Additional Schedule K-1 Explanations for Sunwest Partnership and LLC Investors

The brief comments below will help answer the most common questions investors may have regarding Sunwest Schedule K-1s. However, this information is in no way a substitute for obtaining the assistance of a tax advisor, who will be able to assist with understanding the general transaction, as well as reduce the likelihood of underreporting or overreporting income to the IRS.

Schedule K-1 Line 10 - Net Section 1231 Gain (Loss)

Any amount reported on Line 10 is generally related to gain or loss upon sale or exchange of the primary underlying property owned by the partnership. The amount of gain reported, if any, may be significantly greater than the amount of cash distributed, because the proceeds of the property transaction include the mortgage assumed by the buyer. Therefore, gain resulting from the transaction has been increased (or loss decreased) by the mortgage assumed. We strongly recommend consulting your tax advisor for assistance with proper reporting of this transaction.

Schedule K-1 Line 11E - Other Income

Any amount reported on Line 11 code "E" constitutes cancellation of debt (COD) income.

For partnerships involved in the Blackstone or Lonestar transaction, such COD income is not related to the property mortgage. For Blackstone partnerships, the property mortgage was a component of the gain/loss calculation of "selling" investors and included on Schedule K-1 Line 10, "net section 1231 gain (loss)".

On Schedule K-1s from partnerships not involved in the Blackstone or Lonestar transaction, COD income may include both the property mortgage as well as the intercompany items further described below.

Any COD income reported on Line 11 not related to the property mortgage is primarily the net write-off of intercompany payables in excess of receivables, if any. Sunwest maintained separate accounting for the many legal entities within the group, but they managed the operations as though they were a single entity. Many entities had negative cash flow during the years that led up to the overall financial collapse. Sunwest management borrowed money from entities with available cash (setting up an intercompany receivable) to fund (primarily) debt service and payroll for entities without cash to cover these expenses (setting up an intercompany payable). In the *Stayton* bankruptcy all of these receivables and payables were canceled.

We strongly recommend consulting a tax advisor for assistance with proper reporting of this transaction.

Schedule K-1 Line 19A – Cash Distributions

Any amount reported on Line 19 code "A" is cash distributed to investors by the partnership. However, investors may not have received all cash directly. In some instances a portion of the cash was required to be withheld and deposited with state tax authorities on behalf of investors. A footnote to Schedule K-1 details out total state tax withholding to help investors reconcile the amount of cash they received. A footnote or line item on the state K-1 (or equivalent form) details out any state tax withheld for that particular state to help investors claim the amount as a credit on their state return. Upon filing the state return and claiming the credit, investors will obtain a refund of any withholding not actually due on their state returns. We strongly recommend consulting a tax advisor for assistance with proper reporting of this transaction.

Schedule K-1 Line 19C – Property Distributions

Any amount reported on Line 19 code "C" is generally the carryover basis of property distributed to investors of partnerships involved in the Blackstone transaction. Such investors elected to roll a portion of their partnership ownership interests into Sunwest Rollover Member (SRM) rather than selling their ownership interests.

The underlying property of the partnership was contributed by the partnership to SRM, subject to any debt. SRM contributed the property to BRE/SW Portfolio LLC joint venture in exchange for joint venture ownership units. SRM then issued SRM ownership units back to the partnership, and the partnership distributed those SRM ownership units to investors of the partnership. The remaining outside (carryover) basis of the original underlying property generally became the basis of the SRM ownership units distributed to investors.

We strongly recommend consulting a tax advisor for assistance with proper reporting of this transaction.