TARRANT COUNTY SENIOR LIVING CENTER, INC.
(DBA: THE STAYTON AT MUSEUM WAY)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

TARRANT COUNTY SENIOR LIVING CENTER, INC.
(DBA: THE STAYTON AT MUSEUM WAY)
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YEARS ENDED DECEMBER 31, 2022 AND 2021

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tarrant County Senior Living Center, Inc.
(dba: The Stayton at Museum Way)
Des Moines, Iowa

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations and changes in net assets without donor restrictions, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way) as of December 31, 2022 and 2021, and the results of its operations, changes in its net assets 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way) and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way) will continue as a going concern. As discussed in Note 14 to the financial statements Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way) had an event of default during the year ended December 31, 2022, on the outstanding bonds. The event of default raises substantial doubt about Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way)' ability to continue as a going concern. Management's evaluation of the events and conditions and Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way)'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way)'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 Tarrant County Senior Living Center, Inc. (dba: The Stayton at Museum Way)'s ability to continue as a going concern for a reasonable period of time.

Board of Directors
Tarrant County Senior Living Center, Inc.
(dba: The Stayton at Museum Way)

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 26, 2023

TARRANT COUNTY SENIOR LIVING CENTER, INC.
(DBA: THE STAYTON AT MUSEUM WAY)
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 489	$ 1,010
Investments in Trading Portfolio, Excluding Assets Whose Use is Limited	-	3,277
Accounts Receivable:		
Trade	629	168
Lifespace Communities, Inc.	89	401
Inventories	43	46
Prepaid Insurance and Other	316	345
Assets Whose Use is Limited	17,100	10,238
Total Current Assets	18,666	15,485
PROPERTY AND EQUIPMENT, AT COST		
Land and Improvements	5,009	4,947
Building and Improvements	102,561	101,458
Furniture and Equipment	2,414	2,166
Construction in Progress	1,614	409
Subtotal	111,598	108,980
Less: Accumulated Depreciation	12,612	8,845
Net Property and Equipment	98,986	100,135
GOODWILL, Net of Accumulated Amortization	-	37,278
DEFERRED EXPENSES, Net of Accumulated Amortization	143	85
INTANGIBLE ASSET, Net of Accumulated Amortization	6,998	8,270
Total Assets	$ 124,793	$ 161,253

See accompanying Notes to Financial Statements.

TARRANT COUNTY SENIOR LIVING CENTER, INC.
(DBA: THE STAYTON AT MUSEUM WAY)
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
LIABILITIES AND NET DEFICIT WITHOUT DONOR RESTRICTIONS		
CURRENT LIABILITIES		
Accounts Payable:		
Trade	$ 1,027	$ 943
Lifespace Communities, Inc.	1,054	921
Total Accounts Payable	2,081	1,864
Accrued Liabilities:		
Employee Compensation Expense	564	379
Interest	3,766	538
Other	129	100
Total Accrued Liabilities	4,459	1,017
Entrance Fee Refunds	1,055	3,246
Long-Term Debt Due within One Year	112,261	112,261
Obligation of Capital Lease Due within One Year	18	-
Total Current Liabilities	119,874	118,388
LONG-TERM LIABILITIES		
Entrance Fee Deposits	8,891	105
Long-Term Related Party Payable	851	-
Obligation of Capital Lease Due after One Year	88	-
Deferred Entrance Fees	5,996	7,361
Refundable Entrance Fees	74,815	71,832
Future Service Obligation	2,856	6,090
Total Long-Term Liabilities	93,497	85,388
Total Liabilities	213,371	203,776
NET DEFICIT WITHOUT DONOR RESTRICTIONS	(88,578)	(42,523)
Total Liabilities and Net Deficit without Donor Restrictions	$ 124,793	$ 161,253

See accompanying Notes to Financial Statements.

TARRANT COUNTY SENIOR LIVING CENTER, INC.
(DBA: THE STAYTON AT MUSEUM WAY)
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
REVENUES		
Independent Living Fees	$ 11,600	$ 10,563
Entrance Fees Earned and Nonrefundable Fees	1,436	1,630
Skilled Nursing and Assisted Living Fees	10,516	9,455
Other	75	19
Total Revenues	23,627	21,667
EXPENSES		
Operating Expenses:		
Salaries and Benefits	9,103	7,785
General and Administrative	6,820	4,268
Plant Operations	2,037	1,450
Housekeeping	133	127
Dietary	2,278	1,857
Medical and Other Resident Care	809	663
Depreciation	3,766	3,741
Amortization	10,229	10,344
Interest	6,455	6,455
(Gain) Loss on Disposal of Property and Equipment	(42)	2
Loss on Impairment	31,543	-
(Decrease) Increase in Obligation to Provide Future Services	(3,234)	666
Total Expenses	69,897	37,358
NONOPERATING INCOME (LOSS)		
Investment Income (Loss)	(170)	379
DEFICIT OF REVENUES OVER EXPENSES	(46,440)	(15,312)
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Contributions from (to) Lifespace Communities, Inc.	385	(57)
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS	(46,055)	(15,369)
Net Deficit without Donor Restrictions - Beginning of Period	(42,523)	(27,154)
NET DEFICIT WITHOUT DONOR RESTRICTIONS - END OF PERIOD	$ (88,578)	$ (42,523)

See accompanying Notes to Financial Statements.

TARRANT COUNTY SENIOR LIVING CENTER, INC.
(DBA: THE STAYTON AT MUSEUM WAY)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit of Revenues over Expenses	$ (46,055)	$ (15,369)
Adjustments to Reconcile Deficit of Revenues over Expenses without Donor Restrictions to Net Cash Provided by Operating Activities:		
Entrance Fees Earned	(1,436)	(1,630)
Proceeds from Nonrefundable Entrance Fees and Deposits	83	1,804
Depreciation and Amortization	13,995	14,085
Net Sales of Trading Investments	7,577	1,785
Change in Unrealized Depreciation (Appreciation) of Investments	473	(159)
Change in Entrance Fee Deposits	8,786	(19)
(Gain) Loss on Disposal of Property and Equipment	(42)	2
Loss on Impairment	31,543	-
Contributions to (from) Lifespace Communities, Inc.	(385)	57
Change in Obligation to Provide Future Services	(3,234)	666
Changes in Operating Assets and Liabilities:		
Accounts Receivable, Inventories, and Prepaid Insurance and Other	(190)	(168)
Accounts Payable, Accrued Interest, and Accrued Liabilities	3,659	1,168
Net Cash Provided by Operating Activities	14,774	2,222
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(2,464)	(1,189)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions from (to) Lifespace Communities, Inc.	385	(57)
Payments on Leases	(5)	-
Proceeds from Intercompany Note	851	-
Proceeds from Refundable Entrance Fees and Deposits	156	8,788
Refunds of Entrance Fees	(2,583)	(9,918)
Net Cash Used by Financing Activities	(1,196)	(1,187)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	11,114	(154)
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	4,432	4,586
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF PERIOD	$ 15,546	$ 4,432

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND OPERATIONS

Tarrant County Senior Living Center, Inc. dba: The Stayton at Museum Way (The Stayton), is incorporated as a Texas nonprofit corporation to provide housing, health care, and other related services to senior residents through the operations of a retirement community. The Stayton operates under a "life care" concept in which residents enter into a residency agreement that requires payment of a one-time entrance fee and monthly fees. Generally, these payments entitle residents to the use and privileges of the community for life. The residents do not acquire an interest in the real estate and property.

Lifespace Communities, Inc. is the sole member of The Stayton.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the accounts of The Stayton.

The assets and liabilities and net assets of The Stayton are reported as follows:

> *Without Donor Restrictions* – Those resources over which the board of directors has discretionary control. "Board Designated" amounts represent those resources which the board has set aside for a particular purpose.
>
> *With Donor Restrictions* – Those resources subject to donor imposed restrictions which will be satisfied by actions of The Stayton or the passage of time. The donors of these resources permit The Stayton to use all or part of the income earned, including capital appreciation, on related investments for unrestricted purposes.

At December 31, 2022 and 2021, no net assets with donor restrictions were held by The Stayton.

Accounts Receivable

Accounts receivable and related revenues have been adjusted to the estimated amounts expected to be received. These amounts are subject to further adjustments upon review by third-party payors. The Stayton provides an allowance for doubtful accounts which is offset against the gross amount of accounts receivable. The allowance for doubtful accounts is an estimate of collection losses that may be incurred in the collection of all receivables. The allowance is based upon historical experience, coupled with management's review of the current status of the existing receivables over 90 days. Past-due balances are written off after all collection efforts have been exhausted. The allowance for doubtful accounts was $40 and $125 at December 31, 2022 and 2021, respectively.

(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at original cost-plus capitalized interest when applicable. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

The Stayton has construction in progress of $1,614 and $409 at December 31, 2022 and 2021, respectively.

Credit Risk

The Stayton maintains its cash and cash equivalents in bank deposit accounts that may exceed federally insured limits. Most investments and assets limited as to use are held in a custodial arrangement and consist of investment grade interest bearing securities. The Stayton has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

The Stayton grants credit without collateral to its residents, most of whom are local individuals and are covered under third-party payor agreements. The mix of receivables from residents and third-party payors was as follows:

	December 31,	
	2022	2021
Medicare	34 %	46 %
Residents and Other Third-Party Payors	66	54
Total	100 %	100 %

Inventory

Inventory consists principally of food, maintenance supplies, and medical supplies. Inventories are valued at cost determined by the first-in, first-out (FIFO) method.

Assets Limited as to Use

Assets limited as to use consist of future resident funds held in trust by The Stayton as a fiduciary and funds held by trustees under bond indenture agreements. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets. See Note 7 for additional information.

Assets whose use is limited, are recorded at fair value. Fair values are determined based on readily determinable market values.

The investment portfolio is designated as trading. Changes in unrealized gains and losses on investments designated as trading are reported within the change in net assets without donor restrictions.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the excess of the debt assumed over the fair value of assets acquired at the time of the Lifespace affiliation. Goodwill was originally being amortized over nine years on a straight-line basis and was evaluated for potential impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Goodwill acquired in the affiliation was $51,840. The accumulated amortization was $20,297 and $14,562 at December 31, 2022 and 2021, respectively. As of December 31, 2022, the remaining goodwill balance of $31,543 was written off as an impairment loss.

Deferred Expenses

Net deferred expenses of $143 and $85 at December 31, 2022 and 2021, respectively, are sales costs that are capitalized. These costs are amortized on a straight-line basis over the estimated life expectancy of the residents. The sales cost are $169 and $102 at December 31, 2022 and 2021, respectively. The accumulated amortization was $26 and $17 in 2022 and 2021, respectively.

Intangible Assets

Intangible assets include values assigned to the residency agreements in place at the time of the Lifespace affiliation. The value associated with the residency agreements is being amortized over nine years on a straight-line basis and is evaluated for potential impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Residency agreements acquired in the affiliation was $11,451. The accumulated amortization was $4,453 and $3,181 at December 31, 2022 and 2021, respectively.

Deferred Entrance Fees

The Stayton presently has two residency plans: a traditional plan and a return-of-capital plan. Under the traditional plan, the entrance fees received are nonrefundable and recorded as deferred revenue. This deferred revenue is recognized as revenue earned on a straight-line basis over the estimated remaining life, actuarially adjusted annually, of each resident beginning with the date of each resident’s occupancy. Under certain circumstances, a portion of the entrance fee may be refunded to the resident upon termination of occupancy; such payments are charged against deferred entrance fees. Any unrecognized deferred entrance fee at the date of death or termination of occupancy of the respective resident is recorded as income in the period in which death or termination of occupancy occurs.

Under the return-of-capital residency plan, a portion of the entrance fees (10%) is nonrefundable and is recognized on the same basis as under the traditional plan. The remaining amount represents that portion of the entrance fee, less unreimbursed fees and expenses, which will be refunded to the resident once sufficient entrance fees have been received from reoccupancy of an apartment by another resident. This refundable portion is recorded as a liability until the time of payment. See Note 6 for further details.

(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Entrance Fees (Continued)

The following is a summary of deferred entrance fees:

	December 31, 2022	December 31, 2021
Nonrefundable Entrance Fees	$ 5,996	$ 7,361
Refundable Entrance Fees	74,815	71,832
Total	$ 80,811	$ 79,193

Independent Living Fees and Skilled Nursing and Assisted Living Fees, Net (Resident Care Service Revenue)

Resident care service revenue is reported at the amount that reflects the consideration to which The Stayton expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits and reviews. The Stayton bills all residents at the beginning of the month and third-party payors in the month following the services being performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by The Stayton. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Stayton believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in our community living in an independent or assisted living apartment, or receiving skilled nursing services over a period of time. The Stayton measures the performance obligation from admission into the community to the point when it is no longer required to provide services to that resident, which is generally at the time the resident exits the community.

Residency plan contracts have no termination date and can be cancelled by residents at any time. Income under the residency plan contracts is not considered to provide a material right to future services. As result, fees under this contract are recognized monthly as services are performed.

Because all of The Stayton's remaining performance obligations relate to contracts with a duration of less than one year, The Stayton has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the Residents are discharged, which generally occurs within days or weeks of the end of the reporting period.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Independent Living Fees and Skilled Nursing and Assisted Living Fees, Net (Resident Care Service Revenue) (Continued)

The Stayton determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provide to third-party payors, or residents. The Stayton determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience.

The services provided through third-party payors are primarily paid through the Medical Assistance and Medicare programs. The Medical Assistance programs are covered through the state departments of health and rates charged are in accordance with the rules established in those states. The Medicare program is administered by the United States Centers for Medicare and Medicaid Services (CMS). The Medicare program pays on a prospective payment system, a per diem price based system.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge The Stayton's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon The Stayton. In addition, the contracts The Stayton has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and The Stayton's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in an implicit price concession impacting transaction price were not significant in 2022 or 2021.

(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Independent Living Fees and Skilled Nursing and Assisted Living Fees, Net (Resident Care Service Revenue) (Continued)

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Stayton estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the Resident's ability to pay are recorded as bad debt expense.

The Stayton has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. Tables providing details of these factors are presented below.

The composition of resident care service revenue by primary payor is as follows:

	2022	2021
Residency Plan Agreements	$ 13,951	$ 12,646
Private Pay	5,341	4,448
Medicare	2,021	2,169
HMO/Managed Care	803	755
Total	$ 22,116	$ 20,018

Revenue from resident's deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of resident care service revenue based its lines of business are as follows:

	2022	2021
Service Lines:		
Independent Living	$ 11,600	$ 10,563
Skilled Nursing Facility	5,865	4,847
Assisted Living and Memory Care	4,651	4,608
Total	$ 22,116	$ 20,018

(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Independent Living Fees and Skilled Nursing and Assisted Living Fees, Net (Resident Care Service Revenue) (Continued)

The Stayton has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due. The Stayton's expectation that the period between the time the service is provided to a resident and the time that the Resident or a third-party payor pays for that service will be one year or less. However, The Stayton does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The opening and closing balances were as followed:

	Accounts Receivable	Deferred Entrance Fees
Balances as of January 1, 2021	$ 1,145	$ 6,829
Balances as of December 31, 2021	168	7,361
Balances as of December 31, 2022	629	5,996

The Stayton has elected to apply the practical expedient provided by FASB ASC 340-40-25-4, and expense as incurred the incremental customer contract acquisition costs for contracts in which the amortization period of the asset that The Stayton otherwise would have recognized is one year or less. However, incremental costs incurred to obtain residency agreements for which the amortization period of the asset that The Stayton otherwise would have recognized is expected to be longer than one year are capitalized and amortized over the life of the contract based on the pattern of revenue recognition from these contracts. The Stayton regularly considers whether the unamortized contract acquisition costs are impaired if they are not recoverable under the contract. During the year ended December 31, 2022 and 2021, no unamortized costs were expensed as a result of the impairment analysis. At December 31, 2022 and 2021, the customer contract acquisition costs are $169 and $102, respectively. During the years ended December 31, 2022 and 2021, The Stayton recognized amortization expense of $9 and $10, respectively. The net is presented in deferred expenses on the accompanying balance sheets.

Deficit of Revenues over Expenses

The statements of operations and changes in net assets without donor restrictions include a line entitled "Deficit of Revenues over Expenses" which is an important performance indicator for The Stayton. Changes in net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include assets released from restriction for capital purposes, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets) and contributions to/from affiliates.

(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Stayton has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been designated as a publicly supported organization (rather than a private foundation).

The Stayton evaluates tax positions taken or expected to be taken in the course of preparing its tax returns to determine whether it is “more likely than not” that each tax position would be sustained upon examination by a taxing authority based on the technical merits of the position. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. For the years ended December 31, 2022 and 2021, The Stayton has not recorded any such tax benefit or expense in the accompanying financial statements. No examinations are in progress or anticipated at this time. The Stayton’s federal income tax returns are open to examination for the years ended December 31, 2019 through December 31, 2021.

Statements of Cash Flows

For purposes of the statements of cash flows, cash, cash equivalents and restricted cash represent investments with original maturities of three months or less.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows.

	December 31,	
	2022	2021
Cash and Cash Equivalents	$ 489	$ 1,010
Restricted Cash Included in Assets Whose Use is Limited - Current	15,057	3,422
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	$ 15,546	$ 4,432

During the year ended December 31, 2022, The Stayton received dividend and interest income of $182 and paid interest charges of $3,227. During the year-end December 2021, The Stayton received dividend and interest income of $162 and paid interest charges of $6,455.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Service Obligation

The Stayton is obligated to provide future services to residents based upon the resident contracts in place. A liability recognizing an obligation to provide future services to residents is recorded if the present value of future cash outflows, adjusted for certain noncash items, exceeds the present value of future cash inflows, adjusted for unamortized deferred revenue. The Stayton has estimated it has a future service obligation liability of $2,856 and $6,090 at December 31, 2022 and 2021, respectively.

Coronavirus Relief Funds

During the year ended December 31, 2021, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Due to the Coronavirus pandemic, in 2021, there were certain relief funds issued to The Stayton from the U.S. Department of Health and Human Services (HHS). The government made available emergency relief grant funds to health care providers through the Coronavirus Aid, Relief and Economic Security Act Provider Relief Fund and other related programs. In 2022, the Texas Health and Human Services Commission completed disbursement of the noncompetitive direct awards of the nursing facility COVID-19 in Healthcare Relief Grant program. The relief funds are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. The Stayton considers the relief funds conditional, and therefore the funds are not recognized as revenue until conditions on which they depend are met. The Stayton received relief funds, has determined the conditions on which they depend were met, and therefore recognized the relief funds of $75 and $19 as revenue for the year ended December 31, 2022 and 2021, respectively.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures are required of fair value information about financial instruments, whether or not recognized in the balance sheets, for which it is practical to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

The following determinations were made by The Stayton in estimating its fair value for financial instruments:

Cash and Cash Equivalents – These assets are stated at fair value, which is based on quoted market prices, where available.

Investments – These assets are stated at fair value, which is based on quoted market prices, where available (see Note 4).

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value is defined as the price The Stayton would receive upon selling a security in a timely transaction to an independent buyer in the principal or most advantageous market of the security at the measurement date. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of The Stayton. Unobservable inputs are inputs that reflect The Stayton's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Quoted prices available in active markets for identical securities as of the reporting date.

Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.). Investments that are generally included in this category are U.S. government obligations and corporate bonds.

Level 3 – Significant unobservable inputs (including The Stayton's assumptions in determining the fair value of investments).

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the market place, and other characteristics particular to the transaction.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by The Stayton in determining fair value is greatest for instruments categorized in Level 3.

Fair values of equity securities are determined using public quotations. Fair values of debt securities have been determined through the use of third-party pricing services using market observable inputs. The following is a summary of the inputs used:

(IN THOUSANDS)

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	December 31, 2022			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
ASSETS				
Money Market	$ 15,057	$ 15,057	$ -	$ -
Corporate Bonds	2,043	-	2,043	-
Total Assets	$ 17,100	$ 15,057	$ 2,043	$ -

	December 31, 2021			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
ASSETS				
Money Market	$ 3,422	$ 3,422	$ -	$ -
Pooled Common Trust Fund	3,277	-	3,277	-
Corporate Bonds	5,376	-	5,376	-
U.S. Government and Federal Agencies	1,440	-	1,440	-
Total Assets	$ 13,515	$ 3,422	$ 10,093	$ -

NOTE 4 INVESTMENTS

A summary of the fair value of investments is as follows:

	December 31,	
	2022	2021
Money Market	$ 15,057	$ 3,422
Pooled Common Trust Funds	-	3,277
Corporate Bonds	2,043	5,376
U.S. Government and Federal Agencies	-	1,440
Total	$ 17,100	$ 13,515

The investments noted above are represented in the balance sheets in the following line items:

	December 31,	
	2022	2021
Investments in Trading Portfolio, Excluding Assets Whose Use is Limited	$ -	$ 3,277
Assets Whose Use is Limited - Current	17,100	10,238
Total	$ 17,100	$ 13,515

(IN THOUSANDS)

NOTE 4 INVESTMENTS (CONTINUED)

Investment income is comprised of the following:

	December 31, 2022	December 31, 2021
Dividend and Interest Income	$ 182	$ 162
Net Realized Gains on Investments	121	58
Change in Unrealized Appreciation of Investments	(473)	159
Total Investment Income	$ (170)	$ 379

Investment management and custodial fees amounted to $26 and $22 for the year ended December 31, 2022 and 2021, respectively.

NOTE 5 LIQUIDITY AND AVAILABILITY

As of December 31, 2022, The Stayton has a working capital deficit of $101,208 and days cash on hand of 78.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	December 31, 2022	December 31, 2021
Cash and Cash Equivalents	$ 489	$ 1,010
Investments in Trading Portfolio, at Fair Value	-	3,277
Accounts Receivables, Trade	629	168
Accounts Receivables, Lifespace Communities	89	401
Assets Limited as to Use	17,100	10,238
Total Financial Assets	18,307	15,094
Less Amounts Unavailable to be Used within One Year:		
Funds Held by Trustee	7,856	8,354
Entrance Fee Deposits	9,244	1,884
Total Unavailable within One Year	17,100	10,238
Financial Expenditures Available to Meet Cash Needs within One Year	$ 1,207	$ 4,856

(IN THOUSANDS)

NOTE 6 ENTRANCE FEE DEPOSITS

When a residency agreement is signed, a deposit of 10%, as a portion of the entrance fee is collected. The balance of the fee is payable on or before the fifteenth day following the date that occupancy is offered to the resident. Generally, depositors may cancel their residency agreements at any point prior to admission and receive a partial refund of the entrance deposit.

At December 31, 2022 and 2021, deposits of $8,891 and $105, respectively, had been received from future and current residents who have signed residency agreements. Typically, funds on deposit are classified as assets whose use is limited until the final balance is collected from the resident. Commencing in February 2022, The Stayton has entered into agreements with incoming residents so the deposits are refundable in full, and the segregated funds have been or will be placed in escrow, until The Stayton resolves its defaults under the Master Trust Indenture.

NOTE 7 FINANCING AGREEMENTS

The following is a summary of long-term debt payable:

	December 31, 2022	December 31, 2021
Series 2020 Revenue Bonds, 5.75%	$ 112,261	$ 112,261
Less: Amounts Due within One Year	112,261	112,261
Amounts Due after One Year	$ -	$ -

The Stayton entered into loan agreements with a government entity to be the issuer of tax-exempt debt. Tax-exempt debt is then issued on behalf of The Stayton through the issuer. Payments under a loan agreement between The Stayton and the issuer become the vehicle for servicing the debt on behalf of The Stayton. The bonds are reflected in the accompanying financial statements as financing arrangements of The Stayton. The Series 2020 Bonds bear interest at 5.75%, have a final maturity in 2054 and are interest only through 2024.

At December 31, 2022, schedule maturities are as follows

Year Ending December 31,	Amount
2023	$ 112,261

As stated in Note 14, The Stayton has defaulted on the outstanding debt.

Liquidity Support Agreement

In June 2019, as part of the affiliation, Lifespace provided The Stayton a $6,000 liquidity support agreement. The Stayton withdrew $600 on this agreement as of December 31, 2022.

(IN THOUSANDS)

NOTE 7 FINANCING AGREEMENTS (CONTINUED)

Liquidity Support Agreement (Continued)

Subsequent to the year ended December 31, 2022, the Stayton withdrew $900 on the liquidity support agreement in January 2023 and $1,000 in April 2023.

Assets Whose Use is Limited

Under the terms of the Series 2020 bonds, the loan agreement, trust indenture, credit and reimbursement agreement, and residency agreement, the following funds are restricted and shown as assets whose use is limited:

	December 31,	
	2022	2021
Debt Service Reserve Fund	$ 7,577	$ 7,504
Debt Service Funds	279	850
Entrance Fee Deposits	9,244	1,884
Subtotal	17,100	10,238
Less: Current Portion	17,100	10,238
Total	$ -	$ -

Debt Service Reserve Funds

Under the terms of the financing agreement, a debt service reserve fund is maintained for the Series 2020 bonds in an amount equal to the maximum annual debt service.

Debt Service Funds

The Stayton is required to make monthly deposits to the debt service fund in the amount sufficient to make periodic principal and interest payments on the respective underlying debt.

Entrance Fee Deposits

Entrance fee deposits represent deposits collected to secure a specific independent living home for residency in the community and are placed in an escrow account in accordance with the residency agreement. Typically funds are maintained in the entrance fee escrow until the resident closes on the home and the community requests the funds be disbursed in accordance with the escrow agreement. See note 6 for more details.

(IN THOUSANDS)

NOTE 8 FUNCTIONAL CLASSIFICATION OF EXPENSES

As discussed in Note 1, The Stayton provides housing, skilled care and ancillary services to residents. The functional classification of expenses related to providing these services consisted of the following:

	December 31, 2022					
	Program Services				Supporting Services	
	Independent Living	Skilled Nursing	Assisted Living	Total Program Services	Management and General	Total
Salaries and Benefits	$ 2,973	$ 3,279	$ 2,108	$ 8,360	$ 743	$ 9,103
General and Administrative	3,954	801	1,080	5,835	985	6,820
Plant Operations	1,293	317	427	2,037	-	2,037
Housekeeping	84	21	28	133	-	133
Dietary	1,447	354	477	2,278	-	2,278
Medical and Other Resident Care	145	415	249	809	-	809
Depreciation	2,273	556	749	3,578	188	3,766
Amortization	4,494	-	-	4,494	5,735	10,229
Interest	4,100	1,003	1,352	6,455	-	6,455
Increase in Obligation to Provide				-		
Future Service	(2,679)	(145)	(410)	(3,234)	-	(3,234)
Total Expense	$ 18,084	$ 6,601	$ 6,060	$ 30,745	$ 7,651	$ 38,396

	December 31, 2021					
	Program Services				Supporting Services	
	Independent Living	Skilled Nursing	Assisted Living	Total Program Services	Management and General	Total
Salaries and Benefits	$ 2,518	$ 2,775	$ 1,863	$ 7,156	$ 629	$ 7,785
General and Administrative	2,450	466	628	3,544	724	4,268
Plant Operations	921	225	304	1,450	-	1,450
Housekeeping	80	20	27	127	-	127
Dietary	1,179	289	389	1,857	-	1,857
Medical and Other Resident Care	125	381	157	663	-	663
Depreciation	2,258	552	744	3,554	187	3,741
Amortization	4,609	-	-	4,609	5,735	10,344
Interest	4,100	1,003	1,352	6,455	-	6,455
Decrease in Obligation to Provide				-		
Future Service	560	22	84	666	-	666
Total Expense	$ 18,800	$ 5,733	$ 5,548	$ 30,081	$ 7,275	$ 37,356

The (gain) loss on disposal of property and equipment and impairment loss is excluded for the years ending December 31, 2022 and 2021. Fundraising expenses were not material and are included in management and general for the years ending December 31, 2022 and 2021.

(IN THOUSANDS)

NOTE 9 LEASES

For periods beginning after December 15, 2018, new accounting standards became effective requiring lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. In applying this guidance, The Stayton elected the practical expedients allowed under the accounting standard and has implemented this standard effective January 1, 2020.

The Stayton entered into finance leases to finance the purchase of community vehicles in 2022, which upon implementation of the new standard in 2020 are referred to as financing leases. The asset recorded within furniture and equipment on the balance sheet for these agreements is $173 at December 31, 2022. The leases have a weighted-average discount rate of 7.4% and a weighted-average remaining lease term of five years.

The maturity of the financing leases are as follows:

Year Ending December 31,	Financing Leases
2023	$ 25
2024	25
2025	25
2026	25
2027	20
PV Discount	(14)
Total	$ 106

NOTE 10 COMMITMENTS AND CONTINGENCIES

Health Care

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare and Medical Assistance fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management is not aware of any violations of these laws and regulations that would have a material effect on The Stayton.

(IN THOUSANDS)

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

General and Professional Liability

General and professional liability claims have been asserted against The Stayton by certain claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In the opinion of management, the outcome of these actions will not have a material effect on the financial position or the results of operations of The Stayton. Incidents occurring through December 31, 2022 may result in the assertion of additional claims. Other claims may be asserted arising from services provided to residents in the past. Management believes that these claims, if asserted, would be settled at amounts that can be paid through normal operations and would not have a material effect on the financial position or results of operations.

NOTE 11 RELATED PARTY TRANSACTIONS

Lifespace provides multiple services to The Stayton, including accounting, compliance construction management, corporate governance, financing, human resources, information technology, insurance, legal, management, marketing, risk management, and treasury. Lifespace allocates home office expenses to all communities it operates. The Stayton's portion of the home office allocation was $1,531 and $1,358 for the year ended December 31, 2022 and 2021, respectively. The Stayton owed Lifespace $851 at December 31, 2022 for services provided and advances received.

NOTE 12 BENEVOLENT CARE

The following information presents the level of benevolent care provided during the years ended December 31, 2022 and 2021.

	2022	2021
Estimated Costs of Unreimbursed Services Provided to Nonmedical Residents	$ 1,178	$ 1,127

NOTE 13 EMPLOYEE BENEFIT PLAN

The Stayton has a tax deferred annuity (TDA) employee benefit plan covering substantially all employees of The Stayton. Eligible employees are permitted to contribute up to 25% of their compensation to the TDA. Employee contributions relating to the first 6% of compensation receive a 50% match from The Stayton. All employee contributions to the TDA are fully vested, while contributions made by The Stayton vest over a five-year period. Total expense under this plan was approximately $56 and $35 for the year ended December 31, 2022 and 2021, respectively.

NOTE 14 GOING CONCERN

As of December 31, 2022, The Stayton's historical debt service coverage ratio, as calculated in accordance with the bond indenture, was below 1.0x, resulting in an event of default. This event of default requires the debt to be classified as current and raises substantial doubt about The Stayton's ability to continue as a going concern within one year after April 26, 2023. The Stayton plans to pursue and consider a restructure of the existing debt. During this process of evaluating the existing debt a new escrow was put in place for new resident entrance fee deposits in February 2022 and the payments on the bonds were suspended in June 2022.

The ability of The Stayton to continue as a going concern and meet its obligations as they become due is dependent on management's ability to successfully implement its plans of restructuring the debt. The financial statements do not include any adjustments that might be necessary if The Stayton is unable to continue as a going concern.

NOTE 15 SUBSEQUENT EVENTS

The Stayton has evaluated events or transactions that may have occurred since December 31, 2022, that would merit recognition or disclosure in the financial statements. This evaluation was completed through April 26, 2023, the date the financial statements were available to be issued. No material recognized or nonrecognized subsequent events were identified for recognition or disclosure in the financial statements or the accompanying notes to the financial statements, except for those disclosed above.