# MONTHLY REPORT
## for the eight months ended August 31, 2021

THE STAYTON AT MUSEUM WAY

A Lifespace Community

LIFESPACE COMMUNITIES

September 30, 2021

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 eight months ended August 31, 2021, subject to the year-end audit adjustments.

LIFESPACE COMMUNITES, INC.

DocuSigned by:

0FBD63BFF8124CA...

Nick Harshfield

4201 Corporate Drive
West Des Moines, IA 50266
P 515.288.5805
Toll-Free 1.866.471.5556
LifespaceCommunities.com

**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. Lifespace Communities, Inc. ("Lifespace") an Iowa not-for-profit corporation, is the sole member of The Stayton.

Calendar year-end financial information for December 31, 2020 and prior is provided from audited financial statements. All other financial information is obtained from unaudited financial statements.

The Stayton failed to meet the historical debt service coverage ratio covenant at June 30, 2021. The failure to satisfy the historical debt service coverage ratio covenant requires The Stayton to hire a consultant to make recommendations in order to increase the historical debt service coverage ratio in future periods. The Stayton has retained FTI Consulting, Inc. to, among other things, (i) evaluate operations and marketing strategies; and (ii) provide strategic advice on addressing financial issues. Additionally, The Stayton has retained Sidney Austin LLP as legal counsel.

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**

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

* The CMS 5-Star rating is as of September 30, 2021.

**Average Occupancy**

| | Fiscal Year Ended December 31, | | | Eight Months ended August 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| Independent Living | 96.9% | 94.7% | 92.9% | 93.7% | 90.5% |
| Assisted Living | 91.7% | 94.4% | 96.3% | 96.5% | 93.8% |
| Memory Support | 92.9% | 88.3% | 92.4% | 92.5% | 95.8% |
| Health Center | 83.0% | 90.9% | 78.2% | 78.6% | 74.9% |

**Residential Living Turnover Analysis**

| | Fiscal Year Ended December 31, | | | Eight Months ended August 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| Beginning Independent Living Occupied | 185 | 179 | 181 | 181 | 172 |
| IL Move-Ins | 15 | 18 | 6 | 3 | 6 |
| Transfers to the Health Center | (11) | (7) | (5) | (3) | (7) |
| IL Move-Outs and Death | (10) | (9) | (10) | (8) | (4) |
| Ending Independent Living Occupied | 179 | 181 | 172 | 173 | 167 |
| Ending Occupancy Percentage | 95.2% | 96.3% | 91.5% | 92.0% | 88.8% |

**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, 2018 through 2020 and the eight months ended August 31, 2020 and 2021 are shown below:

| | Fiscal Year Ended December 31, | | | Eight Months ended August 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| Lifecare | 28.1% | 25.7% | 27.5% | 26.4% | 20.3% |
| Medicare | 36.9% | 38.3% | 33.8% | 34.5% | 28.3% |
| Non-Life Care Resident | 35.0% | 36.0% | 38.7% | 39.1% | 51.4% |
| Total Patient Mix | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**The Stayton**
**Balance Sheets**
**As of August 31 (Unaudited)**
**(Thousands of $)**

| | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $496 | $965 |
| Investments | 4,428 | 5,343 |
| Accounts Receivable | 444 | 1,337 |
| Inventories | 36 | 17 |
| Prepaid Insurance & Other | 218 | 201 |
| Assets whose use is limited | 1,964 | 1,964 |
| Total Current Assets | 7,586 | 9,827 |
| Assets whose use is limited | 7,800 | 9,540 |
| Property and equipment, at cost: | | |
| Land and improvements | 4,937 | 4,934 |
| Buildings and improvements | 101,247 | 101,372 |
| Furniture and equipment | 2,058 | 2,028 |
| | 108,242 | 108,334 |
| Less accum. deprec. | (7,609) | (4,625) |
| Net property and equipment | 100,633 | 103,709 |
| Net goodwill | 39,190 | 44,925 |
| Net deferred assets | 69 | 59 |
| Net intangible assets | 8,694 | 9,967 |
| TOTAL ASSETS | $163,972 | $178,027 |

**The Stayton**
**Balance Sheets**
**As of August 31 (Unaudited)**
**(Thousands of $)**

| | 2021 | 2020 |
|---|---|---|
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable: | | |
| Trade | 694 | $766 |
| Related Party | 202 | 236 |
| | 896 | 1,002 |
| Accrued liabilities: | | |
| Employee compensation expense | 365 | 352 |
| Interest | 1,639 | 1,935 |
| Other | 61 | - |
| | 2,065 | 2,287 |
| Entrance fee refunds | 1,041 | 1,061 |
| Total current liabilities | 4,002 | 4,350 |
| Entrance fee deposits | 166 | 167 |
| Long-term Bonds due after one year | 112,261 | 112,261 |
| Deferred entrance fees | 6,602 | 6,796 |
| Refundable entrance and membership fees | 72,790 | 65,546 |
| Future Service Obligation | 5,424 | - |
| Total liabilities | 201,245 | 189,120 |
| Net assets without donor restrictions | (37,273) | (11,093) |
| TOTAL LIABILITIES AND NET ASSETS | $163,972 | $178,027 |

**The Stayton**
**Statements of Operations and Changes in Unrestricted Assets**
**For the Eight Months Ended August 31 (Unaudited)**
**(Thousands of $)**

| | 2021 | 2020 |
|---|---|---|
| **Revenues** | | |
| Independent living fees | $7,017 | $7,177 |
| Entrance fees earned | 976 | 1,060 |
| Skilled nursing, assisted living and memory support fees | 6,360 | 6,998 |
| Investment income | 293 | 728 |
| Other | - | 667 |
| | 14,646 | 16,630 |
| **Expenses** | | |
| Operating expenses: | | |
| Salaries and benefits | 5,061 | 5,405 |
| General and administrative | 3,450 | 2,857 |
| Plant operations | 951 | 840 |
| Housekeeping | 78 | 72 |
| Dietary | 1,184 | 1,539 |
| Medical and other resident care | 322 | 1,524 |
| Depreciation | 2,505 | 2,434 |
| Amortization | 6,836 | 4,676 |
| Interest | 4,329 | 4,568 |
| Loss on disposal of fixed assets | 2 | - |
| | 24,718 | 23,915 |
| Deficit of revenues over expenses | (10,072) | (7,285) |
| Contributions to Lifespace Communities, Inc. | (47) | (16) |
| Changes in net assets | (10,119) | (7,301) |
| Net assets at beginning of year | (27,154) | (3,792) |
| Net assets at end of the period | ($37,273) | ($11,093) |

**The Stayton**
**Statements of Cash Flow**
**For the Eight Months Ended August 31 (Unaudited)**
**(Thousands of $)**

| **Operating activities** | **2021** | **2020** |
|---|---|---|
| Changes in unrestricted net assets | ($10,119) | ($7,301) |
| Adjustments to reconcile changes in net asset to net cash used in operating activities: | | |
| Entrance fees earned | (976) | (1,060) |
| Proceeds from nonrefundable entrance fees and deposits | 390 | 346 |
| Depreciation and Amortization | 9,341 | 7,110 |
| Interest applied to long term debt | - | 6,466 |
| Change in unrealized appreciation of investments | (311) | (174) |
| Net purchases of trading investments | 761 | (5,169) |
| Contributions to Lifespace Communities, Inc. | 47 | 16 |
| Loss on disposal of property and equipment | 2 | - |
| Change in entrance fee deposits | 42 | (57) |
| Changes in operating assets and liabilities: | | |
| Accounts receivables, inventories, and prepaid insurance and other | 194 | 935 |
| Accounts payables and accrued liabilities | 1,178 | (6,082) |
| Net cash provided (used) in operating activities | 549 | (4,970) |
| | | |
| **Investing activities** | | |
| Purchases of property and equipment | (451) | (269) |
| | | |
| **Financing activities** | | |
| Contributions to Lifespace Communities, Inc. | (47) | (16) |
| Proceeds from refundable entrance fees and deposits | 4,244 | 1,494 |
| Refunds of entrance fees | (5,462) | (1,053) |
| Net cash (used) provided in financing activities | (1,265) | 425 |
| | | |
| Net decrease in cash, cash equivalents and restricted cash | (1,167) | (4,814) |
| Cash, cash equivalents and restricted cash at beginning of year | 11,427 | 17,283 |
| Cash, cash equivalents and restricted cash at end of period | $10,260 | $12,469 |

**Eight Months Ended August 31, 2021 versus Eight Months Ended August 31, 2020:**

The average year-to-date independent living occupancy at August 31, 2021, was 170.1 independent living homes (90.5% of the 188 available homes). The average year-to-date occupancy at August 31, 2020 was 176.2 independent living homes (93.7% of the 188 available homes).

Revenues from independent living monthly fees and related charges amounted to $7,017,000 in 2021, a 2.2% decrease from $7,177,000 for the same revenue sources in 2020. The decrease is driven by lower occupancy in independent living and more apartment discounts. The decrease is offset by the monthly fee increases of 2.5% that were effective January 1, 2021.

Revenues from the health center, assisted living, and memory support fees were $6,360,000 in 2021 compared to $6,998,000 in 2020, a decrease of 9.1%. The decrease is driven by lower occupancy in assisted living and the health center when comparing average year to date occupancy at August 31, 2021 and 2020. In addition, the health center payor mix is influencing the revenue negatively. Offsetting these decreases, assisted living, memory support and the health center had monthly fee increases of 3.5% effective January 1, 2021.

During the second quarter in 2020, 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 relief funds were subject to certain restrictions on eligible expenses or uses and reporting requirements. The Stayton determined the conditions on which they depend were met. As of August 31, 2021 there has been no relief funds received. The Department of Health and Human Services continues to update guidance regarding the distribution of these funds.

Total operating expenses, excluding depreciation and interest expense, were $11,046,000 in 2021, a decrease of $1,191,000 or 9.7% from comparable expenses of $12,237,000 in 2020. Salaries and benefits decreased $344,000 or 6.4% due to staffing to lower occupancy levels and increased team member use of vacation. General and administrative expense increased $593,000 or 20.8% as a result of the winter storm costs incurred in the first quarter of 2021, consulting costs, marketing costs and property insurance. In addition, there was a financial statement reclassification effective January 1, 2021. The reclassification moves general and administrative costs that were previously in the medical and other resident care expenses for higher levels of living into the general and administrative expenses. This financial statement reclassification in general and administrative expense is offset by the decrease in financing related costs in 2020 for restructuring the debt that will no longer occur going forward. Plant increased $111,000, or 13.2% due to the winter storm costs in first quarter. Dietary and medical and other resident care decreased as a result of lower occupancy in assisted living and the health center. In addition, medical and other resident care decreased as a result of the financial statement reclassification mentioned earlier.

During 2020, 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 number of COVID-19 positive results at The Stayton has ranged from zero to 30 on a given day. As of the date of this disclosure, there are no resident cases.

## Eight Months Ended August 31, 2021 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** | | | |
| Independent Living Fees | $7,017 | $7,146 | ($129) |
| Skilled nursing, assisted living and memory support fees | 6,360 | 6,813 | (453) |
| | 13,377 | 13,959 | (582) |
| | | | |
| **Expenses** | | | |
| Operating expenses: | | | |
| Salaries and benefits | 5,061 | 5,897 | 836 |
| General and administrative | 3,450 | 3,288 | (162) |
| Plant operations | 951 | 853 | (98) |
| Housekeeping | 78 | 153 | 75 |
| Dietary | 1,184 | 1,204 | 20 |
| Medical and other resident care | 322 | 369 | 47 |
| | 11,046 | 11,764 | 718 |
| | | | |
| Net operating margin | 2,331 | 2,195 | 136 |
| | | | |
| Net entrance fees | (828) | 753 | (1,581) |
| Capital expenditures | 451 | 955 | 504 |

Net operating margin is favorable to budget by $136,000.

Independent living fees are unfavorable to budget by $129,000 as a result of more apartments discounts than budgeted.

Skilled nursing, assisted living and memory support fees are unfavorable to budget by $453,000 as a result lower health center occupancy. Year-to-date average health center occupancy is 74.9% compared to a budget of 86.4%.

Salaries and benefits costs are favorable to budget by $836,000, or 14.2%, due to staffing to lower census in the health center.

General and administrative costs are unfavorable to budget by $162,000, or 4.9%, due to financing related costs, marketing costs and winter storm costs.

Plant operations costs are unfavorable to budget by $98,000, or 11.5%, as a result of the winter storm that occurred in the first quarter of the year. That increase in costs was offset by lower utilities.

Housekeeping, dietary, and medical and other resident care costs are favorable to budget as a result of lower than budgeted census in the health center.

Net entrance fees are unfavorable to budget by $1,581,000. There were six closings for the eight months ended August 31, 2021 and ten closings budgeted. 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.

Capital expenditures are favorable to budget by $504,000 as a result of timing.

**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 2021 is $6,445,000. Maximum annual debt service is $7,520,000.

The Series 2020 Bonds have an occupancy covenant, historical debt service coverage ratio covenant and a liquidity covenant. The occupancy covenant is 88% independent living apartments and is tested quarterly. The testing dates for the debt service coverage ratio and the liquidity covenant are June 30 and December 31 and begin on June 30, 2021. The historical 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 the $6.0 million liquidity support agreement provided by Lifespace. At June 30, 2021 The Stayton was in compliance with the occupancy covenant and the liquidity covenant, and was not in compliance with the historical debt service coverage requirement.

**Liquidity and Capital Requirements – Eight Months Ended August 31, 2021 versus Eight Months Ended August 31, 2020:**

Cash proceeds from entrance fees and deposits (refundable and non-refundable), net of refunds, were ($828,000) in 2021 compared to $787,000 in 2020. There were six closings for the eight months ended August 31, 2021 and three closings for the same period ended 2020. 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.

Daily operating expenses for August 31, 2021 decreased to $63,000 from $69,000 for August 31, 2020, a change of 8.1%. The overall unrestricted cash position decreased from $6,308,000 at August 31, 2020 to $4,924,000 at August 31, 2021, a change of 21.9%. In addition, there is a $6,000,000 million liquidity support agreement provided by Lifespace. No amounts have been drawn on this agreement as of August 31, 2021.

Capital expenditures for the community for the eight months ended August 31, 2021 were $451,000, while depreciation expense for the same period was $2,505,000. Capital expenditures for the community for the eight months ended August 31, 2020 were $269,000, while depreciation expense for the same period was $2,434,000.

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%. 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, 2020 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 | Eight Months Ended August 31 (Unaudited) 2021 | 2020 | Year Ended December 31 (Audited) 2020 | 2019 |
|---|---|---|---|---|
| Excess (deficit) of revenues over expenses | (10,072) | (7,285) | (23,338) | (8,592) |
| Less: | | | | |
| Entrance fees earned | (976) | (1,060) | (1,387) | (2,247) |
| Add: | | | | |
| Depreciation | 2,505 | 2,434 | 3,586 | 3,999 |
| Amortization | 6,836 | 4,676 | 14,093 | 3,734 |
| Interest Expense | 4,329 | 4,568 | 6,399 | 9,283 |
| Unrealized (gain) loss on securities | (311) | (174) | (197) | (82) |
| Realized loss on sale of assets | 2 | - | 16 | 3 |
| Deferred management fee | - | - | - | 160 |
| Change in future service obligation | - | - | 5,424 | (5,598) |
| Entrance fee proceeds (less refunds) | (828) | 787 | 1,588 | 4,476 |
| Income available for debt service | 1,485 | 3,946 | 6,184 | 5,136 |
| Annual debt service payment | 6,455 | 5,882 | 5,882 | 9,513 |
| Annual debt service coverage (b)(c) | 0.3 | 1.0 | 1.1 | 0.5 |
| Annual debt service coverage - rolling 12 months (a)(c) | 0.6 | | | |
| Annual debt service coverage covenant (d) | 1.1 | 1.1 | 1.1 | 1.2 |
| **Days Cash on Hand** | | | | |
| Unrestricted cash and investments | 4,924 | 6,308 | 6,692 | 9,344 |
| Liquidity support agreement (e) | 6,000 | 6,000 | 6,000 | 6,000 |
| | 10,924 | 12,308 | 12,692 | 15,344 |
| Department operating expenses plus interest | 15,375 | 16,805 | 23,738 | 29,459 |
| Daily expenses | 63 | 69 | 65 | 81 |
| Days of unrestricted cash & investments on hand (a)(b)(c) | 173 | 179 | 195 | 190 |
| Days of unrestricted cash & investments on hand covenant | 120 | 120 | 120 | N/A |
| **Occupancy** | | | | |
| Actual occupancy as of period end (a) | 88.8% | 92.0% | 91.5% | 96.3% |
| Occupancy covenant | 88.0% | 88.0% | 88.0% | 88.0% |
| **Other Ratios** | | | | |
| Net operating margin (b)(c) | 17.4% | 17.6% | 18.5% | 1.7% |
| Net operating margin, adjusted (b)(c) | 12.0% | 21.7% | 24.1% | 19.3% |
| Adjusted debt to capitalization (b)(c) | 137.6% | 104.0% | 122.1% | 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 6.5%, net operating margin, adjusted of 22.5%, maximum annual debt service of 2.5 times, days cash on hand of 528 and adjusted debt to capitalization of 54.0%. The latest "BBB" ratings are as follows: net operating margin of 6.7%, net operating margin, adjusted of 23.0%, maximum annual debt service of 2.2 times, days cash on hand of 496 and adjusted debt to capitalization of 61.1%.

(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 2020 | | | (5,135,364) | - |
| January | 730,491 | (517,500) | (4,922,373) | - |
| February | - | (513,378) | (5,435,751) | - |
| March | - | (889,447) | (6,325,198) | - |
| April | 1,341,543 | (310,000) | (5,293,655) | - |
| May | 1,077,456 | - | (4,216,199) | - |
| June | 1,485,071 | - | (2,731,128) | - |
| July | - | (2,241,573) | (4,972,701) | - |
| August | - | - | (4,972,701) | - |
| YTD 2021 | | | | - |

| | Other Accounts Impacting Net Entrance Fees |
|---|---|
| Change in refunds in process | (820,000) |
| Change in Lifecare Hardship and Unpaid Balances | (7,600) |
| Net Entrance Fees | (827,600) |