MONTHLY REPORT
for the five months ended May 31, 2022

A Lifespace Community

LIFESPACE
COMMUNITIES

July 15, 2022

BOK Financial
Kenneth J. Dotson
Senior Vice President Regional Manager
Corporate Trust
2405 Grand Blvd, Ste. 840
Kansas City, MO 64108

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 five months ended May 31, 2022, subject to the year-end audit adjustments.

LIFESPACE COMMUNITES, INC.

DocuSigned by:

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Nick Harshfield

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.

On May 17, 2022, The Stayton filed a material event notice on EMMA that it has taken, or intends to take, various actions to preserve its cash position, to strengthen its future operations and to ensure continued interest from prospective residents in its community.

On June 22, 2022, The Stayton filed a material event notice on EMMA stating the failure to make the required June 15, 2022 deposit of $538,000 with the Bond Trustee, for deposit into the Bond Fund, as required by the Loan Agreement.

As of the date of filing this report, The Stayton currently has four warm and three hot leads. Throughout 2022 The Stayton plans to host a combination of educational and lifestyle events. In July, The Stayton will host a fashion show highlighting the residents. The Stayton will continue to hold smaller lead nurturing events and plans on increasing the use of social media to share the lifestyle at The Stayton.

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		
	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 June 2022.

Average Occupancy

	Fiscal Year Ended December 31,			Five Months ended May 31,	
	2019	2020	2021	2021	2022
Independent Living	94.7%	92.9%	90.1%	90.9%	89.8%
Assisted Living	94.4%	96.3%	91.9%	93.6%	84.3%
Memory Support	88.3%	92.4%	96.4%	95.0%	88.8%
Health Center	90.9%	78.2%	77.9%	70.5%	88.9%

Independent Living Turnover Analysis

	Fiscal Year Ended December 31,			Five Months ended May 31,	
	2019	2020	2021	2021	2022
Beginning Independent Living Occupied	179	181	172	172	170
IL Move-Ins	18	6	15	3	3
Transfers to the Health Center	(7)	(5)	(9)	(6)	(4)
IL Move-Outs and Death	(9)	(10)	(8)	-	(1)
Ending Independent Living Occupied	181	172	170	169	168
Ending Occupancy Percentage	96.3%	91.5%	90.4%	89.9%	89.4%

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 five months ended May 31, 2021 and 2022 are shown below:

	Fiscal Year Ended December 31,			Five Months ended May 31,	
	2019	2020	2021	2021	2022
Lifecare	25.7%	27.5%	20.0%	22.6%	23.2%
Medicare	38.3%	33.8%	30.4%	27.5%	22.0%
Non-Life Care Resident	36.0%	38.7%	49.6%	49.9%	54.8%
Total Patient Mix	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2022	2021
Assets		
Current Assets:		
Cash and Cash Equivalents	$1,423	$0
Investments	-	4,981
Accounts Receivable	256	1,837
Inventories	43	38
Prepaid Insurance & Other	332	223
Assets whose use is limited	13,067	12,528
Total Current Assets	15,121	19,607
Property and equipment, at cost:		
Land and improvements	4,947	4,934
Buildings and improvements	102,646	101,012
Furniture and equipment	2,166	2,057
	109,759	108,003
Less accum. deprec.	(10,385)	(6,670)
Net property and equipment	99,374	101,333
Net goodwill	34,888	40,623
Net deferred assets	89	58
Net intangible assets	7,740	9,012
TOTAL ASSETS	$157,212	$170,633

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

	2022	**2021**
Liabilities and net assets		
Current liabilities:		
Accounts payable:		
Trade	$873	$663
Related Party	943	188
	1,816	851
Accrued liabilities:		
Employee compensation expense	580	454
Interest	3,228	4,078
Other	89	87
	3,897	4,619
Entrance fee refunds	2,499	2,210
Long-term debt due within one year	112,261	112,261
Total current liabilities	120,473	119,941
Entrance fee deposits	347	223
Deferred entrance fees	7,443	6,623
Refundable entrance and membership fees	72,492	71,852
Future Service Obligation	6,090	5,424
Total liabilities	206,845	204,063
Net assets without donor restrictions	(49,633)	(33,430)
TOTAL LIABILITIES AND NET ASSETS	$157,212	$170,633

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

	2022	2021
Revenues		
Independent living fees	$4,682	$4,432
Entrance fees earned	477	448
Skilled nursing, assisted living and memory support fees	4,085	3,822
Investment income (expense)	(270)	514
Other	75	-
	9,049	9,216
Expenses		
Operating expenses:		
Salaries and benefits	3,542	3,152
General and administrative	2,231	2,064
Plant operations	626	506
Housekeeping	33	56
Dietary	1,010	736
Medical and other resident care	333	191
Depreciation	1,539	1,565
Amortization	4,156	3,641
Interest	2,690	3,540
(Gain) Loss on disposal of fixed assets	(42)	2
	16,118	15,453
Deficit of revenues over expenses	(7,069)	(6,237)
Contributions to Lifespace Communities, Inc.	(41)	(39)
Changes in net assets	(7,110)	(6,276)
Net assets at beginning of year	(42,523)	(27,154)
Net assets at end of the period	($49,633)	($33,430)

The Stayton
Statements of Cash Flow
For the Five Months Ended May 31 (Unaudited)
(Thousands of $)

Operating activities	**2022**	**2021**
Changes in unrestricted net assets	($7,110)	($6,276)
Adjustments to reconcile changes in net asset to net cash provided (used) in operating activities:		
Entrance fees earned	(477)	(448)
Proceeds from nonrefundable entrance fees and deposits	571	242
Depreciation and Amortization	5,695	5,206
Change in unrealized appreciation of investments	492	(365)
Net purchases of trading investments	(44)	(2,653)
Contributions to Lifespace Communities, Inc.	41	39
(Gain) Loss on disposal of property and equipment	(42)	2
Change in entrance fee deposits	242	99
Changes in operating assets and liabilities:		
Accounts receivables, inventories, and prepaid insurance and other	320	(1,199)
Accounts payables and accrued liabilities	2,832	3,687
Net cash provided (used) in operating activities	2,520	(1,666)
Investing activities		
Purchases of property and equipment	(736)	(211)
Financing activities		
Contributions to Lifespace Communities, Inc.	(41)	(39)
Proceeds from refundable entrance fees and deposits	1,042	2,908
Refunds of entrance fees	(2,372)	(2,806)
Net cash (used) provided in financing activities	(1,371)	63
Net increase (decrease) in cash and cash equivalents	413	(1,814)
Cash and cash equivalents at beginning of year	1,010	1,814
Cash and cash equivalents at end of period	$1,423	$0

Five Months Ended May 31, 2022 versus Five Months Ended May 31, 2021:

The average year-to-date independent living occupancy through May 31, 2022, was 168.9 independent living homes (89.8% of the 188 available homes). The average year-to-date occupancy through May 31, 2021 was 170.9 independent living homes (90.9% of the 188 available homes).

Revenues from independent living monthly fees and related charges amounted to $4,682,000 for the five months ended May 31, 2022, a 5.6% increase from $4,432,000 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 $4,085,000 for the five months ended May 31, 2022 compared to $3,822,000 for the same period in 2021, an increase of 6.9%. The increase is driven by monthly fee increases of 6.0% that were effective January 1, 2022 and the increased occupancy in the health center.

In the second quarter of 2022, The Stayton received $75,000 in nursing facilities COVID relief funds from The State of Texas. 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 $7,775,000 for the five months ended May 31, 2022, an increase of $1,070,000 or 16.0% from comparable expenses of $6,705,000 for the same period in 2021. Salaries and benefits increased $390,000 or 12.4% for the five-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. Plant operations expense increased $120,000 or 23.7% for the five-month period as compared to the same period in 2021, due to more repairs and maintenance. Dietary expense increased $274,000 or 37.2% for the five-month period, as compared to the same period in 2021, as a result of increases in raw food costs. Medical and other resident care increased $142,000 or 74.4% for the five-month period, as compared to the same period in 2021, due to an increase in agency costs.

Five Months Ended May 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)
Revenues			
Independent Living Fees	$4,682	$4,555	$127
Skilled nursing, assisted living and memory support fees	4,085	4,280	(195)
Other	75	-	75
	8,842	8,835	7
Expenses			
Operating expenses:			
Salaries and benefits	3,542	4,009	467
General and administrative	2,231	1,925	(306)
Plant operations	626	546	(80)
Housekeeping	33	95	62
Dietary	1,010	820	(190)
Medical and other resident care	333	250	(83)
	7,775	7,645	(130)
Net operating margin	1,067	1,190	(123)
Net entrance fees	(759)	(4,634)	3,875
Capital expenditures	736	4,859	4,123

Net operating margin is unfavorable to budget by $123,000.

Independent Living Fees revenue is favorable to budget by $127,000 or 2.8% due to occupancy. The average year to date independent living occupancy is 89.9% while the budget is 86.5%.

Skilled nursing, assisted living and memory support revenue is unfavorable to budget by $195,000 or 4.6% due to more hardship discounts than were budgeted.

Salaries and benefits costs are favorable to budget by $467,000, or 11.6%, due to open positions.

General and administrative costs are unfavorable to budget by $306,000 or 15.9% due to financing related costs.

Plant operation costs are unfavorable to budget by $80,000 or 14.7% due to more repairs and maintenance.

Housekeeping costs are favorable to budget by $62,000 or 65.3% due to no consulting or outsourcing fees and less repairs and maintenance than budgeted.

Dietary costs are unfavorable to budget by $190,000 or 23.2% due to higher raw food costs and agency costs.

Medical and other resident care costs are unfavorable to budget by $83,000 or 33.2% due to agency costs that were not budgeted.

Net entrance fees are favorable to budget by $3,875,000. For the five months ended May 31, 2022, there were three closings for actual versus five 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.

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.

Capital expenditures are favorable to budget by $4,123,000 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 – Five Months Ended May 31, 2022 versus Five Months Ended May 31, 2021:

Cash proceeds from entrance fees and deposits (refundable and non-refundable), net of refunds, were ($759,000) in 2022 compared to $344,000 in 2021. There were three closings for the five months ended May 31, 2022 and 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 five months ended May 31, 2022, $2,076,000 are segregated and are not available for payment of the refund queue.

Daily operating expenses for May 31, 2022 increased to $69,000 from $68,000 for May 31, 2021, a change of 2.1%. The overall unrestricted cash position decreased from $4,981,000 at May 31, 2021 to $1,423,000 at May 31, 2022, a change of 71.4%.

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

Capital expenditures for the community for the five months ended May 31, 2022 were $736,000, while depreciation expense for the same period was $1,539,000. Capital expenditures for the community for the five months ended May 31, 2021 were $211,000, while depreciation expense for the same period was $1,565,000.

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, 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 $)

	Five Months Ended May 31 (Unaudited)		Year Ended December 31 (Audited)		
Historical Debt Service Coverage	**2022**	**2021**	**2021**	**2020**	**2019**
Excess (deficit) of revenues over expenses	(7,069)	(6,237)	(15,312)	(23,338)	(8,592)
Less:					
Entrance fees earned	(477)	(448)	(1,630)	(1,387)	(2,247)
Add:					
Depreciation	1,539	1,565	3,741	3,586	3,999
Amortization	4,156	3,641	10,344	14,093	3,734
Interest Expense	2,690	3,540	6,455	6,399	9,283
Unrealized (gain) loss on securities	492	(365)	(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)	(759)	344	674	1,588	4,476
Entrance fee proceeds held in escrow (f)	(1,613)	-	-	-	-
Income available for debt service	(1,083)	2,042	4,781	6,184	5,136
Annual debt service payment	6,455	6,455	6,455	5,882	9,513
Annual debt service coverage (b)(c)	(0.4)	0.8	0.7	1.1	0.5
Annual debt service coverage covenant (d)	1.2	1.1	1.1	1.1	1.2
Days Cash on Hand					
Unrestricted cash and investments	1,423	4,981	4,287	6,692	9,344
Liquidity support agreement (e)	6,000	6,000	6,000	6,000	6,000
	7,423	10,981	10,287	12,692	15,344
Department operating expenses plus interest	10,465	10,245	22,605	23,738	29,459
Daily expenses	69	68	62	65	81
Days of unrestricted cash and investment, excl. LSA	21	73	69	103	116
Days of unrestricted cash & investments on hand (a)(b)(c)	107	162	166	195	190
Days of unrestricted cash & investments on hand covenant	120	120	120	120	N/A
Occupancy					
Actual occupancy as of period end (a)	89.4%	89.9%	90.4%	91.5%	96.3%
Occupancy covenant	88.0%	88.0%	88.0%	88.0%	88.0%
Other Ratios					
Net operating margin (b)(c)	12.1%	18.8%	19.4%	18.5%	1.7%
Net operating margin, adjusted (b)(c)	3.8%	22.0%	22.0%	24.1%	19.3%
Adjusted debt to capitalization (b)(c)	160.2%	131.4%	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.

(f) Entrance fee proceeds received in 2022 are held in escrow and will not be included in the net entrance fees used for the debt service coverage ratio.

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 2021			(1,012,420)	-
January	-	(414,900)	(1,427,320)	-
February	-	(407,106)	(1,834,426)	-
March	-	(779,900)	(2,614,326)	-
April	-	-	(2,614,326)	-
May	-	(279,864)	(2,894,190)	-
YTD 2022				-

	Other Accounts Impacting Net Entrance Fees
Change in refunds in process	(747,000)
Change in Lifecare Hardship and Unpaid Balances	(13,000)
Rounding/Immaterial	1,000
Net Entrance Fees	(759,000)

Note: There are entrance fee proceeds of $1,613,000 that are being held in escrow that are not reflected above in the queue details.