

CMW OBLIGATED GROUP
FINANCIAL STATEMENTS
PERIOD OF JULY 19, 2022 THROUGH DECEMBER 31, 2022



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**CMW OBLIGATED GROUP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
CMW Obligated Group, LLC
Des Moines, Iowa

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of CMW Obligated Group, LLC which comprise the balance sheets as of December 31, 2022, and the related statements of operations and changes in net assets without donor restrictions, and cash flows for period of July 19, 2022, thru December 31, 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 CMW Obligated Group, LLC as of December 31, 2022, and the results of its operations and its cash flows for the period of July 19, 2022, thru December 31, 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 CMW Obligated Group 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 CMW Obligated Group'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 CMW Obligated Group '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 CMW Obligated Group '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, 2023

**CMW OBLIGATED GROUP
BALANCE SHEET
DECEMBER 31, 2022
(IN THOUSANDS)**

	2022
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 332
Accounts Receivable:	
Trade	3,952
Inventories	42
Prepaid Insurance and Other	235
Assets Whose Use is Limited - Current	14,745
Total Current Assets	19,306
ASSETS WHOSE USE IS LIMITED - Noncurrent	4,715
PROPERTY AND EQUIPMENT, AT COST	
Land and Improvements	8,976
Building and Improvements	88,355
Furniture and Equipment	5,106
Construction in Progress	497
Subtotal	102,934
Less: Accumulated Depreciation	1,536
Net Property and Equipment	101,398
GOODWILL, Net of Accumulated Amortization	33,300
INTANGIBLE ASSET, Net of Accumulated Amortization	14,592
Total Assets	\$ 173,311

See accompanying Notes to Financial Statements.

**CMW OBLIGATED GROUP
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2022
(IN THOUSANDS)**

	2022
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	
CURRENT LIABILITIES	
Accounts Payable:	
Trade	\$ 1,277
Lifespace Communities, Inc.	96
	1,373
Accrued Liabilities:	
Employee Compensation Expense	312
Interest	3,182
Property Taxes	954
Other	452
Total Accrued Liabilities	4,900
Total Current Liabilities	6,273
LONG-TERM LIABILITIES	
Entrance Fee Deposits	568
Wait List Deposits	108
Long-Term Debt Due after One Year	108,154
Long-Term Debt Due after One Year to Lifespace Communities, Inc.	11,100
Deferred Entrance Fees	3,560
Refundable Entrance Fees	38,300
Total Long-Term Liabilities	161,790
Total Liabilities	168,063
NET ASSETS WITHOUT DONOR RESTRICTIONS	5,248
Total Liabilities and Net Assets without Donor Restrictions	\$ 173,311

See accompanying Notes to Financial Statements.

CMW OBLIGATED GROUP
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
WITHOUT DONOR RESTRICTIONS
PERIOD OF JULY 19, 2022 THROUGH DECEMBER 31, 2022
(IN THOUSANDS)

	2022
REVENUES	
Independent Living Fees	\$ 7,174
Entrance Fees Earned and Nonrefundable Fees	460
Skilled Nursing and Assisted Living Fees	9,339
Investment Income	155
Total Revenues	17,128
EXPENSES	
Operating Expenses:	
Salaries and Benefits	8,499
General and Administrative	3,055
Plant Operations	2,005
Dietary	806
Medical and Other Resident Care	54
Depreciation	1,536
Amortization	3,599
Interest	3,426
Total Expenses	22,980
DEFICIT OF REVENUES OVER EXPENSES	(5,852)
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
Equity Contribution	11,100
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	5,248
Net Assets without Donor Restrictions - Beginning of Period	-
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF PERIOD	\$ 5,248

See accompanying Notes to Financial Statements.

CMW OBLIGATED GROUP
STATEMENT OF CASH FLOWS
PERIOD OF JULY 19, 2022 THROUGH DECEMBER 31, 2022
(IN THOUSANDS)

	2022
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 5,248
Adjustments to Reconcile Change in Net Assets without Donor Restrictions to Net Cash Used by Operating Activities:	
Entrance Fees Earned	(460)
Proceeds from Nonrefundable Entrance Fees and Deposits	344
Depreciation and Amortization	5,135
Amortization of Financing Cost	244
Net Purchases of Trading Investments	(4,663)
Change in Unrealized Appreciation of Investments	(16)
Change in Entrance Fee deposits	676
Contributions from Lifespace Communities, Inc.	(11,100)
Changes in Operating Assets and Liabilities:	
Accounts Receivable, Inventories, and Prepaid Insurance and Other	(4,422)
Accounts Payable and Accrued Liabilities	6,514
Net Cash Used by Operating Activities	(2,500)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(113,928)
CASH FLOWS FROM FINANCING ACTIVITIES	
Financing Costs Incurred	(2,980)
Proceeds from New Financings	121,990
Contributions from Lifespace Communities, Inc.	11,100
Proceeds from Refundable Entrance Fees and Deposits	3,100
Refunds of Entrance Fees	(1,669)
Net Cash Provided by Financing Activities	131,541
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	15,113
Cash, Cash Equivalents, and Restricted Cash - Beginning of Period	-
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF PERIOD	\$ 15,113

See accompanying Notes to Financial Statements.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 1 ORGANIZATION AND OPERATIONS

Lifespace Communities, Inc. (Lifespace) became the sole member of CMW Obligated Group in July 2022, as further described in Note 10.

CMW Obligated Group, LLC (“CMW Obligated Group”), is incorporated as a nonprofit corporation for the sole purpose of acquiring continuing care retirement communities in Texas. CMW Obligated Group provides housing, health care, and other related services to senior residents through the operations of retirement communities. CMW Obligated Group operates mainly under a “life care” concept in which residents enter into a residency agreement that requires payment of a one-time entrance fee and monthly fee. 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.

The 3 communities creating CMW Obligated Group are:

<u>Operating Name</u>	<u>Location</u>
The Craig	Amarillo, TX
Meadow Lake	Tyler, TX
Wesley Court	Abilene, TX

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the accounts of CMW Obligated Group.

The assets and liabilities and net assets of CMW Obligated Group 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, 2022, no net assets with donor restrictions were held by CMW Obligated Group.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. CMW Obligated Group provides an allowance for doubtful accounts which is offset against the gross 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 accounts receivable is reported net of the allowance for doubtful account to represent the management's estimated accounts receivable that will ultimately be realized in cash. The allowance for doubtful accounts was \$38 at December 31, 2022.

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.

CMW Obligated Group has \$497 of construction in progress at December 31, 2022 related to the expansion of one of the communities.

Credit Risk

CMW Obligated Group 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. CMW Obligated Group has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

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

	December 31, 2022
Medicare	47 %
Medicaid	4
Residents and Other Third-Party Payors	49
Total	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.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Whose Use is Limited

Assets limited whose use is limited consist of funds held by trustees under bond indenture agreements. Assets whose use is limited that are required for obligations classified as current liabilities or that may be used to pay construction costs are reported as current assets. See Note 7 for additional information on assets whose use limited

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 debt assumed over the fair value of assets acquired at the time of the Lifespace acquisition in July 2022 (see Note 10). 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 \$34,908. Accumulated amortization at December 31, 2022 was \$1,608.

Intangible Assets

Intangible assets were recognized in the CMW Obligated Group acquisition which include values assigned to the residency agreements in place at the time. The value associated with the residency agreements is being amortized over nine years on a straight-line basis and is evaluated for potential impairment whenever events or circumstances indicate that the carrying amount may not be recovered. Residency agreements acquired in the acquisition were \$15,300 (see Note 10). The accumulated amortization was \$708 at December 31, 2022.

Deferred Entrance Fees

CMW Obligated Group presently has return-of-capital residency plans. Under the return-of-capital residency plans, a portion of the entrance fees is nonrefundable and is considered deferred entrance fees. The 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. 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.

The remaining amount represents that portion of the entrance fee (10%), less unreimbursed fees and expenses, which will be refunded to the resident once sufficient entrance fees have been received from reoccupancy of the resident's apartment by another resident. This refundable portion is recorded as a liability until the time of payment.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Entrance Fees (Continued)

The following is a summary of deferred entrance fees:

	December 31, 2022
Nonrefundable Entrance Fees	\$ 3,560
Refundable Entrance Fees	38,300
Total	\$ 41,860

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 CMW Obligated Group 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. CMW Obligated Group 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 CMW Obligated Group. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. CMW Obligated Group 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 living in an independent or assisted living apartment or receiving skilled nursing services over a period of time. CMW Obligated Group 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 a material right to future services. Therefore, fees under this contract are recognized monthly as services are performed.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 CMW Obligated Group's remaining performance obligations relate to contracts with a duration of less than one year, CMW Obligated Group 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.

CMW Obligated Group determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, or residents. CMW Obligated Group 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 CMW Obligated Group'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 CMW Obligated Group. In addition, the contracts CMW Obligated Group has with commercial payors also provide for retroactive audit and review of claims.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 CMW Obligated Group's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in an implicit price concession impacting transaction price were not significant in 2022.

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

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

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

	2022
Residency Plan Agreements	\$ 6,828
Private Pay	5,257
Medicare	2,513
Medicaid	621
HMO/Managed Care	1,244
Other	50
Total	\$ 16,513

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

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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:

	2022
Service Lines:	
Independent Living	\$ 7,174
Skilled Nursing Facility	6,896
Assisted Living and Memory Care	2,443
Total	\$ 16,513

CMW Obligated Group 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. CMW Obligated Group'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, CMW Obligated Group, in certain instances, may enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The opening and closing contract balances were:

	Accounts Receivables	Deferred Entrance Fees
Balances as of July 19, 2022	\$ -	\$ 3,676
Balances as of December 31, 2022	3,952	3,560

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 CMW Obligated Group. 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.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

CMW Obligated Group 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).

CMW Obligated Group evaluates tax positions taken or expected to be taken while 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 period ended December 31, 2022, CMW Obligated Group has not recorded any such tax benefit or expense in the accompanying financial statements. As CMW Obligated Group was incorporated in 2022, no federal tax returns have been filed.

Statements of Cash Flows

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

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

	December 31, 2022
Cash and Cash Equivalents	\$ 332
Restricted Cash Included in Assets Whose use is Limited - Current	14,745
Restricted Cash Included in Assets Whose use is Limited - Noncurrent	36
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	<u>\$ 15,113</u>

During the period ended December 31, 2022, CMW Obligated Group received \$139 dividend and interest income and paid no interest charges.

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.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Service Obligation

CMW Obligated Group 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. CMW Obligated Group has estimated no future service obligation liability at December 31, 2022.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations related to leasing activities. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Implementation of the new standard did not result in material changes to amounts reported in the 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.

The following determinations were made by CMW Obligated Group in estimating its fair value for financial instruments:

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

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

Fair value is defined as the price CMW Obligated Group 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.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 CMW Obligated Group. Unobservable inputs are inputs that reflect CMW Obligated Group'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 CMW Obligated Group'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.

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 CMW Obligated Group 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, 2022			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
ASSETS				
Money Market	\$ 14,781	\$ 14,781	\$ -	\$ -
U.S. Government and Federal Agencies	4,679	-	4,679	-
Total Assets	<u>\$ 19,460</u>	<u>\$ 14,781</u>	<u>\$ 4,679</u>	<u>\$ -</u>

There were no investments measured at fair value using significant unobservable inputs (Level 3) during the period ended December 31, 2022.

CMW OBLIGATED GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(IN THOUSANDS)

NOTE 4 INVESTMENTS

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

	December 31, 2022
Money Market	\$ 14,781
U.S. Government and Federal Agencies	4,679
Total	<u>\$ 19,460</u>

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

	December 31, 2022
Assets Whose Use is Limited - Current	\$ 14,745
Assets Whose Use is Limited - Noncurrent	4,715
Total	<u>\$ 19,460</u>

NOTE 5 LIQUIDITY AND AVAILABILITY

As of December 31, 2022, CMW Obligated Group has a working capital surplus of \$13,033 and days cash on hand of 131.

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

	December 31, 2022
Cash and Cash Equivalents	\$ 332
Accounts Receivables, Trade	3,952
Assets Whose Use is Limited	19,460
Total Financial Assets	<u>23,744</u>
Less Amounts Unavailable to be Used within One Year:	
Funds Held by Trustee	<u>16,692</u>
Total Unavailable within One Year	<u>16,692</u>
Financial Expenditures Available to Meet Cash Needs within One Year	<u>\$ 7,052</u>

The CMW Obligated Group has assets limited as to use related to the debt reserve funds and bond funds required for debt service payment and project and issuance funds that are available for use for specific costs. These assets limited as to use are not available for general expenditure within the next year and are excluded from the total financial assets available for use with one year.

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NOTE 6 ENTRANCE FEE DEPOSITS

When a residency agreement is signed, a deposit of 10%, as a portion of the entrance fee is collected. The balance of the fee is payable prior to occupancy, but generally no later than 90 days from the date of the agreement. 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, 2022, deposits of \$568 had been received from future residents who have signed residency agreements.

NOTE 7 FINANCING AGREEMENTS

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

	December 31, 2022
Series 2022 Bonds	\$ 121,990
Less: Net Unamortized Issuance Costs	(2,736)
Amounts Due after One Year	<u>\$ 119,254</u>

CMW Obligated Group has entered into loan agreements with a government entity to be the issuer of revenue bonds at the time of acquisition. The debt is then issued on behalf of CMW Obligated Group through the issuer. The bond financing has an interest rate from 5% to 5.5%, final maturity of July 15, 2027, and is interest only until July 15, 2024.

The Series 2022 Bonds includes subordinated bonds for \$11,100 that have an interest rate of 10.5% and matures in August 2028. Lifespace Communities, Inc purchased these bonds at the time of issuance and holds subordinated bonds as of December 31, 2022.

Long-term debt includes deferred financing costs of \$2,980 as of December 31, 2022, which are amortized over the life of the bonds issued in relation to the debt outstanding. The accumulated amortization was \$244 in 2022. The expense for the period of July 19, 2022 thru December 31, 2022 which is included in interest expense was \$244.

At December 31, 2022, schedule maturities are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ -
2024	880
2025	920
2026	970
2027	108,120
Thereafter	11,100
Total	<u>\$ 121,990</u>

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NOTE 7 FINANCING AGREEMENTS (CONTINUED)

Assets Whose Use is Limited

The following funds are restricted according to the financing arrangements and shown as assets whose use is limited:

	December 31, 2022
Debt Service Reserve Fund	\$ 4,715
Debt Service Funds	5,483
Working Capital Fund	2,120
Project Fund	6,363
Issuance Cost Fund	131
Property Tax and Insurance Fund	648
Subtotal	19,460
Less: Current Portion	14,745
Total	\$ 4,715

Debt Service Reserve Fund

Under the terms of CMW Obligated Group's financing arrangements, bonds are required to maintain a debt service reserve fund equal to the amount of the debt service reserve requirement which is 80% of the maximum annual interest on all Series 2022 bonds outstanding.

Debt Service Funds

The bonds require monthly deposits to their debt service funds in an amount sufficient to make periodic principal and interest payments on their debt. These bonds financings included funded interest that is included in this amount.

Working Capital Funds

The bond proceeds are segregated in a separate bank account. These funds are draw on to meet the obligations of development and marketing fees, operating expenses, costs of needed repairs, routine capital expenditures, amounts due on debt payments, or other costs permitted under the financing arrangements.

Project Fund

The bond proceeds are segregated in a separate bank account. These funds are drawn on to meet the obligations of the construction project as they are due.

Issuance Cost Fund

The bond proceeds are segregated in a separate bank account. These funds are drawn on to meet the obligations of the financing costs that are due.

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NOTE 7 FINANCING AGREEMENTS (CONTINUED)

Property Tax and Insurance Fund

The bonds require monthly deposits to their real estate and insurance fund. These funds will be used to pay real estate taxes and insurance premiums owed when they become due.

NOTE 8 RELATED PARTY TRANSACTIONS

Lifespace provides multiple services to CMW Obligated Group, including compliance construction management, corporate governance, financing, human resources, information technology, legal, management, marketing, risk management, and treasury. CMW Obligated Group owed \$96 to Lifespace for services provided as of December 31, 2022. Lifespace as a part of the acquisition contributed \$11,100 to CMW Obligated Group.

NOTE 9 FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	July 19, 2022 - December 31, 2022					
	Program Services				Supporting Services	
	Independent Living	Skilled Nursing	Assisted Living	Total Program Services	Management and General	Total
Salaries and Benefits	\$ 5,014	\$ 2,232	\$ -	\$ 7,246	\$ 1,253	\$ 8,499
General and Administrative	1,745	556	406	2,707	348	3,055
Plant Operations	1,232	447	326	2,005	-	2,005
Dietary	495	180	131	806	-	806
Medical and Other Resident Care	32	13	9	54	-	54
Depreciation	897	325	237	1,459	77	1,536
Amortization	1,991	-	-	1,991	1,608	3,599
Interest	2,105	764	557	3,426	-	3,426
Total Expense	\$ 13,511	\$ 4,517	\$ 1,666	\$ 19,694	\$ 3,286	\$ 22,980

Fundraising expenses are not significant and were included with management and general for the period July 19, 2022 thru December 31, 2022.

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NOTE 10 COMMITMENTS AND CONTINGENCIES

Health Care

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

General and Professional Liability

CMW Obligated Group's management was not aware of general and professional liability claims that might have been asserted against CMW Obligated Group by certain claimants. 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.

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NOTE 11 BUSINESS COMBINATIONS

On July 19, 2022 Lifespace Communities, Inc. purchased the CMW Obligated Group communities in Texas for \$112,500. All transaction costs for acquisition were paid by the sole member, Lifespace Communities, Inc.

CMW Obligated Group 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 CMW Obligated Group as of the date of acquisition:

Consideration Paid	\$ 112,500
Identifiable Finance Assets and Liabilities:	
Inventory	47
Land, Buildings and Improvements	97,016
Equipment	393
Furniture	4,097
Intangible Assets	15,300
Non-Refundable Entrance Fees	(3,676)
Refundable Entrance Fees	(35,585)
Subtotal	<u>77,592</u>
Implied Goodwill	<u>\$ 34,908</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 12 SUBSEQUENT EVENTS

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



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