unit of insurance at time of loss subject to a minimum of $100,000 for Tier 2 counties as defined by the policies;

5% actual value per unit of insurance at time of loss subject to a minimum of $100,000 for Tier 1 counties as defined by the policies

Other deductibles may apply per policy terms and conditions.

Watermark Carlotta, LLC dba The Fountains at The Carlotta

(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Financial Report
December 31, 2021

Contents

RSM

RSM US LLP

Independent Auditor's Report

The Member
Watermark Carlotta, LLC

Opinion
We have audited the financial statements of Watermark Carlotta, LLC (the Company) dba The Fountains at The Carlotta (a wholly owned subsidiary of Watermark Fountains Tenant, LLC), which comprise the balance sheets as of December 31, 2021 and 2020, the related statements of income, changes in member's deficit, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion
We conducted our audits 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 Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As discussed in Note 3 to the financial statements, the landlord sold the real property leased by the Company and the Company's operations were transferred to a new operator. Our opinion is not modified with respect to this matter.

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 Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

RSM US LLP

Phoenix, Arizona
May 25, 2022

Watermark Carlotta, LLC dba The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 111,066	$ 46,101
Accounts receivable, net	229,828	569,811
Receivable from parent	146,313	892,653
Prepaid expenses and other current assets	5,726	340,720
Total current assets	492,933	1,849,285
Property and equipment:		
Leasehold improvements	-	2,371,768
Furniture, fixtures and equipment	-	1,147,976
Vehicles under capital lease	-	178,634
Construction in progress	-	56,321
Total property and equipment	-	3,754,699
Less accumulated depreciation and amortization	-	(1,817,419)
Total property and equipment, net	-	1,937,280
Restricted cash	-	822,648
Goodwill, less accumulated amortization of $5,406,903 at December 31, 2020	-	4,277,101
Other assets	74,708	483,628
Total assets	$ 567,641	$ 9,369,942

(Continued)

Watermark Carlotta, LLC dba The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Balance Sheets (Continued)
December 31, 2021 and 2020

	2021	2020
Liabilities and Member's Deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 389,978	$ 1,143,905
Medicare advance payments	745,173	1,139,750
Due to buyer	233,573	-
Payable to related party	9,887	-
Rent payable	-	289,578
Straight-line deferred rent	-	226,265
Security and reservation deposits	-	32,451
Insurance liability reserves	16,197	127,304
Current portion of capital lease obligation	-	18,061
Installment loan payable	-	50,980
Total current liabilities	1,394,808	3,028,294
Long-term liabilities:		
Capital lease obligation, less current maturities	-	36,906
Deferred revenue	-	36,611
Straight-line deferred rent, long term	-	44,975
Insurance liability reserves, less current portion	131,815	731,260
Refundable entrance fees	-	14,593,960
Unearned nonrepayable entrance fees	-	6,792,236
Total long-term liabilities	131,815	22,235,948
Total liabilities	1,526,623	25,264,242
Commitments and contingencies		
Member's deficit	(958,982)	(15,894,300)
Total liabilities and member's deficit	$ 567,641	$ 9,369,942

See notes to financial statements.

Watermark Carlotta, LLC dba The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Statements of Income
Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenue:		
Healthcare revenue, net of contractual allowances	$ 3,575,131	$ 4,692,968
Resident fees	7,743,979	8,405,914
Amortization of entrance fees	1,351,130	1,658,384
Paycheck Protection Program loan forgiveness	-	1,127,700
Coronavirus Aid, Relief, and Economic Security Act provider relief funds	276,285	703,598
Lease income	8,750	3,460
Other operating revenue	86,759	159,212
Total operating revenue	13,042,034	16,751,236
Operating expenses:		
Wages and benefits	5,142,056	6,257,897
Lease expense	2,734,168	3,427,636
Depreciation and amortization	404,909	632,167
Amortization of goodwill and entrance fee intangibles	645,600	1,359,268
Ancillary/therapy expenses	936,444	1,276,411
General and administrative	354,843	489,580
(Recovery of) provision for bad debts	(7,561)	109,702
Food	437,589	490,374
Supplies	210,770	200,493
Utilities	748,213	744,119
Insurance	512,017	911,033
Taxes and license fees	569,445	612,598
Repairs and maintenance	698,580	623,024
Loss on disposal of fixed assets	-	7,759
Management fees	652,102	837,562
Occupancy costs	129,524	192,954
Professional services	717,563	667,859
Total operating expenses	14,886,262	18,840,436
Loss from operations	(1,844,228)	(2,089,200)
Other (expense) income:		
Interest expense	(29,141)	(8,966)
Interest income	165	384
Other expense	(1,250)	-
Gain on sale of community	16,794,582	-
Total other income (expense)	16,764,356	(8,582)
Net income (loss)	$ 14,920,128	$ (2,097,782)

See notes to financial statements.

Watermark Carlotta, LLC dba The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Statements of Changes in Member's Deficit
Years Ended December 31, 2021 and 2020

Balance, December 31, 2019	$ (13,796,518)
Net loss	(2,097,782)
Balance, December 31, 2020	(15,894,300)
Contributions	15,190
Net income	14,920,128
Balance, December 31, 2021	**$ (958,982)**

See notes to financial statements.

Watermark Carlotta, LLC dba The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from residents and third-party payors	$ 11,532,263	$ 14,529,726
Paycheck Protection Program loan forgiveness	-	1,127,700
Coronavirus Aid, Relief, and Economic Security Act provider relief funds	276,285	703,598
Cash paid to suppliers and employees	(14,741,401)	(16,912,305)
Interest paid	(29,141)	(8,966)
Net cash used in operating activities	(2,961,994)	(560,247)
Cash flows from investing activities:		
Purchases of property and equipment	(328,825)	(22,017)
Payments from (advances to) parent	746,340	(160,329)
Net cash provided by (used in) investing activities	417,515	(182,346)
Cash flows from financing activities:		
Contributions from members	15,190	-
Repayment of entrance fees	(2,703,667)	(1,216,090)
Entrance fees received	4,542,756	1,913,359
Proceeds from installment loan	251,498	226,599
Payment on installment loan	(302,478)	(207,466)
Payments on capital lease obligation	(16,503)	(27,952)
Net cash provided by financing activities	1,786,796	688,450
Net change in cash and restricted cash	(757,683)	(54,143)
Cash and restricted cash, beginning of year	868,749	922,892
Cash and restricted cash, end of year	$ 111,066	$ 868,749
Reconciliation of cash and restricted cash:		
Cash	$ 111,066	$ 46,101
Restricted cash	-	822,648
Cash and restricted cash	$ 111,066	$ 868,749

(Continued)

Watermark Carlotta, LLC dba The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of net loss to net cash used in operating activities:		
Net income (loss)	$ 14,920,128	$ (2,097,782)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	404,909	632,167
Amortization of goodwill and entrance fee intangibles	645,600	1,359,268
Amortization of entrance fees	(1,351,130)	(1,658,384)
Deferred revenue	(36,611)	(10,381)
Loss on disposal of fixed assets	-	7,759
Gain on sale of community	(16,794,582)	-
(Recovery of) provision for bad debts	(7,561)	109,702
Changes in operating assets and liabilities:		
Accounts receivable	347,544	169,864
Prepaid expenses and other current assets	291,573	(90,918)
Due to buyer	233,573	-
Other assets	2,720	1,178
Accounts payable and accrued expenses	(473,410)	(345,187)
Medicare advance payments	(394,577)	1,139,750
Payable to related party	9,887	(4,041)
Insurance liability reserves	(232,820)	108,165
Rent payable	(289,578)	289,578
Straight-line deferred rent	(205,208)	(139,540)
Security and reservation deposits	(32,451)	(31,445)
Net cash used in operating activities	$ (2,961,994)	$ (560,247)

	2021	2020
Gain on sale of community:		
Entrance fee liabilities assumed by buyer	$ 21,874,155	$ -
Write-off of goodwill	(3,631,501)	-
Net book value of property and equipment transferred to buyer	(1,833,086)	-
Write-off of capital lease obligation	38,464	-
Write-off of deferred rent	66,032	-
Other	280,518	-
	$ 16,794,582	$ -

See notes to financial statements.

Note 1. Nature of Business

Watermark Carlotta, LLC dba The Fountains at The Carlotta (the Company), a Delaware limited liability Company, operates a continuing care retirement community (CCRC) located in Palm Desert, California, and is owned by Watermark Fountains Tenant, LLC (the Parent Company). The Company was formed on February 10, 2015 (inception), pursuant to a transaction in which the Parent Company acquired certain assets and assumed certain liabilities of six senior living facilities (the Communities), including the community known as The Fountains at The Carlotta (the Community).

The Company services the varying lifestyle needs of seniors and elderly residents by combining the services for independent living, assisted living and skilled nursing communities in a campus setting.

The Company's 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.

Effective with the commencement of operations, the Parent Company executed a Master Lease with a group of landlord entities (Landlord) to lease each of the Communities operated by the Parent Company. A guaranty of lease was simultaneously executed between Landlord and Watermark Retirement Communities, LLC (Watermark), an affiliate of the Parent Company.

Note 2. Summary of Significant Accounting Policies

Basis of accounting and presentation: The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and restricted cash: Cash and restricted cash consists of demand deposit accounts at financial institutions. Throughout the year, the Company may have cash balances in excess of federally insured amounts on deposit with various financial institutions; however, management does not believe it is exposed to any significant credit risk on cash and restricted cash.

Accounts receivable: Resident fee and lease revenue for recurring and routine monthly services is generally billed monthly in advance. Healthcare services and other operating revenues are generally billed in arrears. Payment terms for self-pay residents generally require payment within 30 days. Payment terms for third-party payors are based on the terms of the payor contract. As the Company's accounts receivable have an original term of less than one year, the Company does not consider the time value of money in valuing accounts receivable.

Note 2. Summary of Significant Accounting Policies (Continued)

The Company considers the effects of resident credit risk for residents entering its independent and assisted living facilities, and also considers 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 Company provides 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.

Prepaid expenses and other current assets: Prepaid expenses and other current assets includes inventories, which are valued at the lower of cost or net realizable value. Inventories mainly consist of food, glassware, dishware, utensils, and linens.

Property and equipment: Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Amortization expense on capital leases is included with depreciation expense. Leasehold improvements and vehicles under capital lease are amortized over the shorter of the economic life or lease term. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets or lease period, as follows:

	Years
Leasehold improvements	5-15
Furniture, fixtures and equipment	5-7
Vehicles under capital lease	4-5

Depreciation and amortization expense was $404,909 and $632,167 for the years ended December 31, 2021 and 2020, respectively.

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

Restricted cash: Restricted cash includes the following:

- Tax and insurance escrow, which the Company funds in connection with the Community's lease. This escrow is required by the loan agreement held by the Community's owner. The balance in the tax and insurance escrow accounts totaled $0 and $822,648 as of December 31, 2021 and 2020, respectively, and is included in restricted cash in the accompanying balance sheets. These amounts were released from escrow restrictions at the sale of the Community on December 1, 2021, as described in Note 3.

- The California Department of Social Services requires funds to be set aside to meet both a debt service reserve and an operating reserve, which is based on the current year debt service paid and net operating expenses incurred related to continuing care residents for 75 days.

Note 2. Summary of Significant Accounting Policies (Continued)

Goodwill: Goodwill represents the excess of the purchase price of the acquisition over the estimated fair value assigned to the identifiable assets acquired and liabilities assumed. The Company adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-02, *Intangibles—Goodwill and Other*. This accounting standard allows private companies to amortize goodwill on a straight-line basis over a period not to exceed 10 years. For the years ended December 31, 2021, and 2020, approximately $645,600 and $968,400 have been amortized for goodwill, respectively. Under this standard, goodwill is tested for impairment only when a triggering event occurs. As of December 31, 2021 and 2020, the Company believes no impairments existed.

Entry fee intangible: Entry fee intangible represents the value of the declining nonrefundable entrance fees liabilities assumed. The value of entry fee intangible is amortized to expense over the actuarially determined estimated life expectancies of the residents under the respective entry fee agreements as the amortization of nonrepayable entrance fees is recorded to operating revenue. For the year ended December 31, 2020, the amount that has been amortized for the entry fee is $390,868 and is included in amortization expense in the accompanying statements of income. The entry fee intangible was fully amortized at December 31, 2020.

Unearned and refundable entrance fees: The Company provides 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.

Refundable entrance fees are recorded as a liability. The remainder of the entrance fees, including the amount subject to a declining balance that becomes nonrefundable over time, are recorded by the Company as unearned nonrefundable entrance fees.

The Company records a receivable for entrance fees when a payment agreement is entered into with a resident. There were no entry fees receivable at December 31, 2021 or 2020.

In conjunction with the acquisition of The Fountains at The Carlotta in 2015, the Company assumed repayable entrance fee liabilities. The face value of the amount that was repayable to residents at the date of acquisition was recorded as the fair value. This liability is reflected as repayable entrance fees and unearned entry fees in the accompanying balance sheets. The Company expects the source of repayment of repayable entrance fees to come from entrance fees received from the re-occupancy of the unit.

Obligation to provide future services: The Company is a continuing care retirement community and is, therefore, obligated to provide services and the use of facilities to the residents over their remaining lives based on the terms of the continuing care contract agreements (the Care Agreements). When the present value of estimated costs to be incurred under the Care Agreements exceeds the present value of the estimated related revenues, such excess is accrued. Management reviewed facts and circumstances as of year-end and concluded that under the terms of the Care Agreements in place the unearned revenue exceeds costs of future services to be provided, accordingly there is no liability as of December 31, 2021 or 2020.

Deferred rent: Deferred rent consists of amounts related to recognizing lease expense on leases where lease payments increase over the life of the lease on a straight-line basis.

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition and deferred revenue: The Company follows FASB Accounting Standards Codification (ASC) 606 Revenue From Contracts with Customers, for revenue recognition. The five-step model defined by Topic 606 requires the Company to: (1) identify the contracts with customer, (2) identify the performance obligations under those contracts, (3) determine the transaction prices of those contracts, (4) allocate the transaction price to the performance obligations in those contracts, and (5) recognize revenue when each performance obligation under those contracts is satisfied. Revenue is recognized when promised goods or services are transferred to the residents in an amount that reflects the consideration expected in exchange for those goods or services.

Resident fees: Revenue from monthly service fees under the residency agreements is reported at the amount that reflects the consideration to which the Company expects to be entitled for services provided as specified in the agreements. These amounts are due from residents and recognized over time as performance obligations are satisfied. Generally, the performance obligation related to these monthly maintenance fees is considered to be the ongoing ability of the resident to continue to occupy the unit each month. Accordingly, revenue is recognized monthly as this service is provided.

Residents moving directly into assisted living (including memory care) facilities are subject to agreements that do not require entrance fees. Resident fees at these facilities consist of monthly charges for basic housing and support services. Fees are specified in rental agreements that are short-term in nature, with terms that allow residents to cancel with 30 days' notice. Revenue under these rental agreements is based on the considerations specified in the agreements and is recorded monthly as the services are provided, in accordance with the provisions of FASB ASC 840, Leases.

Typically, nonrepayable resident community fees, approximating one to two months' billing of resident fees, are collected in rental communities upon move-in. These fees relate to apartment make-ready services performed by the Company. Resident community fees are recognized in revenue upon move-in.

Amortization of entrance fees: Nonrefundable entrance fees are considered to contain a material right associated with living in the Communities and access to future services, which is the performance obligation. Revenue from unearned entrance fees is amortized monthly based on an actuarial determination of life expectancy of the resident using the straight-line method, with the period of amortization adjusted annually based upon the actuarially determined remaining life expectancy of the resident. If a resident terminates occupancy, any unamortized portion of the deferred unearned entrance fee is recognized as revenue.

Healthcare revenue: Healthcare revenue is derived from providing healthcare services to residents in the Company's long-term care facilities and is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient care. These amounts are based on daily rates, which are generally fixed, and are due from patients and third-party payors, including Medicare, Medicaid and other health insurers. The Company determines the transaction price based on standard charges adjusted for explicit price concessions consisting of contractual adjustments provided to third-party payors. Generally, the Company bills the patients and third-party payors monthly in arrears. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Company. Patient care services represent a bundle of services that are not capable of being distinct; accordingly, the Company has determined that the overall provision of a day of healthcare services to a resident in its long-term care facility is one performance obligation. Additionally, there may be ancillary services that are not included in the daily rates. These services are considered separate performance obligations for which revenue is recognized as the services are provided.

Note 2. Summary of Significant Accounting Policies (Continued)

Healthcare services rendered to Medicare beneficiaries are reimbursed based on a classification system referred to as the Patient Driven Payment Model (PDPM). PDPM per-diem payments are adjusted during a resident's stay to reflect varying costs throughout the time the resident is in the facility.

Medicaid payment methodologies vary by state and are also generally paid at prospectively determined rates, although some states may have limited retrospective adjustments. Most state Medicaid programs will perform desk reviews of all submitted cost reports and only audit selected providers.

Third-party payor agreements include the potential for retroactive revenue adjustments due to the settlement of audits, reviews and investigations. These retroactive settlements are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

Estimated settlements are adjusted in future periods as adjustments become known. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of variable consideration may change.

Other operating revenue: Other operating revenue consists of amounts that are incidental to the operations of the Company's 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. Accordingly, revenue is recognized and earned at a point in time in accordance with the provisions of Topic 606 as the performance obligations are satisfied.

Marketing and advertising costs: Costs for advertising and marketing are expensed at the time the advertising takes place. Total costs during 2021 and 2020 were $136,816 and $94,039, respectively, and are included in professional services expense in the accompanying statements of income.

Insurance: The Company is insured for professional and general liability, subject to deductibles of $50,000 per occurrence. Losses subject to these deductibles are accrued based upon the aggregate liability for reported claims and an estimated liability for claims incurred but not reported. These liabilities are not discounted. The policies, however, do not extinguish or provide legal release from the Company's obligation prior to payment to the harmed party. Therefore, at December 31, 2021 and 2020, the Company estimated the total unlimited unpaid claims and recorded insurance liability reserves of $148,012 and $858,564, respectively. These insurance liability reserves are classified as current or long-term based on the period claims are expected to be paid. The Company also recorded related assets of $52,323 and $530,055 as of December 31, 2021 and 2020, respectively, for the amount in excess of the Company's deductible thresholds that are estimated to be received from insurance carriers. These insurance receivables are recorded in prepaid and other current assets, or other assets based on the period claims are expected to be paid.

The Company is also insured for automobile liability, subject to deductibles of $2,000 per occurrence as well as workers' compensation subject to a zero deductible. Watermark carries workers' compensation insurance on a loss sensitive program having an August 1 renewal cycle. The current workers' compensation program has a $250,000 deductible, with coverage limits that meet applicable statutory requirements.

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: The Company is a limited liability company and is not subject to income tax. The member is taxed on their share of the Company's taxable income, whether or not distributed, and is entitled to deduct their share of net losses to the extent of their tax basis. Accordingly, no provision for income taxes is provided in the accompanying financial statements.

U.S. GAAP requires management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a more-likely-than-not standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Company is required to file federal and state income tax returns. Management has performed its evaluation of income tax positions and has determined that there were no positions that do not meet the more-likely-than-not standard.

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

Note 3. Sale of Community

Effective in December 2021, the community commonly known as The Fountains at the Carlotta (operated by Watermark Carlotta, LLC) was sold as part of a portfolio that included 13 other senior living facilities and four land parcels to an unrelated third-party through an asset sale consisting primarily of real property, improvements, furnishings, fixtures and equipment and the assumption of related resident liabilities. The Company's property and equipment with a net book value of $1,833,086 was sold in the transaction. As part of the transaction, the buyer assumed the Company's entrance fee liabilities of $21,874,155. In addition, goodwill of $3,631,501 was written off with the sale of the community. This resulted in a gain on sale of the community of $16,794,582 for the year ended December 31, 2021. Subsequent to the transaction, deposits were received and payments were made from the Company's cash account on behalf of the new operator. This activity resulted in a balance due to buyer of $233,573 at December 31, 2021.

Concurrent with the asset sale, the Company and Parent Company, among other parties, executed an Operations Transfer Agreement (OTA) whereby the Company's operations were transferred to a new operator. Concurrently, the Company entered into "Bridging Documents" (as defined in the OTA), whereby community operations are permitted to continue uninterrupted under the Company's existing licensure, pending the new operator obtaining new required licensure and regulatory approvals in its own name.

Note 4. 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.

Note 4. Accounts Receivable and Healthcare Revenue Recognition (Continued)

Accounts receivable, net of contractual discounts and uncompensated care, are as follows at December 31:

	2021	2020
Accounts receivable	$ 232,544	$ 599,755
Allowance for contractual discounts	2,716	16,125
Allowance for uncompensated care	-	13,819
Total allowances	2,716	29,944
Accounts receivable, net	$ 229,828	$ 569,811

The Company has 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 Company. Revenue from the Medicare program totaled approximately 20.8% and 20.6% of total operating revenue for the years ended December 31, 2021 and 2020, respectively.

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

	2021	2020
Medicare	$ 2,709,873	$ 3,460,706
Medicaid	569,138	639,313
Insurance	240,010	313,745
Self-pay	56,110	279,204
	$ 3,575,131	$ 4,692,968

Note 5. Concentrations of Credit Risk

The Company grants credit without collateral to its residents for amounts due under resident agreements, many of whom are insured under third-party agreements. The Company is exposed to credit risk on these receivables.

The mix of receivables from residents and third-party payors as of December 31 was as follows:

	2021	2020
Medicare	21.17%	23.48%
Medicaid	13.91%	22.00%
Insurance	40.23%	17.28%
Self-pay	24.69%	37.24%
	100.00%	100.00%

Note 6. Member's Deficit

The operating agreement details the commitments of the member and provides the procedures for the return of capital to the member with defined priorities. All profits and losses, net cash flows from operations and capital proceeds, if any, are to be distributed according to the priorities specified in the operating agreement.

Note 7. Related-Party Transactions

Operating lease: The Parent Company entered into a Master Lease agreement dated June 1, 2015, with the Landlord. The Company simultaneously executed a sublease agreement with the Parent Company to lease all the real property, the communities and personal property, which are subject to the Master Lease as it relates to The Fountains at The Carlotta community. The sublease is expressly subject and subordinate to all the terms and conditions contained in the Master Lease.

The initial term of the sublease is six years and nine months and shall be concurrent with the Master Lease term. The Master Lease shall automatically extend for four successive renewal terms of five years each, unless a renewal condition is not satisfied or the Parent Company delivers a nonrenewal notice to the affiliate. Rent increases annually by the greater of 2.5% or the Consumer Price Index, as defined in the Master Lease. The Master Lease includes a financial covenant, which requires a coverage ratio (net cash, which includes the combination of cash net operating income and net entry fees for the applicable trailing 12-month period, to the minimum rent for such trailing 12-month period) of not less than 1.0x. These covenants were not met at December 31, 2020. On April 15, 2021, the Parent Company executed an amendment to the Master Lease with the Landlord, through which the Landlord waived, from and after the date of the amendment, any failure of the Parent Company to satisfy these covenants. Lease expense is recognized on a straight-line basis.

In June 2020, the Parent Company entered into an agreement with the Landlord to defer payment of a portion of the rent payments for the period from July through August 2020. The rent deferred amounted to approximately $2,856,000, with payment due to the Landlord during the period from September 2020 through August 2021. Of this amount, approximately $434,000 was attributed to the Company. At December 31, 2020, the remaining amount due to the Landlord under this agreement amounted to approximately $1,904,000, of which approximately $290,000 was attributed to the Company and is included in rent payable on the accompanying balance sheet as of December 31, 2020. This balance was paid to the Landlord during 2021.

In April 2021, the Parent Company entered into an agreement with the Landlord to defer payment of a portion of the rent payments for the period from April 2021 through January 2022. The total rent to be deferred amounted to $3,000,000, either to be paid to the Landlord at the end of the lease term in February 2022, or forgiven by the Landlord should certain events, including a sale of the operations of the Parent Company (including the Company), occur. Of this amount, approximately $456,000 was attributed to the Company. At December 1, 2021, the amount due to the Landlord under this agreement amounted to $2,800,000, of which approximately $426,000 was attributed to the Company and was included in rent payable. This balance was forgiven by the Landlord upon the sale of the Company at December 1, 2021 and was recorded as a reduction of rent expense in 2021.

Total lease expense for the years ended December 31, 2021 and 2020, was $2,734,168 and $3,427,636, respectively.

Note 7. Related-Party Transactions (Continued)

Management fee: The Community is managed by Watermark. The management agreement has an initial term of six years and nine months from the June 1, 2015, effective date, and shall thereafter automatically continue for successive one-year terms, unless sooner terminated as provided for in the agreement. The agreement provides for management fees to be paid monthly. The fee is equal to 5 % of the gross revenue accrued for each month. Management fees bear a 12% interest rate if unpaid. Total management fees expense to Watermark for the years ended December 31, 2021 and 2020, was $652,102 and $837,562, respectively.

Reimbursable expense: Watermark incurs certain expenses on behalf of the Community related to small equipment, information technology support, travel, marketing and miscellaneous office expenses. Total reimbursable expenses for the years ended December 31, 2021 and 2020 were $183,858 and $272,833, respectively.

Note 8. Commitments and Contingencies

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

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

Note 9. Employee Benefit Plan

The Parent Company offers a 401(k) retirement plan (the Plan) under Watermark, for the benefit of the employees of the Company. Employees that complete six months of service and are 21 years of age or older may participate in the Plan. Employees may make pretax salary deferrals of 1% to 75% of their compensation, subject to annual dollar limits determined by the Internal Revenue Service. Employer-matching contributions for the Plan are made on a discretionary year-end match. To receive the match, employees must be actively employed as of the last day of the year. The Company accrued and expensed $29,128 and $22,045 for the years ended December 31, 2021 and 2020, respectively, to be contributed to the Plan.

Note 10. COVID-19 Pandemic and Relief Funding Sources

The spread of COVID-19, a novel strain of the coronavirus, is altering the behavior of businesses and people in a manner that may adversely impact local, regional and global economies. The Company has experienced a decline in resident occupancy and also incurred additional costs to address COVID-19, which include increased supply costs and additional labor costs.

Provider Relief Fund: The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020, in the United States in response to COVID-19. During the years ended December 31, 2021 and 2020, the Company received $276,285 and $703,598, respectively, of CARES Act provider relief fund payments, which were recognized as other operating revenue on the accompanying statements of income. The recognition of the CARES Act revenue is conditioned upon the Company meeting the terms and conditions related to the relief fund distributions, including utilizing the payments to reimburse health care-related expenses or lost revenue that are attributable to COVID-19.

Note 10. COVID-19 Pandemic and Relief Funding Sources (Continued)

The Company recognizes the relief fund payments as revenue when there is reasonable assurance that the Company has complied with the conditions associated with the funding. Amounts recognized could change in the future based on the evolving grant compliance guidance provided by the government.

Paycheck Protection Program Loan: The CARES Act also established the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA). On May 19, 2020, the Company entered into a PPP loan agreement with BMO Harris Bank. The Company received a PPP loan in the amount of $1,127,700. The PPP loan is subject to partial or full forgiveness in the event that the Company (i) uses all proceeds for eligible purposes; (ii) maintains certain employment levels; and (iii) maintains certain compensation levels, in accordance with the CARES Act.

Management had concluded that the Company qualifies for the PPP loan and believes there was reasonable assurance that the Company would meet the conditions necessary for forgiveness of the PPP loan by the SBA. As a result, the Company had elected the option to account for the loan as a government grant by analogy to International Accounting Standards (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. Under the IAS 20 model, loan forgiveness of $1,127,700, was recognized for the year ended December 31, 2020 as operating revenue on the accompanying statements of income to match the related costs for which the loan was intended to compensate. The amount of compensation to which the forgiveness was applied was reduced by any amounts previously used to qualify for the provider relief fund payments discussed above.
As of September 8, 2021, SBA approved full forgiveness of the loans and the related interest.

Other Programs: Another program, which was made available to health care providers as a result of the COVID-19 pandemic, is an advance payment from the Medicare program. As a result, during the year ended December 31, 2020, the Company received accelerated advance payments from Medicare in the amount of $1,139,750. These amounts will be recouped from claims submitted beginning 12 months after the receipt of the funds, which will be April 2021 for the Company. In addition, the offset is limited to 25% of Medicare claims during the first 11 months and 50% of claims during the succeeding six months. During the year ended December 31, 2021, $394,577 has been recouped by Medicare. Final payment of the outstanding balance at December 31, 2021, of $745,173 is due in September 2022.

Pursuant to the CARES Act, the employer share of the social security portion of Federal Insurance Contributions Act (FICA) taxes due for the period beginning on March 27, 2020, and ending December 31, 2020, can be deferred, with payment of 50% of the deferred amount to be paid on December 31, 2021, and the remaining 50% of the deferred amount to be paid on December 31, 2022. As of December 31, 2020, the Company has deferred $155,119 of FICA taxes, which is included in accounts payable and accrued expenses. During the year ended December 31, 2021, 50% of this amount had been paid and $77,537 has been included in accounts payable and accrued expenses.

Note 11. Subsequent Events

In preparing the financial statements, the Company evaluated subsequent events occurring through May 25, 2022, the date the financial statements were available to be issued, in accordance with the Company's procedures related to disclosure of subsequent events.

Watermark Carlotta, LLC dba
The Fountains at The Carlotta
(A Wholly Owned Subsidiary of Watermark Fountains Tenant, LLC)

Supplementary Information
December 31, 2021

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

The Member
Watermark Carlotta, LLC

We have audited the financial statements of Watermark Carlotta, LLC dba The Fountains at The Carlotta (a wholly owned subsidiary of Watermark Fountains Tenant, LLC) as of and for the year ended December 31, 2021, and have issued our report thereon, dated May 25, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information, as required by the California Department of Social Services, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Restriction of Use

Our report is intended solely for the information and use of Watermark Carlotta, LLC dba The Fountains at The Carlotta (a wholly owned subsidiary of Watermark Fountains Tenant, LLC) and the California Department of Social Services, and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

Phoenix, Arizona
May 25, 2022

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AUDIT | TAX | CONSULTING

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					
		TOTAL:	$0	$0	$0

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

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

PROVIDER: Watermark Carlotta, 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					
	TOTAL:	$0	$0	$0	$0

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

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

PROVIDER: Watermark Carlotta, LLC

FORM 5-3

CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$0
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	$2,700,520
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	$2,700,520

PROVIDER: Watermark Carlotta, LLC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		$12,185,742
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	$404,909	
	d. Amortization	$645,600	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$5,470,605	
	f. Extraordinary expenses approved by the Department	$0	
3	Total Deductions		$6,521,114
4	Net Operating Expenses		$5,664,628
5	Divide Line 4 by 365 and enter the result. (divided by actual days January - November which was 334)		$16,959.96
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$1,271,997

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 31, 2021

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2021 and are in compliance with those requirements.

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

		Amount
[1]	Debt Service Reserve Amount	$2,700,520
[2]	Operating Expense Reserve Amount	$1,271,997
[3]	**Total Liquid Reserve Amount:**	**$3,972,517**

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	$2,701,000	$1,272,000
[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)		

		Debt Service Reserve		Operating Reserve
Total Amount of Qualifying Assets Listed for Reserve Obligation	[11]	$2,701,000	[12]	$1,272,000
Reserve Obligation Amount	[13]	$2,700,520	[14]	$1,271,997
Surplus/(Deficiency):	[15]	$480	[16]	$3

Per Capita Cost of Operation:	$ 52,752	
Total Operating Expense		$ 12,185,742
Number of Residents		231

No other reserves are set aside except as listed above.

Signature:
(Authorized Representative)

CFO / Authorized Signer
(Title)

Date: 5/26/2022

Attachment A to Form 5-3
Watermark Carlotta, LLC
Year ended December 31, 2021

Line 3:

Total rental expense	$	2,734,168
Less office equipment expense		(25,092)
Less other lease/rental expense		(8,556)
Total facility rental expenses line 3	$	2,700,520

Attachment B to Form 5-4
Watermark Carlotta, LLC
Year ended December 31, 2021

Line 1:

Total operating expense	$	14,886,262
Less facility lease expense		(2,700,520)
Plus interest expense		-
Total operating expenses line 1	$	12,185,742

Line 2a:

Interest paid	$	-
Less non-debt interest		-
Interest paid on long-term debt line 2a	$	-

Line 2e	Revenues per audited financial statements	Received from residents with continuing care contracts	Received from persons without continuing care contracts
Health care revenue	$ 3,575,131	$ (7,562)	$ 3,582,693
Resident fees	7,743,979	5,867,927	1,876,052
Amortization of entrance fees	1,351,130	1,351,130	-
Lease income	8,750	8,750	-
Coronavirus Aid, Relief and Economic Security Act provider relief funds	276,285	-	276,285
Other income	86,759	74,899	11,860
Total operating revenue	$ 13,042,034	$ 7,295,144	$ 5,746,890
Assisted living resident service fees			$ 1,877,800
Guest food service revenue			465
Guest apartment			11,275
Health center (skilled nursing facility revenue)			3,581,065
Total line 2e			$ 5,470,605

Attachment C to Form 5-5
Watermark Carlotta, LLC
Year ended December 31, 2021

Line 2e	Balance at December 31, 2021	Designated funds	Not designated	Designated use
Watermark Carlotta, LLC				
Escrow account	$ 6,000,000	$ 3,973,000	$ 2,027,000	Carlotta required reserves
Operating account	111,066	-	111,066	
Total	$ 6,111,066	$ 3,973,000	$ 2,138,066	

Provider: Watermark Carlotta, LLC
Community: The Fountains at The Carlotta

Watermark Carlotta, LLC
Continuing Care Contracts Branch
Annual Report Filing – Year End 12/31/21

Disclosure per Health and Safety Code Section 1790(a) (2)

(2) Full details on the status, description, and amount of all reserves that the provider currently designates and maintains, and on per capita costs of operation for each continuing care retirement community operated.

As of December 31, 2021, Watermark Carlotta calculated the following reserve amounts as required by California law as follows:

Debt Service Reserve:	$2,700,520
Operating Reserve:	$1,271,997
Refund Reserve:	$ 27,363
TOTAL RESERVES	$3,999,880

Watermark Carlotta, LLC holds an account with Wells Fargo Bank designated to hold funds for these reserves, the balance of which exceeds $3,972,517 at 12/31/21. Watermark Carlotta, LLC is in the process of transferring the Refund Reserve ($27,363) to fund an escrow agreement as required by the California Health and Safety Code.

Watermark Carlotta, LLC
Continuing Care Contracts Branch
Annual Report Filing – Year End 12/31/21

Disclosure per Health and Safety Code Section 1790(a) (3)

(3) Disclosure of any amounts accumulated or expended for identified projects or purposes, including, but not limited to, projects designated to meet the needs of the continuing care retirement community as permitted by a provider's nonprofit status under Section 501(c)(3) of the Internal Revenue Code, and amounts maintained for contingencies. The disclosure of a nonprofit provider shall state how the project or purpose is consistent with the provider's tax-exempt status. The disclosure of a for-profit provider shall identify amounts accumulated for specific projects or purposes and amounts maintained for contingencies. Nothing in this subdivision shall be construed to require the accumulation of funds or funding of contingencies, nor shall it be interpreted to alter existing law regarding the reserves that are required to be maintained.

Watermark Carlotta, LLC is a for-profit limited liability company. As of 12/31/21, there have been no amounts accumulated for specific projects or purposes or amounts maintained for contingencies.

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Prepared: 4/26/22

FACILITY NAME: The Fountains at the Carlotta

ADDRESS: 41505 Carlotta Drive, Palm Desert **ZIP CODE:** 92211 **PHONE:** 760 345 5420

PROVIDER NAME: Watermark Carlotta, LLC **FACILITY OPERATOR:** Watermark Carlotta, LLC

RELATED FACILITIES: N/A **RELIGIOUS AFFILIATION:** None

YEAR OPENED: 1985 **# OF ACRES:** 20 ☐ **SINGLE STORY** ☐ **MULTI-STORY** ☑ **OTHER:** Both **MILES TO SHOPPING CTR:** 1 **MILES TO HOSPITAL:** 5

NUMBER OF UNITS:

RESIDENTIAL LIVING		HEALTH CARE	
APARTMENTS — STUDIO:	0	ASSISTED LIVING:	36
APARTMENTS — 1 BDRM:	22	SKILLED NURSING:	46
APARTMENTS — 2 BDRM:	88	SPECIAL CARE:	N/A
COTTAGES/HOUSES:	64	DESCRIPTION: >	
RLU OCCUPANCY (%) AT YEAR END:	81	>	

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☑ FOR- PROFIT **ACCREDITED?:** ☐ YES ☐ NO **BY:**

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

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

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 MEMBER(S) ON, THE BOARD (briefly describe provider's compliance and residents' role): > This year the community began to conduct a meeting with the entire resident population at least 60 days
> prior to the annual rate changes. At the meeting the community discusses significant factors related to the budget and budget process, including the determination used to establish rate increases.

FACILITY SERVICES AND AMENITIES

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

SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING (2 TIMES/MONTH)	☑	☐
MEALS (1 /DAY)	☑	☐
SPECIAL DIETS AVAILABLE	☑	☐
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☐
LINENS FURNISHED	☐	☐
LINENS LAUNDERED	☐	☐
MEDICATION MANAGEMENT	☐	☑
NURSING/WELLNESS CLINIC	☐	☑
PERSONAL HOME CARE	☐	☐
TRANSPORTATION-PERSONAL	☐	☐
TRANSPORTATION-PREARRANGED	☑	☐
OTHER	☐	☐

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: Watermark Carlotta, LLC

OTHER 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

	2018	2019	2020	2021
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	15,795,229	15,667,387	15,092,852	11,690,904
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	17,758,438	17,605,873	16,849,001	13,835,753
NET INCOME FROM OPERATIONS	(1,963,209)	(1,938,486)	(1,756,149)	(2,144,849)
LESS INTEREST EXPENSE	33,937	10,575	8,966	29141
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	46,789	43	384	16,793,497
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	(1,950,357)	(1,949,018)	(1,764,731)	14,619,507
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	3,866,226	2,727,616	697,269	1,839,089

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 next page for ratio formulas)

	2017 CCAC Medians 50th Percentile *(optional)*	2019	2020	2021
DEBT TO ASSET RATIO		131.04%	177.57%	2,006.44%
OPERATING RATIO		90.41%	88.84%	93.49%
DEBT SERVICE COVERAGE RATIO		122.94%	69.24%	667.42%
DAYS CASH ON HAND RATIO		10	1	4

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2018	%	2019	%	2020	%	2021	%
STUDIO								
ONE BEDROOM	2485	4.6	2600	5	2715	4.5	2850	5
TWO BEDROOM	3412	4.4	3565	5	3725	4.5	3910	5
COTTAGE/HOUSE	3365	4.4	3516	5	3675	4.5	3860	5
ASSISTED LIVING	3550	4.5	3710	5	3875	4.5	4070	5
SKILLED NURSING	9650	4.5	10085	5	10540	4.5	11070	5
SPECIAL CARE								

COMMENTS FROM PROVIDER: >

>

>

PROVIDER NAME: Watermark Carlotta, LLC

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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.

FORM 7-1

REPORT ON CCRC MONTHLY CARE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED LIVING
[1] Monthly Care Fees at beginning of reporting period: (indicate range, if applicable)	2275-4100	3670-5325	10500-15000
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	5	5	5

☐ 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, 2021
(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:** 1/1/2021 **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:** 1/27/2021

☒ 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 provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases. **Date of Notice:** 1/13/2021

☒ 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:** 1/13/2021
Location of Posting: Community Calendar

[5] On an attached page, provide a concise explanation for the increase in monthly care fees including the amount of the increase and compliance with the Health and Safety Code. See **PART 7 REPORT ON CCRC MONTHLY CARE FEE** in the **Annual Report Instruction** booklet for further instructions.

PROVIDER: Watermark Carlotta, LLC
COMMUNITY: The Fountains at the Carlotta

In 2021, the Independent Living, Assisted Living and Skilled Nursing monthly service fees were increased 5% due to increased labor costs (California minimum wage increased one dollar an hour affecting not only our staff but it also caused a ripple effect from our vendors as their prices increased as their labor costs increased), along with a tighter labor market, increased cost of health insurance and other benefits, increased liability insurance premiums, increased cost of food, supplies and utilities and ongoing capital improvements across the campus. The Fountains at the Carlotta is very sensitive to keeping rate increases as low as possible.

The percentage increase was determined in order to maintain the overall community contribution margin, utilizing the 2019 and 2020 budget numbers and anticipated increase in costs for 2021. Budgeted contribution margin for 2020 was 18.1% and for 2021 was 13.1%

A rate increase letter, giving a 60 day notice, was delivered to each resident on the first business day of January, 2021 to notify them of the March 1st increase date. The rate increase was discussed at the monthly resident meeting on January 27, 2021. 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.

FORM 9-1
CALCULATION OF REFUND RESERVE AMOUNT

[1] Resident Name	[2] Sex	[3] Entrance Fee	[4] Refund %	[5] Refund Amount (promised after 6 yrs)	[6] Age	[7] Life Exp.	[8] Present Value Multiplier	[9] Present Value of Refund
BD	F	$75,075	50%	$37,538	83	7.952	0.729	$27,363
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
								$0
							TOTAL AMOUNT REQUIRED FOR REFUND RESERVE :	$27,363

PROVIDER: Watermark Carlotta, LLC
COMMUNITY: The Fountains at the Carlotta

Pursuant to Health and Safety Code section 1792.6(g) the above amount required for the Refund Reserve is included in the $6m liquid reserves held at Wells Fargo in the name of the Provider. The account is designated to fund the required Debt Service Reserve, Operating Expense Reserve and Refund Reserve.

Key Indicators Report

Provider: Watermark Carlotta, LLC
Community: Carlotta
Reporting Year: 2021

							Forecast				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	82.03%	81.46%	83.88%	87.11%	73.44%	67.77%	81.84%	84.77%	84.77%	84.77%	84.77%
MARGIN PROFITABILTIY INDICATORS											
2. Net Operating Margin (%)	13.31%	12.49%	13.28%	13.12%	19.06%	14.21%	16.62%	16.62%	16.62%	16.62%	16.62%
3. Net Operating Margin - Adjusted (%)	20.19%	28.02%	30.41%	26.01%	22.48%	25.36%	30.03%	30.03%	30.03%	30.03%	30.03%
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments ($000)	$ 297	$ 329	$ 281	$ 404	$ 46	$ 111	$ 4,273	$ 4,273	$ 4,273	$ 4,273	$ 4,273
5. Days Cash on Hand (Unrestricted) $	7.70	6.60	7.13	7.01	0.83	2.42	111.55	108.30	106.15	102.09	98.11
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees ($000)	$ 398	$ 744	$ 1,088	$ 1,524	$ 1,558	$ 1,361	$ 1,313	$ 1,549	$ 1,790	$ 2,036	$ 2,287
7. Net Annual E/F Proceeds ($000)	$ 1,325	$ 2,836	$ 3,868	$ 2,728	$ 687	$ 1,839	$ 3,062	$ 3,178	$ 3,270	$ 3,368	$ 3,469
8. Unrestricted Net Assets ($000)	$ 12,829	$ 12,275	$ 12,979	$ 10,880	$ 5,647	$ 558	$ 4,541	$ 4,541	$ 4,541	$ 4,541	$ 4,541
9. Annual Capital Asset Expenditures ($000)	$ 548	$ 842	$ 1,383	$ 733	$ 22	$ 329	$ 1,624	$ 1,673	$ 1,723	$ 1,775	$ 1,828
10. Annual Debt Service Coverage - Revenue Basis (x)	0.43	0.43	0.43	0.44	0.49	0.05	0.28	0.22	0.16	0.09	0.03
11. Annual Debt Service Coverage (x)	0.86	1.27	1.58	1.23	0.69	6.86	1.38	1.33	1.30	1.27	1.26
12. Annual Debt Service/Revenue (%)	20.03%	20.68%	19.99%	20.01%	20.84%	9.74%	17.71%	17.19%	16.69%	16.20%	15.73%
13. Average Annual Effective Interest Rate (%)	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
14. Unrestricted Cash & Investments/Long Term Debt (%)	1.41%	1.56%	0.81%	1.16%	0.27%	1.07%	58.76%	91.29%	233.05%	-421.48%	-110.87%
15. Average Age of Facility (years)	30	31	32	33	34	35	36	37	38	39	40

Signature: Vitty Chen

Title: CFO / Authorized Signer

Date: 5/26/2022

Key Indicators Report- Variance Explanations

Provider : Watermark Carlotta, LLC
Community: Carlotta
Reporting Year: 2021

1. Average Annual Occupancy by Site (%)	N/A
2. Net Operating Margin (%)	N/A
3. Net Operating Margin - Adjusted (%)	N/A
4. Unrestricted Cash and Investments ($000)	This is our internal calculated reserve (using lease payments as debt reserve) but it is fully reserved by the $6M designted in a Wells Fargo account reported in Attachment C.
5. Days Cash on Hand (Unrestricted) 0	This is our internal calculated reserve (using lease payments as debt reserve) but it is fully reserved by the $6M designted in a Wells Fargo account reported in Attachment C.
6. Deferred Revenue from Entrance Fees ($000)	N/A
7. Net Annual E/F Proceeds ($000)	N/A
8. Unrestricted Net Assets ($000)	This is our internal calculated reserve (using lease payments as debt reserve) but it is fully reserved by the $6M designted in a Wells Fargo account reported in Attachment C.
9. Annual Capital Asset Expenditures ($000)	N/A
10. Annual Debt Service Coverage - Revenue Basis (x)	N/A
11. Annual Debt Service Coverage (x)	N/A
12. Annual Debt Service/Revenue (%)	N/A
13. Average Annual Effective Interest Rate (%)	N/A
14. Unrestricted Cash & Investments/Long Term Debt (%)	This is our internal calculated reserve (using lease payments as debt reserve) but it is fully reserved by the $6M designted in a Wells Fargo account reported in Attachment C.
15. Average Age of Facility (years)	N/A