

**NEWCASTLE PLACE, LLC**  
**FINANCIAL STATEMENTS**  
**SIX MONTH PERIOD ENDED DECEMBER 31, 2021**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Newcastle Place, LLC  
Des Moines, Iowa

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Newcastle Place, LLC, which comprise the balance sheet as of December 31, 2021, and the related statement of operations and changes in net assets, and cash flows for the six month period 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 Newcastle Place, LLC as of December 31, 2021, and the results of its operations and its cash flows for the six month period 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 Newcastle Place, LLC 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.

#### *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 Newcastle Place, LLC '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 Newcastle Place, LLC '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 Newcastle Place, LLC 's ability to continue as a going concern for a reasonable period of time.

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**

Minneapolis, Minnesota  
April 26, 2022

**NEWCASTLE PLACE, LLC**  
**BALANCE SHEET**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

	2021
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 5,630
Accounts Receivable:	
Trade	1,607
Inventories	23
Prepaid Insurance and Other	173
Assets Whose Use is Limited - Current	352
Total Current Assets	7,785
 <b>PROPERTY AND EQUIPMENT, AT COST</b>	
Land and Improvements	4,202
Building and Improvements	68,054
Furniture and Equipment	1,625
Construction in Progress	312
Subtotal	74,193
Less: Accumulated Depreciation	1,705
Net Property and Equipment	72,488
 <b>GOODWILL</b> , Net of Accumulated Amortization	45,019
 <b>DEFERRED EXPENSES</b> , Net of Accumulated Amortization	20
 Total Assets	\$ 125,312

See accompanying Notes to Financial Statements.

**NEWCASTLE PLACE, LLC  
BALANCE SHEET (CONTINUED)  
DECEMBER 31, 2021  
(IN THOUSANDS)**

	<u>December 31 2021</u>
<b>LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable:	
Trade	\$ 1,007
Lifespace Communities, Inc.	<u>65</u>
	1,072
Accrued Liabilities:	
Employee Compensation Expense	413
Interest	540
Property Taxes	675
Other	<u>154</u>
Total Accrued Liabilities	1,782
Entrance Fee Refunds	<u>1,940</u>
Total Current Liabilities	4,794
<b>LONG-TERM LIABILITIES</b>	
Entrance Fee Deposits	5
Wait List Deposits	151
Long-Term Notes Payable and Related Party Payable	63,587
Long-Term Debt Due after One Year	7,093
Swap Derivative	306
Deferred Entrance Fees	5,894
Refundable Entrance Fees	<u>39,916</u>
Total Long-Term Liabilities	<u>116,952</u>
Total Liabilities	121,746
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>3,566</u>
Total Liabilities and Net Assets without Donor Restrictions	<u><u>\$ 125,312</u></u>

See accompanying Notes to Financial Statements.

**NEWCASTLE PLACE, LLC**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**WITHOUT DONOR RESTRICTIONS**  
**SIX MONTH PERIOD ENDED DECEMBER 31, 2021**  
**(IN THOUSANDS)**

	2021
<b>REVENUES</b>	
Independent Living Fees	\$ 4,503
Entrance Fees Earned and Nonrefundable Fees	641
Skilled Nursing and Assisted Living Fees	4,808
Total Revenues	9,952
<b>EXPENSES</b>	
Operating Expenses:	
Salaries and Benefits	4,719
General and Administrative	1,661
Plant Operations	617
Housekeeping	20
Dietary	396
Medical and Other Resident Care	224
Depreciation	1,705
Amortization	2,934
Interest	1,515
Loss on Derivative	306
Total Expenses	14,097
<b>DEFICIT OF REVENUES OVER EXPENSES</b>	(4,145)
<b>OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
Equity Contribution	8,000
Contributions to Lifespace Communities, Inc.	(289)
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	3,566
Net Assets without Donor Restrictions - Beginning of Period	-
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF PERIOD</b>	\$ 3,566

See accompanying Notes to Financial Statements.

**NEWCASTLE PLACE, LLC**  
**STATEMENT OF CASH FLOWS**  
**SIX MONTH PERIOD ENDED DECEMBER 31, 2021**  
**(IN THOUSANDS)**

	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 3,566
Adjustments to Reconcile Change in Net Assets with Donor Restrictions to Net Cash Provided by Operating Activities:	
Entrance Fees Earned	(641)
Proceeds from Nonrefundable Entrance Fees and Deposits	261
Depreciation and Amortization	4,639
Amortization of Financing Cost	83
Change in Entrance Fee deposits	156
Loss on Derivative	306
Net Contributions from Lifespace Communities, Inc.	(7,711)
Changes in Operating Assets and Liabilities:	
Accounts Receivable, Inventories, and Prepaid Insurance and Other	(1,803)
Accounts Payable and Accrued Liabilities	2,854
Net Cash Provided by Operating Activities	1,710
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Property and Equipment	(75,636)
Proceeds on Disposal of Assets	237
Net Cash Used by Investing Activities	(75,399)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Financing Costs Incurred	(990)
Proceeds from New Financings	71,587
Net Contributions from Lifespace Communities, Inc.	7,711
Proceeds from Refundable Entrance Fees and Deposits	2,345
Refunds of Entrance Fees	(982)
Net Cash Provided by Financing Activities	79,671
<b>NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	5,982
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	-
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF PERIOD</b>	\$ 5,982

See accompanying Notes to Financial Statements.



**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

**NOTE 1 ORGANIZATION AND OPERATIONS**

Lifespace Communities, Inc. (Lifespace) became the sole member of Newcastle Place in July 2021, as further describe in note 9.

Newcastle Place, LLC (Newcastle Place), is incorporated as a Wisconsin nonprofit corporation for the sole purpose of acquiring a continuing care retirement community in Mequon, Wisconsin. Newcastle Place provides housing, health care, and other related services to the elderly through the operations of a retirement community. Newcastle Place 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.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying financial statements present only the accounts of Newcastle Place.

The assets and liabilities and net assets of Newcastle Place 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 organization or the passage of time. The donors of these resources permit the organization to use all or part of the income earned, including capital appreciation, on related investments for unrestricted purposes.

At December 31, 2021, no net assets with donor restrictions were held by Newcastle Place.

**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. Newcastle Place 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 \$4 at December 31, 2021.

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(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.

Newcastle Place has \$312 of construction in progress at December 31, 2021.

**Credit Risk**

Newcastle Place 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. Newcastle Place has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Newcastle Place 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, 2021
Medicare	<u>13 %</u>
Residents and Other Third-Party Payors	<u>87</u>
Total	<u><u>100 %</u></u>

**Inventory**

Inventory consists principally of food, plant 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 resident funds and real estate tax escrow held in trust by Newcastle Place as a fiduciary. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets.

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

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Goodwill**

Goodwill represents the excess of the purchase price and liabilities assumed over the fair value of assets acquired at the time of the acquisition in July 2021 (see note 9). Goodwill is 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. Lifespace has twelve months from the date of acquisition to adjust the goodwill balance based on facts and circumstances that become known. Goodwill acquired in the acquisition was \$47,667. Accumulated amortization at December 31, 2021 was \$2,648.

**Deferred Expenses**

Net deferred expenses of \$20 at December 31, 2021 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 \$21 at December 31, 2021. The accumulated amortization was \$1 in 2021.

**Deferred Entrance Fees**

Newcastle Place presently has two residency plans: a traditional plan and a return-of-capital plans. 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 plans, a portion of the entrance fees (10% to 50%) 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.

The following is a summary of deferred entrance fees:

	December 31,
	2021
Nonrefundable Entrance Fees	\$ 5,894
Refundable Entrance Fees	39,916
Total	<u>\$ 45,810</u>

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Newcastle Place 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. Newcastle Place 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 Newcastle Place. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Newcastle Place 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. Newcastle Place 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 Newcastle Place's remaining performance obligations relate to contracts with a duration of less than one year, Newcastle Place 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.

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

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 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)**

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, 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 Newcastle Place'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 Newcastle Place. In addition, the contracts Newcastle Place 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 Newcastle Place'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 2021.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Newcastle Place 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.

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 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)**

Newcastle Place 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:

	2021
Residency Plan Agreements	\$ 5,325
Private Pay	2,411
Medicare	1,117
HMO/Managed Care	458
Total	\$ 9,311

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:

Service Lines:	2021
Independent Living	\$ 4,503
Skilled Nursing Facility	2,922
Assisted Living and Memory Care	1,886
Total	\$ 9,311

Newcastle Place 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. Newcastle Place'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, Newcastle Place 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.

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 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)**

Newcastle Place 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 Newcastle Place 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 Newcastle Place 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. Newcastle Place regularly considers whether the unamortized contract acquisition costs are impaired if they are not recoverable under the contract. During the six month period ended December 31, 2021, no unamortized costs were expensed as a result of the impairment analysis. At December 31, 2021, the customer contract acquisition costs are \$21. During the six month period ended December 31, 2021, Newcastle Place recognized amortization expense of \$1. 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 Newcastle Place. 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.

**Income Taxes**

Newcastle Place 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).

Newcastle Place 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 six month period ended December 31, 2021, Newcastle Place has not recorded any such tax benefit or expense in the accompanying financial statements. As Newcastle Place was incorporated in 2021, no federal tax returns have been filed.

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2021
Cash and Cash Equivalents	\$ 5,630
Restricted Cash Included in Assets Whose use is Limited - Current	352
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	\$ 5,982

During the six month period ended December 31, 2021, Newcastle Place received no dividend and interest income and paid interest charges of \$1,138.

**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.

**Interest Rate Swap**

Newcastle Place records all derivative instruments, currently consisting of an interest rate swap agreement, on the balance sheet at its respective fair value and all changes in fair value in the statement of operations and changes in net assets as interest rate swap market adjustment.

**Future Service Obligation**

Newcastle Place 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. Newcastle Place has estimated no future service obligation liability at December 31, 2021.



**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

**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 Newcastle Place in estimating its fair value for financial instruments:

*Derivatives* – These liabilities are stated at fair value, which is based on quoted market prices, where available.

Fair value is defined as the price Newcastle Place 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 Newcastle Place. Unobservable inputs are inputs that reflect Newcastle Place'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 Newcastle Place'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 marketplace, and other characteristics particular to the transaction.

**NEWCASTLE PLACE, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**  
**(IN THOUSANDS)**

**NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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 Newcastle Place 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:

LIABILITIES	December 31, 2021			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Interest Rate Swap	\$ 306	\$ -	\$ 306	\$ -

**NOTE 4 LIQUIDITY AND AVAILABILITY**

As of December 31, 2021, Newcastle Place has a working capital surplus of \$2,991 and days cash on hand of 113.

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, 2021
Cash and Cash Equivalents	\$ 5,630
Accounts Receivables, Trade	1,607
Assets Whose Use is Limited	352
Total Financial Assets	7,589
Less Amounts Unavailable to be Used within One Year:	
Team Member Appreciation Funds	7
Financial Expenditures Available to Meet Cash Needs within One Year	\$ 7,582

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**NOTE 5 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 fee deposit.

At December 31, 2021, deposits of \$156 had been received from future residents who have signed residency agreements. Funds on deposit are classified as cash and cash equivalents.

**NOTE 6 FINANCING AGREEMENTS**

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

	December 31, 2021
Bank Loan	\$ 60,000
Series 2021 Bonds	8,000
Notes Payable to Lifespace	587
Notes Payable to Lifespace - Working Capital Loan	3,000
	71,587
Less: Net Unamortized Issuance Costs	(907)
	70,680
Less: Amounts Due within One Year	-
Amounts Due after One Year	\$ 70,680

Newcastle Place has entered into loan agreements at the time of acquisition. Newcastle Place's bank loan has a variable interest rate, final maturity of July 1, 2028 and is interest only until August 1, 2023. Newcastle Place has entered into an interest rate swap agreement to fix the interest rate at 3.089%. Under the term loan there are certain provisions limiting the management fee that can be collected by Lifespace. The difference between the management fee charged, and the management fee collected, are added to the notes payable to Lifespace.

The Series 2021 Bonds are subordinated bonds that have an interest rate of 9.0% and mature in July 2038.

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**NOTE 6 FINANCING AGREEMENTS (CONTINUED)**

At December 31, 2021, schedule maturities are as follows

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ -
2023	940
2024	1,936
2025	1,738
2026	1,540
Thereafter	65,433
Total	<u>\$ 71,587</u>

**Liquidity Support Agreement**

In July 2020, as a part of the acquisition, lifespace provided Newcastle Place a \$5,000 liquidity support agreement. No amounts have been drawn on this agreement as of December 31, 2021.

**Derivatives and Variable Interest Rate Risk Management**

Newcastle Place uses derivative instruments to manage variable interest rates on certain long-term debt issues. As part of the Newcastle Place's strategy to manage the variability of interest rates, Newcastle Place has entered into interest rate swap agreements to reduce the impact of changes in interest rates.

**Assets Whose Use is Limited**

The following funds are restricted and shown as assets whose use is limited - current:

	<u>December 31,</u> <u>2021</u>
Team Member Appreciation Funds	\$ 7
Real Estate Tax Escrow	345
Total	<u>\$ 352</u>

**Team Member Appreciation Funds**

Residents at Newcastle Place may voluntarily establish a fund to provide team member appreciation disbursements.

**Real Estate Tax Escrows**

Monthly deposits are made to escrow funds to pay real estate taxes on a semi-annual basis.

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**NOTE 7 FUNCTIONAL CLASSIFICATION OF EXPENSES**

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

For the Period July 1, 2021 - December 31, 2021						
	Program Services			Supporting Services		
	Independent Living	Skilled Nursing	Assisted Living	Total Program Services	Management and General	Total
Salaries and Benefits	\$ 1,790	\$ 1,940	\$ 541	\$ 4,271	\$ 448	\$ 4,719
General and Administrative	989	236	261	1,486	175	1,661
Plant Operations	379	113	125	617	-	617
Housekeeping	12	4	4	20	-	20
Dietary	244	72	80	396	-	396
Medical and Other Resident Care	25	185	14	224	-	224
Depreciation	996	296	328	1,620	85	1,705
Amortization	286	-	-	286	2,648	2,934
Interest	932	277	306	1,515	-	1,515
Total Expense	<u>\$ 5,653</u>	<u>\$ 3,123</u>	<u>\$ 1,659</u>	<u>\$ 10,435</u>	<u>\$ 3,356</u>	<u>\$ 13,791</u>

The functional classification of expenses excludes the loss on interest rate swap agreement.

**NOTE 8 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. 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 Newcastle Place.

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**NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**General and Professional Liability**

General and professional liability claims have been asserted against Newcastle Place 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 Newcastle Place. Incidents occurring through December 31, 2021 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 operations.

**COVID-19**

During the year ended December 31, 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Corporation, COVID-19 may impact various parts of its 2022 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of healthcare personnel, or loss of revenue due to reductions in certain revenue streams. Management believes Newcastle Place is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of April 26, 2022.

**NOTE 9 BUSINESS COMBINATIONS**

On July 1, 2021 Newcastle Place, LLC purchased the community Newcastle Place in Mequon, Wisconsin for \$75,000. All transaction costs for acquisition were paid by the sole member, Lifespace Communities, Inc.

Newcastle Place is required to recognize and measure the identifiable assets acquired, and liabilities assumed at the acquisition date at fair values. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed for Newcastle Place as of the date of acquisition:

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**NOTE 9 BUSINESS COMBINATIONS (CONTINUED)**

Consideration Paid	\$ 75,000
Identifiable Finance Assets and Liabilities:	
Land and Improvements	4,440
Buildings and Improvements	67,760
Equipment	1,025
Furniture	592
Non-Refundable Entrance Fees	(6,313)
Refundable Entrance Fees	(40,171)
Subtotal	<u>27,333</u>
Implied Goodwill	<u>\$ 47,667</u>

The excess of purchase consideration over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. The primary factors for goodwill were resident contracts, assembled workforce and synergies. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The estimated fair value of certain intangible assets was calculated by an independent third party valuation specialists.

**NOTE 10 RELATED PARTY TRANSACTIONS**

Lifespace provides multiple services to Newcastle Place, 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. Newcastle Place's portion of the home office allocation was \$482 for the six month period ended December 31, 2021 of which \$160 was paid (Note 6).

**NOTE 11 EMPLOYEE BENEFIT PLAN**

Newcastle Place has a tax deferred annuity (TDA) employee benefit plan covering substantially all employees of Newcastle Place. 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 Newcastle Place. All employee contributions to the TDA are fully vested, while contributions made by Newcastle Place vest over a five-year period. Total expense under this plan was approximately \$26 for the six month period ended December 31, 2021.

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**NOTE 12 SUBSEQUENT EVENTS**

Newcastle Place has evaluated events or transactions that may have occurred since December 31, 2021, that would merit recognition or disclosure in the financial statements. This evaluation was completed through April 26, 2022, 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.



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