

**MONTHLY REPORT**  
**for the three months ended March 31, 2022**

THE  
**STAYTON**  
— AT MUSEUM WAY —

A Lifespace Community

May 6, 2022

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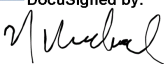
RE: Certificate in accordance with Master Trust Indenture Section 4.15(b) and Section 4.20

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 three months ended March 31, 2022, subject to the year-end audit adjustments.

LIFESPACE COMMUNITIES, INC.

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

The Stayton failed to meet the debt service coverage ratio covenant at June 30 and December 31, 2021. As the debt service coverage ratio is less than 1.0 at December 31, 2021, this is considered an event of default under the Master Trust Indenture. 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 had previously retained Sidley Austin LLP as legal counsel. The Stayton has made the decision to change legal counsel to Polsinelli PC.

Effective March 1, 2022, UMB Bank N.A. resigned as bond trustee, master trustee, paying agent, registrar and transfer agent and BOKF, N.A. has been appointed successor bond trustee, master trustee, paying agent, registrar and transfer agent under the Master Trust Indenture and the Indenture of Trust.

As of the date of filing this report, The Stayton currently has six warm and four hot leads. Throughout 2022 The Stayton plans to host a combination of educational and lifestyle events. In April, The Stayton hosted a wine tasting event with a local winery. Moving forward the focus will be on smaller lead nurturing events on a weekly basis which will give prospective residents a feeling for the lifestyle The Stayton has to offer.

Calendar year-end financial information for December 31, 2021 and prior is provided from audited financial statements. All other financial information is obtained from unaudited financial statements.

## The Stayton

### Apartments/Units Available

	Independent 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 April 2022.

### Average Occupancy

	Fiscal Year Ended December 31,			Three Months ended March 31,	
	2019	2020	2021	2021	2022
Independent Living	94.7%	92.9%	90.1%	91.2%	89.8%
Assisted Living	94.4%	96.3%	91.9%	94.4%	81.2%
Memory Support	88.3%	92.4%	96.4%	92.8%	90.0%
Health Center	90.9%	78.2%	77.9%	68.2%	87.5%

### Independent Living Turnover Analysis

	Fiscal Year Ended December 31,			Three Months ended March 31,	
	2019	2020	2021	2021	2022
Beginning Independent Living Occupied	179	181	172	172	170
IL Move-Ins	18	6	15	-	2
Transfers to the Health Center	(7)	(5)	(9)	(1)	(3)
IL Move-Outs and Death	(9)	(10)	(8)	-	-
Ending Independent Living Occupied	181	172	170	171	169
Ending Occupancy Percentage	96.3%	91.5%	90.4%	91.0%	89.9%

### 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, 2019 through 2021 and the three months ended March 31, 2021 and 2022 are shown below:

	Fiscal Year Ended December 31,			Three Months ended March 31,	
	2019	2020	2021	2021	2022
Lifecare	25.7%	27.5%	20.0%	26.1%	23.7%
Medicare	38.3%	33.8%	30.4%	27.3%	23.4%
Non-Life Care Resident	36.0%	38.7%	49.6%	46.6%	52.9%
Total Patient Mix	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2022	2021
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$709	\$1,538
Investments	1,926	5,028
Accounts Receivable	92	920
Inventories	44	39
Prepaid Insurance & Other	341	198
Assets whose use is limited	11,359	10,272
Total Current Assets	<u>14,471</u>	<u>17,995</u>
Property and equipment, at cost:		
Land and improvements	4,947	4,934
Buildings and improvements	102,301	100,867
Furniture and equipment	2,166	2,057
	<u>109,414</u>	<u>107,858</u>
Less accum. deprec.	(9,771)	(6,045)
Net property and equipment	<u>99,643</u>	<u>101,813</u>
Net goodwill	35,844	41,579
Net deferred assets	85	51
Net intangible assets	7,952	9,224
<b>TOTAL ASSETS</b>	<u><u>\$157,995</u></u>	<u><u>\$170,662</u></u>

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

	<b>2022</b>	<b>2021</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable:		
Trade	\$620	\$830
Related Party	1,046	251
	1,666	1,081
Accrued liabilities:		
Employee compensation expense	544	355
Interest	2,152	2,387
Other	78	98
	2,774	2,840
Entrance fee refunds	2,044	1,206
Long-term debt due within one year	112,261	112,261
Total current liabilities	118,745	117,388
Entrance fee deposits	150	124
Deferred entrance fees	7,171	6,542
Refundable entrance and membership fees	72,452	71,371
Future Service Obligation	6,090	5,424
Total liabilities	204,608	200,849
Net assets without donor restrictions	(46,613)	(30,187)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$157,995</b>	<b>\$170,662</b>

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

	<b>2022</b>	<b>2021</b>
<b>Revenues</b>		
Independent living fees	\$2,792	\$2,663
Entrance fees earned	293	287
Skilled nursing, assisted living and memory support fees	2,372	2,224
Investment income (expense)	(151)	349
	<u>5,306</u>	<u>5,523</u>
<b>Expenses</b>		
Operating expenses:		
Salaries and benefits	2,120	1,828
General and administrative	1,146	1,226
Plant operations	348	359
Housekeeping	19	38
Dietary	551	425
Medical and other resident care	186	103
Depreciation	926	941
Amortization	2,488	1,753
Interest	1,614	1,850
(Gain) Loss on disposal of fixed assets	(42)	2
	<u>9,356</u>	<u>8,525</u>
Deficit of revenues over expenses	<u>(4,050)</u>	<u>(3,002)</u>
Contributions to Lifespace Communities, Inc.	(40)	(31)
Changes in net assets	<u>(4,090)</u>	<u>(3,033)</u>
Net assets at beginning of year	(42,523)	(27,154)
Net assets at end of the period	<u>(\$46,613)</u>	<u>(\$30,187)</u>

**The Stayton**  
**Statements of Cash Flow**  
**For the Three Months Ended March 31 (Unaudited)**  
**(Thousands of \$)**

<b>Operating activities</b>	<b>2022</b>	<b>2021</b>
Changes in unrestricted net assets	(\$4,090)	(\$3,033)
Adjustments to reconcile changes in net asset to net cash provided in operating activities:		
Entrance fees earned	(293)	(287)
Proceeds from nonrefundable entrance fees and deposits	116	-
Depreciation and Amortization	3,414	2,694
Change in unrealized appreciation of investments	286	(270)
Net purchases of trading investments	(56)	(539)
Contributions to Lifespace Communities, Inc.	40	31
(Gain) Loss on disposal of property and equipment	(42)	2
Change in entrance fee deposits	45	-
Changes in operating assets and liabilities:		
Accounts receivables, inventories, and prepaid insurance and other	479	(253)
Accounts payables and accrued liabilities	1,559	2,138
Net cash provided in operating activities	<u>1,458</u>	<u>483</u>
<b>Investing activities</b>		
Purchases of property and equipment	(392)	(67)
<b>Financing activities</b>		
Contributions to Lifespace Communities, Inc.	(40)	(31)
Proceeds from refundable entrance fees and deposits	1,042	730
Refunds of entrance fees	(2,369)	(1,391)
Net cash used in financing activities	<u>(1,367)</u>	<u>(692)</u>
Net decrease in cash and cash equivalents	(301)	(276)
Cash and cash equivalents at beginning of year	<u>1,010</u>	<u>1,814</u>
Cash and cash equivalents at end of period	<u><u>\$709</u></u>	<u><u>\$1,538</u></u>



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

### **Three Months Ended March 31, 2022 versus Three Months Ended March 31, 2021:**

The average year-to-date independent living occupancy through March 31, 2022, was 168.9 independent living homes (89.8% of the 188 available homes). The average year-to-date occupancy through March 31, 2021 was 171.4 independent living homes (91.2% of the 188 available homes).

Revenues from independent living monthly fees and related charges amounted to \$2,792,000 for the three months ended March 31, 2022, a 4.8% increase from \$2,663,000 for the same revenue sources for the same period in 2021. The increase is driven by monthly fee increases of 6.0% that were effective January 1, 2022 and offset by decreased occupancy.

Revenues from the health center, assisted living, and memory support fees were \$2,372,000 for the three months ended March 31, 2022 compared to \$2,224,000 for the same period in 2021, an increase of 6.7%. The increase is driven by monthly fee increases of 6.0% that were effective January 1, 2022.

Total operating expenses, excluding depreciation and interest expense, were \$4,370,000 for the three months ended March 31, 2022, an increase of \$391,000 or 9.8% from comparable expenses of \$3,979,000 for the same period in 2021. Salaries and benefits increased \$292,000 or 16.0% for the three-month period, as compared to the same period in 2021, due to wage increases for culinary, nursing and housekeeping team members that took effect November 1, 2021 and increases for all other positions that took effect January 1, 2022. Dietary expense increased \$126,000 or 29.7% for the three-month period, as compared to the same period in 2021, as a result of increases in raw material costs. Medical and other resident care increased \$83,000 or 80.6% due to an increase in agency costs in the period.

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

**Three Months Ended March 31, 2022 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 for the period, along with the favorable and unfavorable variances.

(in thousands)	Actual	Budget	Favorable/ (Unfavorable)
<b>Revenues</b>			
Independent Living Fees	\$2,792	\$2,743	\$49
Skilled nursing, assisted living and memory support fees	2,372	2,543	(171)
	5,164	5,286	(122)
<b>Expenses</b>			
Operating expenses:			
Salaries and benefits	2,120	2,386	266
General and administrative	1,146	1,229	83
Plant operations	348	327	(21)
Housekeeping	19	73	54
Dietary	551	492	(59)
Medical and other resident care	186	148	(38)
	4,370	4,655	285
Net operating margin	794	631	163
Net entrance fees	(1,211)	(2,172)	961
Capital expenditures	392	2,916	2,524

Net operating margin is favorable to budget by \$163,000.

Skilled nursing, assisted living and memory support revenue is unfavorable to budget by \$171,000 or 6.7% due to more hardship discounts than were budgeted.

Salaries and benefits costs are favorable to budget by \$266,000, or 11.1%, due to open positions.

Net entrance fees are favorable to budget by \$961,000. There were two closings and four refunds for the three months ended March 31, 2022 and budget. 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.

Commencing in February 2022, The Stayton has entered into agreements with incoming residents so that their 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. The result is that The Stayton is not receiving the entrance fees at this time from which it can pay refunds, but The Stayton hopes to be receiving entrance fees again soon.

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

Capital expenditures are favorable to budget by \$2,524,000 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 2022 is \$6,455,000. 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 began on June 30, 2021. 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 the \$6.0 million liquidity support agreement provided by Lifespace. At June 30, 2021 and December 31, 2021, The Stayton was in compliance with the occupancy covenant and the liquidity covenant, and was not in compliance with the debt service coverage requirement. As the debt service coverage ratio is less than 1.0 at December 31, 2021, this is considered an event of default under the Master Trust Indenture.

### **Liquidity and Capital Requirements – Three Months Ended March 31, 2022 versus Three Months Ended March 31, 2021:**

Cash proceeds from entrance fees and deposits (refundable and non-refundable), net of refunds, were (\$1,211,000) in 2022 compared to (\$661,000) in 2021. There were two closings and four refunds for the three months ended March 31, 2022 and no closings and two refunds for the same period ended 2021. However there were receipts of deferrals in 2021. 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. Of the cash proceeds for the three months ended March 31, 2022, \$1,425,000 are segregated and are not available for payment of the refund queue.

Daily operating expenses for March 31, 2022 increased to \$66,000 from \$65,000 for March 31, 2021, a change of 2.7%. The overall unrestricted cash position decreased from \$6,566,000 at March 31, 2021 to \$2,635,000 at March 31, 2022, a change of 59.9%.

No amounts have been drawn on the \$6 million liquidity support agreement provided by Lifespace as of March 31, 2022.

Capital expenditures for the community for the three months ended March 31, 2022 were \$392,000, while depreciation expense for the same period was \$926,000. Capital expenditures for the community for the three months ended March 31, 2021 were \$67,000, while depreciation expense for the same period was \$941,000.

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

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, 2021 is 18% 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 \$)

<b>Historical Debt Service Coverage</b>	<b>Three Months Ended</b>		<b>Year Ended December 31</b>		
	<b>March 31</b>		<b>(Audited)</b>		
	<b>2022</b>	<b>2021</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Excess (deficit) of revenues over expenses	(4,050)	(3,002)	(15,312)	(23,338)	(8,592)
Less:					
Entrance fees earned	(293)	(287)	(1,630)	(1,387)	(2,247)
Add:					
Depreciation	926	941	3,741	3,586	3,999
Amortization	2,488	1,753	10,344	14,093	3,734
Interest Expense	1,614	1,850	6,455	6,399	9,283
Unrealized (gain) loss on securities	286	(270)	(159)	(197)	(82)
Realized loss on sale of assets	(42)	2	2	16	3
Deferred management fee	-	-	-	-	160
Change in future service obligation	-	-	666	5,424	(5,598)
Entrance fee proceeds (less refunds)	(1,211)	(661)	674	1,588	4,476
Income available for debt service	<u>(282)</u>	<u>326</u>	<u>4,781</u>	<u>6,184</u>	<u>5,136</u>
Annual debt service payment	6,455	6,455	6,455	5,882	9,513
Annual debt service coverage (b)(c)	(0.2)	0.2	0.7	1.1	0.5
Annual debt service coverage covenant (d)	1.2	1.1	1.1	1.1	1.2
<b>Days Cash on Hand</b>					
Unrestricted cash and investments	2,635	6,566	4,287	6,692	9,344
Liquidity support agreement (e)	6,000	6,000	6,000	6,000	6,000
	<u>8,635</u>	<u>12,566</u>	<u>10,287</u>	<u>12,692</u>	<u>15,344</u>
Department operating expenses plus interest	5,984	5,829	22,605	23,738	29,459
Daily expenses	66	65	62	65	81
Days of unrestricted cash & investments on hand (a)(b)(c)	130	194	166	195	190
Days of unrestricted cash & investments on hand covenant	120	120	120	120	N/A
<b>Occupancy</b>					
Actual occupancy as of period end (a)	89.9%	91.0%	90.4%	91.5%	96.3%
Occupancy covenant	88.0%	88.0%	88.0%	88.0%	88.0%
<b>Other Ratios</b>					
Net operating margin (b)(c)	15.4%	18.6%	19.4%	18.5%	1.7%
Net operating margin, adjusted (b)(c)	-10.5%	5.8%	22.0%	24.1%	19.3%
Adjusted debt to capitalization (b)(c)	154.2%	126.7%	145.6%	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.

<b>Net Entrance Fee Turnover</b>				
<b>Fundings per the queue</b>				
	<b>Entrance Fee Receipts</b>	<b>Monthly Additions to Refund Queue</b>	<b>Remaining Unfunded</b>	<b>Entrance Fee Turnover</b>
End of 2021			(1,012,420)	-
January	-	(414,900)	(1,427,320)	-
February	550,241	(407,106)	(1,284,185)	-
March	607,274	(779,900)	(1,456,811)	-
YTD 2022				-
<b>Other Accounts Impacting Net Entrance Fees</b>				
Change in refunds in process				(1,202,000)
Change in Lifecare Hardship and Unpaid Balances				(9,000)
Net Entrance Fees				<u>(1,211,000)</u>