

NEWCASTLE PLACE, LLC
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022



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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, 2023 and 2022, and the related statement of operations and changes in net assets, and cash flows for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years ended December 31, 2023 and 2022, 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 23, 2024

**NEWCASTLE PLACE, LLC
BALANCE SHEET
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)**

| ASSETS | 2023 | 2022 |
|---|----------------|----------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 9,590 | \$ 8,652 |
| Accounts Receivable: | | |
| Trade, Net of Allowance for Credit Losses of \$8 and \$22, respectively | 597 | 580 |
| Lifespace Communities, Inc. | 114 | 6 |
| Inventories | 39 | 39 |
| Prepaid Insurance and Other | 187 | 177 |
| Assets Whose Use is Limited - Current | 517 | 4 |
| Total Current Assets | 11,044 | 9,458 |
| PROPERTY AND EQUIPMENT, AT COST | | |
| Land and Improvements | 4,498 | 4,470 |
| Building and Improvements | 70,375 | 69,013 |
| Furniture and Equipment | 2,571 | 1,903 |
| Construction in Progress | 821 | 534 |
| Subtotal | 78,265 | 75,920 |
| Less: Accumulated Depreciation | 7,980 | 4,807 |
| Net Property and Equipment | 70,285 | 71,113 |
| SWAP DERIVATIVE | 2,307 | 4,265 |
| GOODWILL, Net of Accumulated Amortization | 34,625 | 39,923 |
| DEFERRED EXPENSES, Net of Accumulated Amortization | 401 | 119 |
| Total Assets | \$ 118,662 | \$ 124,878 |

See accompanying Notes to Financial Statements.

NEWCASTLE PLACE, LLC
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

| LIABILITIES AND NET ASSETS (DEFICIT) | 2023 | 2022 |
|--|-----------------|--------------|
| WITHOUT DONOR RESTRICTIONS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable: | | |
| Trade | \$ 1,044 | \$ 644 |
| Lifespace Communities, Inc. | 155 | 59 |
| | 1,199 | 703 |
| Accrued Liabilities: | | |
| Employee Compensation Expense | 604 | 539 |
| Interest | 587 | 553 |
| Property Taxes | 347 | 518 |
| Other | 131 | 88 |
| Total Accrued Liabilities | 1,669 | 1,698 |
| Entrance Fee Refunds | 405 | - |
| Long-Term Notes Payable Due within One Year | 1,931 | 940 |
| Obligation of Capital Lease Due within One Year | 12 | - |
| Total Current Liabilities | 5,216 | 3,341 |
| LONG-TERM LIABILITIES | | |
| Entrance Fee Deposits | 32 | 78 |
| Wait List Deposits | 170 | 199 |
| Long-Term Notes Payable | 57,285 | 59,060 |
| Long-Term Related Party Payable | 6,130 | 4,783 |
| Long-Term Debt Due After One Year | 8,923 | 7,993 |
| Obligation Under Leases Due After One Year | 45 | - |
| Deferred Entrance Fees | 5,286 | 5,497 |
| Refundable Entrance Fees | 45,744 | 44,486 |
| Total Long-Term Liabilities | 123,615 | 122,096 |
| Total Liabilities | 128,831 | 125,437 |
| NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS | (10,169) | (559) |
| Total Liabilities and Net Assets (Deficit) | | |
| Without Donor Restrictions | \$ 118,662 | \$ 124,878 |

See accompanying Notes to Financial Statements.

NEWCASTLE PLACE, LLC
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
WITHOUT DONOR RESTRICTIONS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

| | 2023 | 2022 |
|---|-------------|----------|
| REVENUES | | |
| Independent Living Fees | \$ 10,477 | \$ 9,185 |
| Entrance Fees Earned and Nonrefundable Fees | 1,169 | 1,441 |
| Skilled Nursing and Assisted Living Fees | 11,197 | 9,955 |
| Gain on Disposal of Property and Equipment | 4 | - |
| Total Revenues | 22,847 | 20,581 |
| EXPENSES | | |
| Operating Expenses: | | |
| Salaries and Benefits | 9,055 | 9,417 |
| General and Administrative | 3,786 | 3,711 |
| Plant Operations | 1,397 | 1,118 |
| Housekeeping | 129 | 133 |
| Dietary | 2,065 | 1,635 |
| Medical and Other Resident Care | 1,367 | 399 |
| Depreciation | 3,173 | 3,101 |
| Amortization | 6,016 | 6,306 |
| Interest | 2,838 | 2,859 |
| (Gain)/Loss on Derivative | 1,958 | (4,571) |
| Total Expenses | 31,784 | 24,108 |
| DEFICIT OF REVENUES OVER EXPENSES | (8,937) | (3,527) |
| OTHER CHANGES IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS | | |
| Contributions to Lifespace Communities, Inc. | (673) | (598) |
| CHANGE IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS | (9,610) | (4,125) |
| Net Assets without Donor Restrictions - Beginning of Year | (559) | 3,566 |
| NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS - END OF YEAR | \$ (10,169) | \$ (559) |

See accompanying Notes to Financial Statements.

NEWCASTLE PLACE, LLC
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

| | 2023 | 2022 |
|---|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets (Deficit) | \$ (9,610) | \$ (4,125) |
| Adjustments to Reconcile Change in Net Assets (Deficit) with Donor Restrictions to Net Cash Provided by Operating Activities: | | |
| Entrance Fees Earned | (1,169) | (1,441) |
| Proceeds from Nonrefundable Entrance Fees and Deposits | 1,135 | 1,148 |
| Refunds of Nonrefundable Entrance Fees | (131) | (34) |
| Interest Applied to Long-Term Debt | 804 | 736 |
| Depreciation and Amortization | 9,189 | 9,407 |
| Amortization of Financing Cost | 126 | 164 |
| Change in Entrance Fee Deposits | (75) | 121 |
| Change in Value of Swap Derivative | 1,958 | (4,571) |
| Net Contributions to Lifespace Communities, Inc. | 673 | 598 |
| Gain on Disposal of Property | (4) | - |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable, Inventories, and Prepaid Insurance and Other | (515) | 692 |
| Accounts Payable and Accrued Liabilities | 467 | (453) |
| Net Cash Provided by Operating Activities | 2,848 | 2,242 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Property and Equipment | (2,272) | (1,726) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net Contributions to Lifespace Communities, Inc. | (673) | (598) |
| Repayment of Long-Term Debt | (785) | - |
| Intercompany Notes Payable | 1,348 | 1,196 |
| Payments on Leases | (12) | - |
| Proceeds from Refundable Entrance Fees and Deposits | 9,325 | 9,065 |
| Refunds of Entrance Fees | (8,328) | (7,505) |
| Net Cash Provided by Financing Activities | 875 | 2,158 |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 1,451 | 2,674 |
| Cash, Cash Equivalents and Restricted Cash - Beginning of Period | 8,656 | 5,982 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR | \$ 10,107 | \$ 8,656 |

See accompanying Notes to Financial Statements.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 1 ORGANIZATION AND OPERATIONS

Lifespace Communities, Inc. (Lifespace) is the sole member of Newcastle Place, LLC.

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 senior residents 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, 2023 and 2022, no net assets with donor restrictions were held by Newcastle Place.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are reported net of an allowance for credit losses to represent the Newcastle Place's estimate of expected losses at the balance sheet date. The adequacy of the Newcastle Place 's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, a review of specific accounts, as well as expected future economic conditions and market trends, and adjustments are made to the allowance as necessary.

Residents are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts more than 90 days past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the related allowance.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Allowance for Credit Losses (Continued)

Management believes the composition of receivables at year-end is consistent with historical conditions as credit terms, practices and the customer base has not changed significantly.

Past-due balances are written off after all collection efforts have been exhausted. The allowance for credit losses was \$8 and \$22 at December 31, 2023 and 2022, respectively.

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 \$821 and \$534 of construction in progress at December 31, 2023 and 2022, respectively.

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, | |
|--|--------------|-------|
| | 2023 | 2022 |
| Medicare | 55 % | 35 % |
| Residents and Other Third-Party Payors | 45 | 65 |
| 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 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.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use (Continued)

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

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. 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. Goodwill acquired in the acquisition was \$47,867. Accumulated amortization at December 31, 2023 and 2022 was \$13,242 and \$7,944, respectively.

Scheduled amortization expense for the next five years is as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|------------------|
| 2024 | \$ 5,299 |
| 2025 | 5,299 |
| 2026 | 5,299 |
| 2027 | 5,299 |
| 2028 | 5,299 |
| Thereafter | 8,130 |
| Total | <u>\$ 34,625</u> |

Deferred Expenses

Net deferred expenses of \$401 and \$119 at December 31, 2023 and 2022, 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 \$439 and \$124 at December 31, 2023 and 2022, respectively. The accumulated amortization at December 31, 2023 and 2022, respectively, was \$38 and \$5.

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.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Entrance Fees (Continued)

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 re-occupancy 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, | |
|-----------------------------|--------------|-----------|
| | 2023 | 2022 |
| Nonrefundable Entrance Fees | \$ 5,286 | \$ 5,497 |
| Refundable Entrance Fees | 45,744 | 44,486 |
| Total | \$ 51,030 | \$ 49,983 |

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.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 2023.

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 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:

| | 2023 | 2022 |
|---------------------------|-----------|-----------|
| Residency Plan Agreements | \$ 13,382 | \$ 10,685 |
| Private Pay | 4,135 | 4,729 |
| Medicare | 2,566 | 2,464 |
| HMO/Managed Care | 1,589 | 1,262 |
| Other | 2 | - |
| Total | \$ 21,674 | \$ 19,140 |

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

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(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 composition of resident care service revenue based its lines of business are as follows:

| Service Lines: | 2023 | 2022 |
|---------------------------------|------------------|------------------|
| Independent Living | \$ 10,477 | \$ 9,185 |
| Skilled Nursing Facility | 6,927 | 6,134 |
| Assisted Living and Memory Care | 4,080 | 3,821 |
| Home Health | 190 | - |
| Total | <u>\$ 21,674</u> | <u>\$ 19,140</u> |

The opening and closing contract balances were as follows:

| | Accounts Receivables | Deferred Entrance Fees |
|---------------------------------|-------------------------|---------------------------|
| Balance as of December 31, 2021 | \$ 1,607 | \$ 5,894 |
| Balance as of December 31, 2022 | 580 | 5,497 |
| Balance as of December 31, 2023 | 597 | 5,286 |

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 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 years ended December 31, 2023 and 2022, no unamortized costs were expensed as a result of the impairment analysis. At December 31, 2023 and 2022, the customer contract acquisition costs were \$439 and \$124, respectively. During years ended December 31, 2023 and 2022, Newcastle Place recognized amortization expense of \$98 and \$5, respectively. The net is presented in deferred expenses on the accompanying balance sheets.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. During the years ended December 31, 2023 and 2022, Newcastle Place did not record any such tax benefit or expense in the accompanying financial statements. Lifespace’s federal income tax returns are open to examination for the years ended December 31, 2021 and 2022, which would have included Newcastle Place.

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, | |
|--|------------------|-----------------|
| | 2023 | 2022 |
| Cash and Cash Equivalents | \$ 9,590 | \$ 8,652 |
| Restricted Cash Included in Assets Whose Use is Limited - Current | 517 | 4 |
| Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows | <u>\$ 10,107</u> | <u>\$ 8,656</u> |

During years ended December 31, 2023 and 2022, Newcastle Place received no dividend and interest income and paid interest charges of \$2,678 and \$2,682, respectively.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022.

Adoption of New Audit and Accounting Standards

Credit Losses: Newcastle Place has adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which modifies the measurements of expected credit losses. The company adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Newcastle Place's financial statements.

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.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Derivatives – These assets and 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.

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NOTES TO FINANCIAL STATEMENTS
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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:

| | | December 31, 2023 | | |
|---------------|--------------------|----------------------------|---------|---------|
| Assets | | | | |
| Measured | | Fair Value Hierarchy Level | | |
| at Fair Value | | Level 1 | Level 2 | Level 3 |
| ASSETS | | | | |
| | Money Market | \$ 517 | \$ - | \$ - |
| | Interest Rate Swap | 2,307 | 2,307 | - |
| | Total Assets | \$ 2,824 | \$ 517 | \$ - |

| | | December 31, 2022 | | |
|---------------|--------------------|----------------------------|---------|---------|
| Assets | | | | |
| Measured | | Fair Value Hierarchy Level | | |
| at Fair Value | | Level 1 | Level 2 | Level 3 |
| ASSETS | | | | |
| | Money Market | \$ 4 | \$ - | \$ - |
| | Interest Rate Swap | 4,265 | 4,265 | - |
| | Total Assets | \$ 4,269 | \$ 4 | \$ - |

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 LIQUIDITY AND AVAILABILITY

As of December 31, 2023 and 2022, Newcastle Place has a working capital surplus of \$5,828 and \$6,117, respectively, and days cash on hand of 170 and 164, respectively.

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, | |
|---|--------------|----------|
| | 2023 | 2022 |
| Cash and Cash Equivalents | \$ 9,590 | \$ 8,652 |
| Accounts Receivables, Trade | 597 | 580 |
| Accounts Receivables, Lifespace Communities | 114 | 6 |
| Assets Whose Use is Limited | 517 | 4 |
| Total Financial Assets | 10,818 | 9,242 |
| Less: Amounts Unavailable to be Used | | |
| Within One Year: | | |
| Real Estate Escrow | 517 | - |
| Team Member Appreciation Funds | - | 4 |
| Total Unavailable within One Year | 517 | 4 |
| Financial Expenditures Available to Meet Cash Needs Within One Year | \$ 10,301 | \$ 9,238 |

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, 2023 and 2022, deposits of \$202 and \$277, respectively, had been received from future residents who have signed residency agreements. Funds on deposit are classified as cash and cash equivalents.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 FINANCING AGREEMENTS

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

| | December 31, | |
|--------------------------------------|------------------|------------------|
| | 2023 | 2022 |
| Bank Loan | \$ 59,216 | \$ 60,000 |
| Series 2021 Bonds | 9,540 | 8,736 |
| Total | <u>68,756</u> | <u>68,736</u> |
| Less: Net Unamortized Issuance Costs | (617) | (743) |
| Total | 68,139 | 67,993 |
| Less: Amounts Due Within One Year | 1,931 | 940 |
| Amounts Due After One Year | <u>\$ 66,208</u> | <u>\$ 67,053</u> |

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.

Newcastle Place is subject to various covenants under the bond and loan agreements, which include certain reporting and operational requirements.

At December 31, 2023, scheduled maturities are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|------------------|
| 2024 | \$ 1,931 |
| 2025 | 1,738 |
| 2026 | 1,540 |
| 2027 | 1,604 |
| 2028 | 52,241 |
| Thereafter | 9,702 |
| Total | <u>\$ 68,756</u> |

**NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 FINANCING AGREEMENTS (CONTINUED)

Liquidity Support Agreement

In July 2021, 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, 2023 and 2022.

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

All assets whose use is limited are held in Money Markets. The following funds are restricted and shown as assets whose use is limited - current:

| | December 31, | |
|--------------------------------|--------------|------|
| | 2023 | 2022 |
| Team Member Appreciation Funds | \$ - | \$ 4 |
| Real Estate Tax Escrow | 517 | - |
| Total | \$ 517 | \$ 4 |

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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NOTES TO FINANCIAL STATEMENTS
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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 Year Ending December 31, 2023 | | | | | |
|---------------------------------|---------------------------------------|-----------------|-----------------|------------------------|------------------------|------------------|
| | Program Services | | | | Supporting Services | |
| | Independent Living | Skilled Nursing | Assisted Living | Total Program Services | Management and General | Total |
| Salaries and Benefits | \$ 4,059 | \$ 3,130 | \$ 851 | \$ 8,040 | \$ 1,015 | \$ 9,055 |
| General and Administrative | 2,204 | 465 | 515 | 3,184 | 602 | 3,786 |
| Plant Operations | 859 | 255 | 283 | 1,397 | - | 1,397 |
| Housekeeping | 79 | 24 | 26 | 129 | - | 129 |
| Dietary | 1,269 | 378 | 418 | 2,065 | - | 2,065 |
| Medical and Other Resident Care | 43 | 1,253 | 71 | 1,367 | - | 1,367 |
| Depreciation | 1,852 | 551 | 610 | 3,013 | 160 | 3,173 |
| Amortization | 718 | - | - | 718 | 5,298 | 6,016 |
| Interest | 1,745 | 519 | 574 | 2,838 | - | 2,838 |
| Total Expense | <u>\$ 12,828</u> | <u>\$ 6,575</u> | <u>\$ 3,348</u> | <u>\$ 22,751</u> | <u>\$ 7,075</u> | <u>\$ 29,826</u> |

| | For the Year Ending December 31, 2022 | | | | | |
|---------------------------------|---------------------------------------|-----------------|-----------------|------------------------|------------------------|------------------|
| | Program Services | | | | Supporting Services | |
| | Independent Living | Skilled Nursing | Assisted Living | Total Program Services | Management and General | Total |
| Salaries and Benefits | \$ 3,467 | \$ 4,053 | \$ 1,030 | \$ 8,550 | \$ 867 | \$ 9,417 |
| General and Administrative | 2,066 | 496 | 548 | 3,110 | 601 | 3,711 |
| Plant Operations | 688 | 204 | 226 | 1,118 | - | 1,118 |
| Housekeeping | 82 | 24 | 27 | 133 | - | 133 |
| Dietary | 1,005 | 299 | 331 | 1,635 | - | 1,635 |
| Medical and Other Resident Care | 45 | 273 | 81 | 399 | - | 399 |
| Depreciation | 1,811 | 539 | 596 | 2,946 | 155 | 3,101 |
| Amortization | 1,010 | - | - | 1,010 | 5,296 | 6,306 |
| Interest | 1,758 | 523 | 578 | 2,859 | - | 2,859 |
| Total Expense | <u>\$ 11,932</u> | <u>\$ 6,411</u> | <u>\$ 3,417</u> | <u>\$ 21,760</u> | <u>\$ 6,919</u> | <u>\$ 28,679</u> |

The functional classification of expenses excludes the gain on disposal of property and equipment and the gain/loss on interest rate swap agreement. Fundraising expenses are not significant and were included with management and general support for the years ended December 31, 2023 and 2022.

NEWCASTLE PLACE, LLC
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 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, Newcastle Place elected the practical expedients allowed under the accounting standard and has implemented this standard effective January 1, 2020.

Newcastle Place entered into operating lease agreements for office equipment in 2023. The right-of-use asset for these agreements is \$8 at December 31, 2023. Payment and the related expenses for these leases is \$1 in 2023. The leases have a weighted-average discount rate of 7.2% and a weighted-average remaining lease term of under five years.

Newcastle Place entered into finance leases to finance the purchase of community vehicles in 2023, 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 \$61 at December 31, 2023. The leases have a weighted-average discount rate of 7.7% and a weighted-average remaining lease term of five years.

The maturity of the operating and financing leases are as follows:

| <u>Year Ending December 31,</u> | <u>Operating Leases</u> | <u>Financing Leases</u> |
|---------------------------------|-----------------------------|-----------------------------|
| 2024 | \$ 2 | \$ 14 |
| 2025 | 2 | 14 |
| 2026 | 2 | 14 |
| 2027 | 2 | 14 |
| 2028 | 1 | 1 |
| PV Discount | (1) | (8) |
| Total | <u>\$ 8</u> | <u>\$ 49</u> |

NOTE 9 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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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 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, 2023 and 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 operations.

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 support center expenses to all communities it operates. Newcastle Place's portion of the support center allocation was \$1,122 and \$996, \$441 and \$398 of which was paid, for the years ended December 31, 2023 and 2022, respectively. Newcastle Place owed Lifespace \$6,130 and \$4,783 at December 31, 2023 and 2022, respectively, for services provided and advances received. Newcastle Place made equity transfers to Lifespace of \$673 and \$598 during the years ended December 31, 2023 and 2022, respectively.

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 \$88 and \$99 for the years ended December 31, 2023 and 2022, respectively.

NOTE 12 SUBSEQUENT EVENTS

Newcastle Place has evaluated events or transactions that may have occurred since December 31, 2023 and 2022, that would merit recognition or disclosure in the financial statements. This evaluation was completed through April 23, 2024, 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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