

MONTHLY REPORT
for the nine months ended September 30, 2020

THE
STAYTON
— AT MUSEUM WAY —

A Lifespace Community

October 29, 2020

UMB Bank
Ginny Housum
120 Sixth Street South, Suite 1400
Minneapolis, MN 55402

RE: Certificate in accordance with Master Trust Indenture Section 4.15(b) and Section 4.20

The undersigned, Senior Vice President and Chief Financial Officer for Lifespace Communities, Incorporated, hereby certifies that the attached financial statements for:

The Stayton

Are complete, correct and fairly present the financial conditions and results of operations for the nine months ended September 30, 2020, subject to the year-end audit adjustments.

LIFESPAC E COMMUNITES, INC.



Nick Harshfield



The Stayton Management's Discussion and Analysis

Overview:

Tarrant County Senior Living Center, Inc., d/b/a The Stayton at Museum Way (“The Stayton”) is a Texas not-for-profit corporation. The Stayton was formed for the purpose of constructing, owning and operating a continuing care retirement community in Fort Worth, Texas, known as The Stayton at Museum Way, providing housing, health care and other related services to its residents.

In June 2019, Lifespace Communities, Inc. (“Lifespace”) an Iowa nonprofit corporation, completed an affiliation with Senior Quality Lifestyles Corporation (“SQLC”). As a result of this affiliation, Lifespace is the sole member of The Stayton and has taken over management of the community.

The Stayton converted to Lifespace’s financial system on October 1, 2019, which included converting to the Lifespace chart of accounts. As a result of this conversion certain 2019 amounts have been reclassified to conform with the 2020 presentation. In addition, accounting standards require Lifespace to fair value the assets and liabilities assumed at the affiliation date. Information regarding the fair values are disclosed in the audited financial statements, note 11. These fair value adjustments are reflected in the accompanying interim balance sheets.

Calendar year-end financial information for December 31, 2019 is provided from audited financial statements. All other financial information is obtained from unaudited financial statements.

This interim report should be read together with the annual report that includes audited year-end financial statements.

Operational Charts and Financials:

The Stayton

Apartments/Units Available

	Residential Living	Assisted Living		Health Center	Total	CMS 5-Star Rating *
	Apartments	Assisted Living	Memory Support			
The Stayton	188	42	20	46	296	5

* The CMS 5-Star rating is as of October 20, 2020.

Average Occupancy

	Fiscal Year Ended December 31,			Nine Months ended September 30,	
	2017	2018	2019	2019	2020
Residential Living	98.8%	96.9%	94.7%	94.6%	93.5%
Assisted Living	91.1%	91.7%	94.4%	93.1%	96.5%
Memory Support	86.3%	92.9%	88.3%	84.4%	92.3%
Health Center	89.7%	83.0%	90.9%	90.3%	79.0%

Residential Living Turnover Analysis

	Fiscal Year Ended December 31,			Nine Months ended September 30,	
	2017	2018	2019	2019	2020
Beginning Residential Living Occupied	188	185	179	179	181
RL Move-Ins	11	15	18	9	4
Transfers to the Health Center	(10)	(11)	(7)	(7)	(4)
RL Move-Outs and Death	(4)	(10)	(9)	(8)	(8)
Ending Residential Living Occupied	185	179	181	173	173
Ending Occupancy Percentage	98.4%	95.2%	96.3%	92.0%	92.0%

Health Center Payor Mix

The Health Center beds are certified for Medicare. The average payor mix in the Health Center for the fiscal years ending December 31, 2017 through 2019 and the nine months ended September 30, 2019 and 2020 are shown below:

	Fiscal Year Ended December 31,			Nine Months ended September 30,	
	2017	2018	2019	2019	2020
Lifecare	32.7%	28.1%	25.7%	26.2%	26.3%
Medicare	37.8%	36.9%	38.3%	40.7%	34.6%
Non-Life Care Resident	29.5%	35.0%	36.0%	33.1%	39.1%
Total Patient Mix	100.0%	100.0%	100.0%	100.0%	100.0%

**The Stayton
Balance Sheets
As of September 30 (Unaudited)
(Thousands of \$)**

	2020	2019
Assets		
Current Assets:		
Cash and Cash Equivalents	\$1,227	\$8,255
Investments	5,258	-
Accounts Receivable	1,330	885
Inventories	17	20
Prepaid Insurance & Other	191	349
Assets whose use is limited	2,495	526
Total Current Assets	10,518	10,035
Assets whose use is limited	9,682	6,850
Property and equipment, at cost:		
Land and improvements	4,934	4,910
Buildings and improvements	101,370	101,075
Furniture and equipment	2,030	1,977
	108,334	107,962
Less accum. deprec.	(4,919)	(1,247)
Net property and equipment	103,415	106,715
Net goodwill	44,447	54,126
Net deferred assets	58	-
Net intangible assets	9,861	11,133
TOTAL ASSETS	\$177,981	\$188,859

**The Stayton
Balance Sheets
As of September 30 (Unaudited)
(Thousands of \$)**

	2020	2019
Liabilities and net assets		
Current liabilities:		
Accounts payable:		
Trade	\$606	\$697
Related Party	245	3,652
	851	4,349
Accrued liabilities:		
Employee compensation expense	405	336
Interest	2,131	5,612
Other	20.00	64
	2,556	6,012
Entrance fee refunds	1,563	805
Long-term debt due within one year	-	1,905
Total current liabilities	4,970	13,071
Entrance fee deposits	154	372
Long-term Bonds due after one year	112,261	103,890
Deferred entrance fees	6,957	7,601
Refundable entrance and membership fees	65,309	62,806
Future Service Obligation	-	5,598
Total liabilities	189,651	193,338
Net assets without donor restrictions	(11,670)	(4,479)
TOTAL LIABILITIES AND NET ASSETS	\$177,981	\$188,859

The Stayton
Statements of Operations and Changes in Unrestricted Assets
For the Nine Months Ended September 30 (Unaudited)
(Thousands of \$)

	2020	2019
Revenues		
Residential living fees	\$8,059	\$7,798
Entrance fees earned	1,164	1,134
Skilled nursing, assisted living and memory support fees, net	7,854	7,541
Investment income	638	204
Other	667	-
	<u>18,382</u>	<u>16,677</u>
Expenses		
Operating expenses:		
Salaries and benefits	6,096	6,124
General and administrative	3,114	4,274
Plant operations	936	922
Housekeeping	74	98
Dietary	1,654	1,060
Medical and other resident care	1,603	1,621
Depreciation	2,737	3,055
Amortization	5,256	1,864
Interest	4,764	6,934
Loss on disposal of fixed assets	10	4
	<u>26,244</u>	<u>25,956</u>
Deficit of revenues over expenses	(7,862)	(9,279)
Contributions to Lifespace Communities, Inc.	(16)	-
Purchase accounting adjustment	-	102,677
Changes in net assets	<u>(7,878)</u>	<u>93,398</u>
Net assets at beginning of year	(3,792)	(97,877)
Net assets at end of the period	<u><u>(\$11,670)</u></u>	<u><u>(\$4,479)</u></u>

The Stayton
Statements of Cash Flow
For the Nine Months Ended September 30 (Unaudited)
(Thousands of \$)

Operating activities	2020	2019
Changes in unrestricted net assets	(\$7,878)	\$93,398
Adjustments to reconcile changes in net asset to net cash used in operating activities:		
Entrance fees earned	(1,164)	(1,134)
Proceeds from nonrefundable entrance fees and deposits	611	707
Depreciation and Amortization	7,993	4,820
Amortization of Financing Costs	-	73
Net accretion of original issue premium/discounts	-	27
Interest applied to long term debt	6,466	-
Change in unrealized appreciation of investments	(66)	(77)
Net (purchases) sales of trading investments	(5,192)	77
Purchase accounting adjustment	-	(102,677)
Contributions to Lifespace Communities, Inc.	16	-
Change in entrance fee deposits	(70)	136
Changes in operating assets and liabilities:		
Accounts receivables, inventories, and prepaid insurance and other	985	621
Accounts payables and accrued liabilities	(5,964)	4,257
Net cash (used) provided in operating activities	<u>(4,253)</u>	<u>232</u>
Investing activities		
Purchases of property and equipment	(288)	(511)
Financing activities		
Contributions to Lifespace Communities, Inc.	(16)	-
Proceeds from refundable entrance fees and deposits	1,731	6,646
Refunds of entrance fees	(1,053)	(5,752)
Net cash provided in financing activities	<u>662</u>	<u>894</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,879)	615
Cash, cash equivalents and restricted cash at beginning of year	17,283	15,016
Cash, cash equivalents and restricted cash at end of period	<u>\$13,404</u>	<u>\$15,631</u>

The Stayton Management's Discussion and Analysis

Nine Months Ended September 30, 2020 versus Nine Months Ended September 30, 2019:

The average year-to-date residential living occupancy at September 30, 2020, was 175.9 residential living homes (93.5% of the 188 available homes). The average year-to-date occupancy at September 30, 2019 was 177.8 residential living homes (94.6% of the 188 available homes).

Revenues from residential living monthly fees and related charges amounted to \$8,059,000 in 2020, a 3.4% increase from \$7,798,000 for the same revenue sources in 2019. The increase is driven by monthly fee increases of an average of 3.7% that took effect January 1, 2020 and offset by lower occupancy in residential living.

Revenues from the health center, assisted living, and memory support fees, net of contractual allowances and pass-through therapy expenses were \$7,854,000 in 2020 compared to \$7,541,000 in 2019, an increase of 4.2%. This increase is the result of increased census in assisted living and memory support. As of September 30, 2020, assisted living had a year to date average occupancy of 96.5% compared to 93.1% for the same period 2019. As of September 30, 2020, memory support had a year to date average occupancy of 92.3% compared to 84.4% for the same period 2019. Assisted living, memory support and the health center had monthly fee increases of 3.7% effective January 1, 2020.

During the second quarter, The Stayton received approximately \$590,000 from the Department of Health and Human Services as a relief under the CARES Act's Public Health and Social Services Relief Fund. In August 2020, the Department of Health and Human Services issued a targeted distribution to skilled nursing facilities, of which The Stayton received an additional \$77,000. Total funds received through the CARES Act in 2020 is \$667,000. The Department of Health and Human Services continues to update the guidance regarding distribution of the funds. Retention and use of the funds are subject to certain terms and conditions and The Stayton will be required to submit documents to substantiate that these funds were used for increased healthcare-related expenses or lost revenue attributable to coronavirus, and that those losses were not reimbursed from other sources and other sources were not obligated to reimburse them. The Department of Health and Human Services will provide guidance in the future about the specific reporting requirements.

Total operating expenses, excluding depreciation and interest expense, were \$13,477,000 in 2020, a decrease of \$622,000 or 4.4% from comparable expenses of \$14,099,000 in 2019. Salaries and benefits decreased \$28,000 or 0.5% as a result of the implementation of a new culinary program with a third party provider. Culinary team members are now recorded within the dietary expenses versus the salaries and benefits. Offsetting these decreases were annual merit increases of 2.0% in addition to adding new positions in higher levels of living as a result of increased occupancy. General and administrative decreased \$1,160,000 or 27.1% due to lower financing related costs, legal services and marketing costs. Dietary costs increased \$594,000 or 56.0%. This increase is the result of implementing a new culinary program with a third party provider in which some costs that were previously recorded in salaries and wages are now recorded in dietary.

The Stayton Management's Discussion and Analysis

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities.

The COVID-19 impact on The Stayton changes on a daily basis. At any point in time, The Stayton can experience a resident or team member with a positive COVID-19 test. The Stayton has established protocols to comply with all federal, state and local requirements. Any suspected COVID-19 cases are subject to self-isolation and monitored. The Stayton has seen an increase in costs for personal protection equipment and inventories of these supplies have been increased in anticipation of their continued need. There have also been additional compensation plans for team members put in place. The Stayton expects these costs to increase as the pandemic continues and is unable to estimate those additional costs.

The number of COVID-19 positive results at The Stayton has ranged from zero to six on a given day. As of the date of this disclosure, there are no resident cases.

Nine Months Ended September 30, 2020 Actual versus Budget:

The Board of Directors annually approves the budget. The chart below shows line item comparisons to the board approved net operating margin, net entrance fees and capital expenditures, along with the favorable and unfavorable variances.

(in thousands)	Actual	Budget	Favorable/ (Unfavorable)
Revenues			
Residential Living Fees	\$8,059	\$8,554	(\$495)
Skilled nursing, assisted living and memory support fees, net	7,854	7,358	496
Other	667	-	667
	16,580	15,912	668
Expenses			
Operating expenses:			
Salaries and benefits	6,096	6,412	316
General and administrative	3,114	2,707	(407)
Plant operations	936	1,069	133
Housekeeping	74	146	72
Dietary	1,654	1,263	(391)
Medical and other resident care	1,603	1,669	66
	13,477	13,266	(211)
Net operating margin	3,103	2,646	457
Net entrance fees	1,289	3,623	(2,334)
Capital expenditures	288	837	549

Net operating margin is favorable to budget by \$457,000.

The Stayton Management's Discussion and Analysis

Residential living fees are unfavorable to budget by \$495,000 as a result of occupancy in the smaller apartments versus the larger apartments. In addition, there were more apartment discounts than were budgeted.

Skilled nursing, assisted living and memory support fees are favorable to budget by \$496,000 as a result of assisted living and memory support occupancies exceeding budget. Year-to-date average assisted living occupancy is 96.5% compared to a budget of 83.3%. Year-to-date average memory support occupancy is 92.3% compared to a budget of 75.0%.

Other revenue is favorable to budget by \$667,000. During the second quarter, The Stayton received approximately \$590,000 from the Department of Health and Human Services as relief under the CARES Act's Public Health and Social Services Relief Fund. In August 2020, The Stayton received an additional \$77,000 from the Department of Health and Human Services as relief to skilled nursing facilities. Receipt of these funds were not budgeted.

Salaries and benefits costs are favorable to budget by \$316,000, or 4.9%, due to the implementation of a new culinary program in the fourth quarter 2019, which results in some costs budgeted in salaries and benefits being recorded in the dietary costs line. In addition, there is a director position budgeted that has not been filled.

General and administrative costs are unfavorable to budget by \$407,000, or 15.0%, due to financing related costs that were \$268,000 higher than budgeted. These are one-time costs that will not reoccur.

Plant Operations costs are favorable to budget by \$133,000, or 12.4% as a result of lower repairs and maintenance and utilities.

Housekeeping costs are favorable to budget by \$72,000, or 49.3%, due to less consulting/outsourcing services, which is due to timing. In addition, there were less repairs and maintenance than budgeted.

Dietary costs are unfavorable to budget by \$391,000, or 31.0% as a result of higher census in assisted living and memory support when compared to budget. In addition, a new culinary program was implemented in the fourth quarter 2019, which results in some costs budgeted in salaries and benefits while currently recorded in the dietary costs line.

Medical and other resident care costs are favorable to budget by \$66,000, or 4.0%, due to less consulting services, professional dues and fees, and legal services.

Net entrance fees are unfavorable to budget by \$2,344,000. There were four closings for the nine months ended September 30, 2020 compared to a budget of 17 closings.

Capital expenditures are favorable to budget by \$549,000. This is a result of timing, the inability to have vendors enter the communities due to COVID-19 restrictions, and fewer apartment turnovers.

**The Stayton
Management's Discussion and Analysis**

Ratios:

Lifespace uses the Fitch investment grade medians as benchmarks. The ratios for both the investment grade and the BBB ratings are shown in the footnote to the ratio calculation schedule.

On January 3, 2020, The Stayton completed a bond exchange of its Series 2009 Bonds for new Series 2020 Bonds issued in the amount of \$112,261,000. The Series 2020 Bonds bear interest at 5.75%, have a final maturity in 2054 and are interest only through 2024. Annual debt service in 2020 is \$5,882,000. Maximum annual debt service is \$7,520,000. The following is a summary of the long-term debt payable:

(in thousands)	September 30,	
	<u>2020</u>	<u>2019</u>
Series 2009 Bonds	-	105,795
Series 2020 Bonds	112,261	-
	112,261	105,795
Less: Amounts Due within One Year	-	1,905
Amounts Due after One Year	112,261	103,890

The Series 2020 Bonds have a debt service coverage ratio covenant, a liquidity covenant and an occupancy covenant. The testing dates for the debt service coverage ratio covenant and the liquidity covenant are June 30 and December 31 and begin June 30, 2021. The occupancy covenant is tested quarterly and testing begins June 30, 2020. The debt service coverage ratio covenant level is 1.10 for the first two testing dates and 1.20 thereafter. The liquidity covenant level is 120 days cash on hand. Calculation of days cash on hand includes amounts available from a \$6.0 million liquidity support agreement provided by Lifespace. The occupancy covenant level is 88.0% occupancy of independent living apartments.

Liquidity and Capital Requirements – Nine Months Ended September 30, 2020 versus Nine Months Ended September 30, 2019:

Cash proceeds from entrance fees and deposits (refundable and non-refundable), net of refunds, were \$1,289,000 in 2020 compared to \$1,601,000 for 2019. There were four closings for the nine months ended September 30, 2020 and nine closings for the same period ended 2019. The Stayton pays out refunds in the order of the refund queue. The timing of refunds according to the queue heavily influences the net entrance fees. In addition, there were deferral collections of \$283,000 as of September 30, 2019 and \$31,000 as of September 30, 2020, which have a positive impact on net entrance fees.

Daily operating expenses for September 30, 2020 decreased to \$67,000 from \$77,000 for September 30, 2019, a change of 13.0%. The change is driven by decreased interest expense along with one more day in 2020 than 2019. The overall unrestricted cash position decreased from \$8,255,000 at September 30, 2019 to \$6,485,000 at September 30, 2020, a change of 21.4%. In

The Stayton Management's Discussion and Analysis

addition, there is a \$6,000,000 million liquidity support agreement provided by Lifespace. No amounts have been drawn on this agreement as of September 30, 2020.

Capital expenditures for the community for the nine months ended September 30, 2020 were \$288,000, while depreciation expense for the same period was \$2,737,000. Capital expenditures for the community for the nine months ended September 30, 2019 were \$511,000, while depreciation expense for the same period was \$3,055,000.

To evaluate the financial aspect of the needed re-investment in the community, Lifespace management targets capital expenditures for all communities it manages as a percentage of depreciation in the range of 70% to 130%. Lifespace will apply this approach to The Stayton as budgets are prepared for 2021 and going forward. This ratio is monitored on a 5-year historical view to assist with the annual capital expenditure decisions. The 5-year historical ratio for The Stayton at December 31, 2019 is 14% and falls well below the targeted range of Lifespace guidelines. It is not unusual to fall below the 70% of depreciation for a community that has been in service less than 15 years. Routine capital projects are expected to be funded from internal cash flows.

Forward-Looking Statements:

This document contains various “forward-looking statements”. Forward-looking statements represent our expectations or beliefs concerning future events. The words “plan”, “expect”, “estimate”, “budget” and similar expressions are intended to identify forward-looking statements. We caution that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including without limitations the factors described in this document.

We ask you not to place undue reliance on such forward-looking statements because they speak only of our views as of the statement dates. Although we have attempted to list the important factors that presently affect The Stayton’s business and operating results, we further caution you that other factors may in the future prove to be important in affecting The Stayton’s results of operations. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

The Stayton
Selected Historical Financial Information
(Thousands of \$)

Historical Debt Service Coverage	Nine Months Ended		Year Ending
	September 30 (Unaudited)	2019	December 31 (Audited)
	2020	2019	2019
Excess (deficit) of revenues over expenses	(7,862)	(9,279)	(8,592)
Less:			
Entrance fees earned	(1,164)	(1,134)	(2,247)
Add:			
Depreciation	2,737	3,055	3,999
Amortization	5,256	1,864	3,734
Interest Expense	4,764	6,934	9,283
Unrealized (gain) loss on securities	(66)	(77)	(82)
Realized loss on sale of assets	10	4	3
Deferred management fee	0	138	160
Change in future service obligation	0	0	(5,598)
Entrance fee proceeds (less refunds)	1,289	1,601	4,476
Income available for debt service	4,964	3,106	5,136
Annual debt service payment	5,882	9,513	9,513
Annual debt service coverage (a)(b)(c)	1.1	0.4	0.5
Annual debt service coverage covenant (d)	1.1	1.2	1.2
 Days Cash on Hand			
Unrestricted cash and investments	6,485	8,255	9,344
Liquidity support agreement (e)	6,000	-	6,000
	12,485	8,255	15,344
Department operating expenses plus interest	18,241	21,033	29,459
Daily expenses	67	77	81
Days of unrestricted cash & investments on hand (a)(b)(c)	188	107	190
Days of unrestricted cash & investments on hand covenant	120	120	N/A
 Occupancy			
Actual occupancy as of September 30, 2020 (a)	92.0%		
Occupancy covenant	88.0%		
 Other Ratios			
Net operating margin (b)(c)	18.7%	8.1%	1.7%
Net operating margin, adjusted (b)(c)	24.6%	16.8%	19.3%
Adjusted debt to capitalization (b)(c)	104.4%	97.1%	96.6%

(a) The financial ratios that are required by the financing documents beginning in June 2021.

(b) The financial ratios that are monitored monthly by Lifespace.

(c) Latest FITCH for Investment Grade medians used as benchmarks are as follows: net operating margin of 5.9%, net operating margin, adjusted of 22.9%, maximum annual debt service of 2.4 times, days cash on hand of 501 and adjusted debt to capitalization of 54.3%. The latest "BBB" ratings are as follows: net operating margin of 5.9%, net operating margin, adjusted of 23.0%, maximum annual debt service of 1.9 times, days cash on hand of 465 and adjusted debt to capitalization of 63.1%.

(d) The debt service coverage ratio covenant is 1.1 times with the first testing date of June 2021 and the second testing date of December 2021. Thereafter, the debt service coverage ratio is 1.2 times.

(e) Lifespace has provided a \$6.0 million liquidity support agreement. In accordance with the 2020 bond documents, amounts available under this agreement are included in days cash on hand.

The table below summarizes the current period entrance fee turnover activity.

Net Entrance Fee Turnover				
Fundings per the queue				
	Entrance Fee Receipts	Monthly Additions to Refund Queue	Remaining Unfunded	Entrance Fee Turnover
End of 2019			(1,468,317)	-
January	451,809	(2,222,363)	(3,238,871)	-
February	701,803	(673,200)	(3,210,268)	-
March	350,920	-	(2,859,348)	-
April	-	(741,332)	(3,600,680)	-
May	-	-	(3,600,680)	-
June	-	(855,743)	(4,456,422)	-
July	335,233	-	(4,121,189)	-
August	-	(779,900)	(4,901,089)	-
September	501,168	-	(4,399,921)	-
YTD 2020				-
Other Accounts Impacting Net Entrance Fees				
Change in refunds in process				1,288,000
Rounding/Immaterial				1,000
Net Entrance Fees				<u>1,289,000</u>