CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

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KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Partners
Classic Residence Management Limited Partnership:

We have audited the accompanying financial statements of Classic Residence Management Limited Partnership, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, partners' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Classic Residence Management Limited Partnership as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(l) to the financial statements, in 2019 Classic Residence Management Limited Partnership adopted new accounting guidance for Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU No. 2016-18, Restricted Cash (*a consensus of the FASB Emerging Issues Task Force*). Our opinion is not modified with respect to these matters.

KPMG LLP

Chicago, Illinois
March 26, 2020

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Balance Sheets

December 31, 2019 and 2018

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	7,230,214	9,434,941
Current portion of assets limited as to use		5,066,684	4,997,326
Due from affiliates		7,738,279	6,386,370
Deposits and other		786,342	1,073,317
Total current assets		20,821,519	21,891,954
Assets limited as to use, net of amounts required for current liabilities		1,408,665	763,362
Property and equipment:			
Leasehold improvements		6,492,655	6,492,655
Furniture, fixtures, and equipment		11,389,242	14,069,137
Construction in progress		3,970,236	113,591
		21,852,133	20,675,383
Less accumulated depreciation and amortization		16,964,899	19,159,761
Property and equipment, net		4,887,234	1,515,622
Estimated insurance recoveries		1,480,574	4,313,210
Total assets	$	28,597,992	28,484,148
Liabilities and Partners' Equity			
Current liabilities:			
Accounts payable	$	588,973	514,955
Accrued expenses		8,791,321	7,326,152
Benefit claims payable		5,352,020	5,378,704
Total current liabilities		14,732,314	13,219,811
General and professional liability claims payable		1,603,903	4,695,194
Total liabilities		16,336,217	17,915,005
Partners' equity:			
Contributed capital, net		54,724,705	51,724,705
Accumulated deficit		(42,462,930)	(41,155,562)
Total partners' equity		12,261,775	10,569,143
Total liabilities and partners' equity	$	28,597,992	28,484,148

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Operations

Years ended December 31, 2019 and 2018

		2019	2018
Revenue:			
Management fee revenue	$	20,096,737	19,222,481
Commission revenue		1,213,097	1,515,700
Marketing fee revenue		1,902,806	532,784
Interest income		118,300	70,842
Total revenue		23,330,940	21,341,807
Expense:			
Salaries and benefits		18,815,740	19,242,609
Rent		1,426,689	1,514,584
Professional services		1,337,000	837,923
Administration		1,880,131	1,699,799
Property taxes		396,699	428,544
Depreciation and amortization		702,172	725,749
Insurance		79,877	14,504
Total expense		24,638,308	24,463,712
Net loss	$	(1,307,368)	(3,121,905)

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Partners' Equity

Years ended December 31, 2019 and 2018

		Contributed capital, net	Accumulated deficit	Total partners' equity
Balance at December 31, 2017	$	50,724,705	(38,033,657)	12,691,048
Contributions		1,000,000	—	1,000,000
Net loss		—	(3,121,905)	(3,121,905)
Balance at December 31, 2018		51,724,705	(41,155,562)	10,569,143
Contributions		3,000,000	—	3,000,000
Net loss		—	(1,307,368)	(1,307,368)
Balance at December 31, 2019	$	54,724,705	(42,462,930)	12,261,775

See accompanying notes to financial statements.

CLASSIC RESIDENCE MANAGEMENT LIMITED PARTNERSHIP

Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Net loss	$	(1,307,368)	(3,121,905)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization		702,172	725,749
Changes in assets and liabilities:			
Due from affiliates		(1,351,909)	343,059
Deposits and other		286,975	5,377,113
Accounts payable		74,018	(592,695)
Accrued expenses		1,465,169	1,812,616
Net cash provided by (used in) operating activities		(130,943)	4,543,937
Cash flows from investing activities:			
Purchase of property and equipment, net		(4,073,784)	(292,844)
Change in estimated benefit and general and professional liability claims payable		(285,339)	(366,746)
Net cash used in investing activities		(4,359,123)	(659,590)
Cash flows from financing activity:			
Capital contributions		3,000,000	1,000,000
Net cash provided by financing activities		3,000,000	1,000,000
Net change in cash, cash equivalents, and restricted cash		(1,490,066)	4,884,347
Cash, cash equivalents, and restricted cash at beginning of year		15,195,629	10,311,282
Cash, cash equivalents, and restricted cash at end of year	$	13,705,563	15,195,629

See accompanying notes to financial statements.

(1) Purpose and Organization

Classic Residence Management Limited Partnership (the Company) was organized as a limited partnership under the laws of the State of Illinois on December 28, 1987. The Company was formed for the purpose of developing and managing senior living communities. The Company currently manages 10 operating communities (the Communities).

The Company comprises two partners: CC-Development Group, Inc. (the Limited Partner) and CRMI, L.L.C. (the General Partner). The Limited Partner has a 99% ownership percentage in the partnership while the General Partner has a 1% ownership percentage. During 2019 and 2018, the Limited Partner contributed $3,000,000 and $1,000,000 of capital to the Company, respectively.

Pursuant to the Partnership Agreement, the General Partner has full exclusive responsibility, control, and authority to do any and all things necessary or incidental in connection with the management and administration of the Company’s business and affairs, financing, and disposition of assets. No partnership interest may be transferred or sold, and no partner may be admitted without the consent of all partners.

The Partnership Agreement provides for distributions of available cash and allocations of net profits and losses to the partners in accordance with their respective ownership percentages.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash include investments in highly liquid instruments with original maturities of three months or less. The following table provides a reconciliation of cash, cash equivalents, and restricted cash as reported in the accompanying balance sheets to the total amount of cash, cash equivalents, and restricted cash as reported in the accompanying statements of cash flows:

		2019	2018
Cash and cash equivalents	$	7,230,214	9,434,941
Assets limited as to use:			
Cash		31,889	147,228
Certificates of deposit		6,443,460	5,613,460
Total cash, cash equivalents, and restricted cash reported in the statements of cash flows	$	13,705,563	15,195,629

(c) Fair Value Measurements

The Company applies the provisions of Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements – Overall*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify other existing disclosure requirements.

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

In estimating the fair value of its financial instruments, the Company determined the carrying amount reported in the balance sheet for cash and cash equivalents and assets limited as to use approximate fair value because of the short maturities of these instruments and are considered Level 1 investments within the fair value hierarchy.

(d) Property and Equipment

Property and equipment are stated at cost. Depreciation is being provided by the straight-line method over the estimated useful lives of the assets, which range from 4 to 15 years. Amortization of leasehold improvements is provided over the shorter of the lease term or useful lives of the leasehold improvements. Construction in progress at December 31, 2019 includes approximately $3,941,000 of costs associated with the build out of new office space that will be placed in service during 2020. As of December 31, 2019, the Company was committed under the terms of the construction contract to complete the build out of the new office space at a remaining aggregate cost of approximately $1,133,000.

(e) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the Company intended to dispose of its assets, they would be reported at the lower of the carrying amount or fair value less estimable costs to sell, and would no longer be depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its long-lived assets as of December 31, 2019 and 2018.

(f) Assets Limited as to Use

Assets limited as to use include amounts maintained by the Company to pay for estimated general and professional liability and workers' compensation claims, and amounts maintained by the Company to collateralize a letter of credit issued to the lessor of the Company's new office space (note 5(a)). Assets limited as to use are invested in money market accounts and certificates of deposit and are considered cash and cash equivalents. Assets limited as to use are classified as noncurrent assets to the extent that they are not expected to be expended to satisfy obligations classified as current liabilities.

(g) Self-Insurance

The Company applies the provisions of ASC Subtopic 954-450, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that healthcare entities should not net insurance recoveries against the related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries.

(h) Management Fee Revenue

Management fee revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. Management fee revenue consists of revenue received pursuant to various management agreements with the Communities. The transaction price of management fees are calculated as a specified percentage of revenues of the Communities ranging from 5% to 10% of revenues as defined in the management agreements. The management agreements expire on various dates through 2055. The Company has determined that the services provided are a series of distinct services that are considered one performance obligation which is satisfied over time.

(i) Commission Revenue

Commission revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. Commission revenue consists of revenues received pursuant to management and marketing agreements. The transaction price of commissions are calculated as a specified percentage of certain entrance fees received by the Communities as defined in the management and marketing agreements. Percentages are equal to 5% of entrance fee proceeds, as defined. The management and marketing agreements expire on various dates through 2030. The Company has determined that the services provided are a series of distinct services that are considered one performance obligation which is satisfied over time.

(Continued)

(j) Marketing Fee Revenue

Marketing fee revenue is reported at amounts that reflect the consideration which the Company expects to receive in exchange for services provided. The transaction price of marketing fee revenue consists of revenue received pursuant to a management and marketing agreement with a community undergoing a repositioning. Marketing fees are received during the construction period. The Company has determined that the services provided are a series of distinct services that are considered one performance obligation which is satisfied over time.

(k) Income Taxes

No provision for federal and state income taxes has been provided in the accompanying financial statements because such taxes are the obligations of the owners of the Company.

(l) New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. ASU No. 2014-09 requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for the Company for the year ending December 31, 2019. The Company adopted this guidance as of January 1, 2019 under the modified retrospective approach. The adoption did not have a material impact on the Company’s balance sheets, results of operations, or cash flows of the Company, other than expanded disclosures. There was no cumulative effect of a change in accounting principle recorded related to the adoption.

In November 2016, FASB issued ASU No. 2016-18, *Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU No. 2016-18 is effective for Nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. The Company adopted this guidance in 2019. This guidance was retrospectively applied to the 2018 statements of cash flows. Within the statements of cash flows, net change in assets limited as to use was adjusted by $366,746 and cash, cash equivalents, and restricted cash at December 31, 2017 was adjusted by $6,127,434.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. The requirements of this statement are effective for the Company for the year ending December 31, 2021. The Company is evaluating the impact of this standard on the accompanying balance sheets and statements of operations.

(m) Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation. Reclassifications include the adoption of new accounting standards as discussed in note 2(l).

(n) Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the Company evaluated events and transactions through March 26, 2020, the date the financial statements were issued, noting no subsequent events requiring recording or disclosure in the financial statements or related notes to the financial statements.

(3) Transactions with Related Parties

The Company entered into agreements with the Communities whereby the Company manages the operations of the Communities. The Limited Partner has a full or partial ownership interest in all but one of the Communities. Management fee revenue and commission revenue are received pursuant to these agreements.

The Company contracts with third parties on behalf of the Communities to provide property, health, and liability insurance, and various marketing and other services. The Company advances funds to third parties and is reimbursed by the Communities. Reimbursement to the Company for such advances amounted to $52,421,109 and $50,682,002 for the years ended December 31, 2019 and 2018, respectively. There is no interest associated with these advances as they are reimbursed on a current basis. Net amounts due from the Communities are reported as due from affiliates and totaled $7,738,279 and $6,386,370 at December 31, 2019 and 2018, respectively.

The Company processes premium and claim payments for property, health, workers’ compensation, and general and professional liability policies and claims. The Company has made premium payments in accordance with the payment terms of the policies. The Company is reimbursed by the Communities for these payments on a monthly basis over the term of the policy. Included in deposits and other are $54,640 and $448,007 of prepaid insurance under these policies at December 31, 2019 and 2018, respectively.

Additionally, the Company processes claim payments for health, workers’ compensation, and general and professional liability claims, which fall below the deductible and stop-loss reinsurance levels set forth in the policies. The Company is reimbursed by the Communities for claim payments on a monthly basis over the term of the policy. Monthly payments are determined based on estimated ultimate claims costs inclusive of the ultimate cost of both reported losses and losses incurred but not reported. Amounts received from the Communities for future claim payments are included in assets limited as to use and will be utilized to pay claims as they become due. The Company has estimated benefit claims payable under health and workers’ compensation programs of $5,352,020 and $5,378,704 and related recoveries of $285,336 and $381,378 at December 31, 2019 and 2018, respectively. The portion of health and workers’ compensation claims expected to be paid beyond one year of the balance sheet date is not readily determinable, and therefore, the entire accrual is classified as a current liability in the accompanying balance sheets. The Company accounts for estimated general and professional liability claims payable without consideration of estimated insurance recoveries, which are shown separately in the accompanying balance sheets. The Company has estimated general and professional liability claims payable of $1,603,903 and $4,695,194 and related recoveries of $1,195,238 and $3,931,832 at December 31, 2019 and 2018, respectively. The portion of the accrual for estimated general and professional liability claims expected to be paid within one year of the balance sheet is not readily determinable, and therefore, the entire accrual is classified as a noncurrent liability. It is the opinion of management that the estimated costs accrued for benefit and general and professional liability claims at December 31, 2019 and 2018 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities. In the event that actual claim payments differ from estimates, it is the intent of the Company to recover or return such differences with the Communities.

(4) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by the Company. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar up to 4% of a participant's salary, the Company matches each participant's contribution in an amount equal to 100% of the participant's deferral. For every dollar in excess of 4% of a participant's salary and limited to 6% of a participant's salary, the Company matches each participant's contribution in an amount equal to 50% of the participant's deferral. For the years ended December 31, 2019 and 2018, contribution expense of $551,244 and $520,549, respectively, is included as a component of salaries and benefits in the accompanying statements of operations. Contributions are funded on a current basis.

(5) Commitments and Contingencies

(a) Operating Leases

The Company maintains operating lease agreements for certain office facilities and equipment, which expire through February 28, 2031. Rental expense recognized under these operating leases approximated $1,061,945 and $1,041,078 in 2019 and 2018, respectively, and is included with rent expense in the accompanying statements of operations. On March 25, 2019, the Company entered into a lease agreement for office facilities at 233 South Wacker Drive. Rent payments under this lease commenced on February 3, 2020. The lease agreement entitles the Company to tenant improvement allowances of $3,045,000 and abatement for rent for the first lease year of the term and for a portion of the second year of the term. The Company has elected to convert the rent abatement amounts into additional tenant improvement allowances in accordance with the terms of the lease agreement. The tenant improvement allowance and converted rent abatements have not been received through December 31, 2019. No amounts are reflected as a receivable or a reduction of property and equipment at December 31, 2019 as the amounts will be recognized as a reduction in rent expense over the term of the lease. Future minimum rental payments over the remainder of the operating lease terms are as follows:

Year ending December 31:		
2020	$	1,110,968
2021		1,039,851
2022		1,065,898
2023		1,092,553
2024		1,119,816
Thereafter		7,331,710
	$	12,760,796

(b) Regulatory Investigations

The U.S. Department of Justice (DOJ) and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Communities managed by the Company are subject to these regulatory efforts. On May 22, 2017, the Company was notified by the DOJ that it was initiating an investigation of CC-Development Group, Inc. (Parent) pursuant to the federal Fair Housing Act. While the notification did not specifically name any Communities managed by the Company, it has produced requested documents related to certain subsidiaries of the Parent. Interviews with personnel were conducted in May 2019 and resolution is expected to take place in 2020. Management is currently unaware of any regulatory matters that may have a material adverse effect on the Company and its financial position, statements of operations, or cash flows.

(c) Contingency

On February 19, 2014, a class action complaint was filed against CC-Palo Alto, Inc. (one of the operating communities the Company manages), Classic Residence Management Limited Partnership, and CC-Development Group, Inc. The complaint was dismissed on November 25, 2014. On December 10, 2014, the First Amended Complaint (FAC) was filed. In addition to the Corporate defendants, the FAC added former and current members of the Board of Directors of CC-Palo Alto, Inc. as individual defendants. The FAC was dismissed on March 31, 2016. On April 15, 2016, the Second Amended Complaint (SAC) was filed. On September 25, 2017, the court struck the first ten causes of action in the SAC, including all class action claims. On February 14, 2018, the Courts granted Defendants Motion for Summary Judgment and entering judgment in favor of Defendants on the remaining causes of action in the SAC alleging (1) creditor derivative claims against the director defendants for breach of fiduciary duties, payment of unlawful dividends, and corporate waste; (2) a creditor derivative claim against CC Development Group, Inc. for aiding and abetting the director defendants' breaches of fiduciary duties; and (3) a direct claim against CC Development Group, Inc. for improper transfer of assets. Plantiffs filed Notice of Appeal on March 11, 2019 and the Company's brief was filed on October 18, 2019. Oral arguments have been scheduled for April, 2020. The Company believes that the matter will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

(d) Business Disruption

Subsequent to year end, a public health emergency of international concern was declared due to the COVID-19 virus. As a result of the outbreak, there has been instability in the capital markets and disruption in the senior living industry. The ultimate impact of the COVID-19 outbreak is highly uncertain. The Company's business and investment values are likely to be impacted as a result of the outbreak. Management does not yet know the full extent of potential impacts on the business but is actively monitoring.