
Colorado Senior Residences, Inc.
d/b/a Casey's Pond Senior Living

Financial Report
December 31, 2022

Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living

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Independent Auditor's Report

To the Board of Directors
Colorado Senior Residences, Inc.
d/b/a Casey's Pond Senior Living

Opinion

We have audited the financial statements of Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living (Casey's Pond), which comprise the balance sheet as of December 31, 2022 and 2021 and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Casey's Pond as of December 31, 2022 and 2021 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of Casey's Pond and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that Casey's Pond will continue as a going concern. As discussed in Note 2 to the financial statements, Casey's Pond has experienced recurring losses from operations, has a deficiency in net assets, and has been unable to satisfy debt service obligations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Casey's Pond's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits 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 auditor's 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 audits 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.

To the Board of Directors
Colorado Senior Residences, Inc.
d/b/a Casey's Pond Senior Living

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Casey's Pond'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 Casey's Pond'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

June 7, 2023

Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living

Balance Sheet

December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,842,795	\$ 1,510,129
Accounts receivable - Net	373,273	461,105
Employee Retention Credit receivable	2,203,569	-
Inventory	18,778	18,778
Notes receivable	730,145	-
Other current assets:		
Prepaid expenses	101,387	67,273
Deposits	20,285	39,303
Total current assets	6,290,232	2,096,588
Assets Limited as to Use	5,291,672	4,779,985
Property and Equipment - Net	32,329,574	33,119,615
Total assets	\$ 43,911,478	\$ 39,996,188
Liabilities and Deficiency in Net Assets		
Current Liabilities		
Accounts payable	\$ 727,682	\$ 751,868
Deposits held in trust	20,285	39,303
Current portion of bonds and note payable	46,668,931	46,606,021
Accrued liabilities and other:		
Accrued compensation and related liabilities	281,751	265,422
Accrued interest	21,314,563	18,070,287
Contract liabilities	33,120	25,531
Total current liabilities	69,046,332	65,758,432
Other Long-term Liabilities		
Resident deposits	30,790	25,000
Refundable entrance fees	3,473,100	1,189,700
Contract liabilities from advance fees	1,453,812	436,106
Other long-term liabilities	693,358	693,358
Total other long-term liabilities	5,651,060	2,344,164
Total liabilities	74,697,392	68,102,596
Deficiency in Net Assets - Without donor restrictions	(30,785,914)	(28,106,408)
Total liabilities and deficiency in net assets	\$ 43,911,478	\$ 39,996,188

Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living

Statement of Operations and Changes in Net Assets

Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenue		
Patient service revenue	\$ 11,294,176	\$ 10,660,420
Interest income	58,186	3,151
Other	2,316,906	548,800
Total operating revenue	13,669,268	11,212,371
Expenses		
Salaries and wages	4,566,757	5,147,618
Supplies and culinary	799,090	806,703
Purchased services	5,628,102	4,325,421
Utilities	380,088	355,375
Depreciation	987,139	989,503
Interest	3,307,186	3,301,655
Bad debt expense	63,236	47,721
Other	617,176	669,144
Total expenses	16,348,774	15,643,140
Decrease in Net Assets without Donor Restrictions before Other Income	(2,679,506)	(4,430,769)
Other Income - PPP loan forgiveness	-	1,005,900
Decrease in Net Assets without Donor Restrictions	(2,679,506)	(3,424,869)
Deficiency in Net Assets - Beginning of year	(28,106,408)	(24,681,539)
Deficiency in Net Assets - End of year	\$ (30,785,914)	\$ (28,106,408)

Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living

Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Decrease in net assets	\$ (2,679,506)	\$ (3,424,869)
Adjustments to reconcile decrease in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Depreciation expense	987,139	989,503
Amortization of bond discount and issuance costs	62,910	62,911
PPP loan forgiveness income	-	(1,005,900)
Bad debt expense	63,236	47,721
Amortization of advance fees	(76,893)	(20,861)
Changes in operating assets and liabilities that provided (used) cash, cash equivalents, and restricted cash:		
Accounts receivable	24,596	(336,242)
Prepaid expenses	(34,114)	(23,972)
Employee Retention Credit receivable	(2,203,569)	-
Accounts payable	(24,186)	139,801
Accrued compensation and related liabilities	16,329	(54,532)
Accrued interest	3,244,276	3,238,745
Contract liabilities	7,589	223,264
Resident deposits	(13,228)	729
	(625,421)	(163,702)
Net cash, cash equivalents, and restricted cash used in operating activities		
Cash Flows from Investing Activities		
Purchase of property and equipment	(197,098)	(38,161)
Changes in assets limited as to use	(511,687)	(483,948)
	(708,785)	(522,109)
Net cash, cash equivalents, and restricted cash used in investing activities		
Cash Flows Provided by Financing Activities - Proceeds from entrance fees	2,647,854	1,014,001
Net Increase in Cash, Cash Equivalents, and Restricted Cash	1,313,648	328,190
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	1,549,432	1,221,242
Cash, Cash Equivalents, and Restricted Cash - End of year	\$ 2,863,080	\$ 1,549,432
Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 2,842,795	\$ 1,510,129
Deposits	20,285	39,303
	\$ 2,863,080	\$ 1,549,432
Total		
Significant Noncash Transactions - Entrance fees financed with notes receivable	\$ 730,145	\$ -

Note 1 - Nature of Business

Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living (Casey's Pond) was incorporated in the state of Colorado on February 8, 2010 and is a tax-exempt organization. Casey's Pond was formed to develop, own, and operate a senior living and long-term care community in Steamboat Springs, Colorado. Casey's Pond consists of approximately 66 skilled nursing beds, 66 assisted living and memory care units, and 22 independent living units and related common areas, amenities, and other improvements, all housed within one building.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of Casey's Pond have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

The accompanying financial statements have been prepared assuming that Casey's Pond will continue as a going concern.

Since the commencement of its operations, Casey's Pond has experienced recurring operating losses and negative cash flow from operations and has failed to meet debt service and certain covenant requirements of the Series 2012 Bonds. These losses were due primarily to actual occupancy being lower than that which was projected in the original feasibility study. Thus, despite the positive trend in operating cash flow resulting from occupancy increases and expense reductions achieved by the new manager hired in 2016, the financial performance of Casey's Pond has continued to fall short of its debt service requirements. It should be noted that the liquidity funds provided by Yampa Valley Medical Center have been fully drawn, and all non-debt-service expenses have been paid. These events have made it such that Casey's Pond has not been able to meet its debt service obligations to date and will not be able to do so for the year following the date the financial statements are issued. These factors raise substantial doubt about Casey's Pond's ability to continue as a going concern. Management acknowledged that, in its current financial condition, Casey's Pond would be unable to meet its obligations.

Casey's Pond entered into an amended and restated forbearance agreement effective October 31, 2021, which restated previous forbearance agreements dating back to September 30, 2018. The agreement included a provision that Casey's Pond's cumulative disbursements in 2022 were not to exceed 105 percent of budgeted expenses. The agreement included a net operating margin covenant that required Casey's Pond to produce net operating income of at least the amount budgeted for the previous six months, measured as of June 30 and December 31. The agreement required that all monthly operating revenue in excess of operating expenses be sequestered by the master trustee, provided Casey's Pond has 25 days cash on hand. The agreement expired on June 30, 2022. As of December 31, 2021, Casey's Pond was out of compliance with these covenants.

Casey's Pond entered into an amended and restated forbearance agreement effective April 13, 2023, which supersedes all previous forbearance agreements and expires on December 31, 2023. The agreement includes a provision that Casey's Pond's cumulative disbursements in 2023 are not to exceed 110 percent of budgeted expenses without express written approval from the master trustee. The agreement outlines additional restrictions on capital expenditures and accounts payable balances. The agreement requires the borrower to use its best efforts to market and sell the project as a senior living facility during the forbearance period.

Notes to Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Under the bond's master trust indenture, if an event of default occurs and is continuing, the bond holders may provide a notice in writing declaring the outstanding bond principal due and payable immediately. As Casey's Pond is not in compliance with covenants at December 31, 2022 and 2021, and the bonds are callable within one year of the end of the reporting period, the obligations are classified as current in the accompanying balance sheet.

Casey's Pond has focused and continues to focus on the marketing of apartments to increase occupancy. While management continues to focus on continued improvement, there can be no assurance that Casey's Pond will achieve the occupancy levels, profit, and cash flows necessary to cover debt service. While Casey's Pond has regular communications with investors to discuss financial results, it is unknown if the bond holders will demand immediate payment of bond principal. Because it is not possible at this time to predict the outcome of management's efforts, substantial doubt remains regarding the ability of Casey's Pond to continue as a going concern during the following year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Casey's Pond considers all investments with an original maturity of three months or less when purchased to be cash equivalents, unless classified as assets limited as to use.

At various times throughout the years and as of December 31, 2022 and 2021, Casey's Pond's bank balances were in excess of FDIC insurance limits.

Accounts Receivable

Accounts receivable for residents, insurance companies, and governmental agencies are based on consideration to which Casey's Pond expects to be entitled. Accounts receivable are recorded net of an allowance for uncollectible accounts. An allowance for uncollectible accounts is established based on management's judgment, including resident and third-party credit risk. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. As of December 31, 2022 and 2021, the allowance for uncollectible accounts was \$58,159 and \$35,269, respectively.

Credit Risk, Major Customers, and Suppliers

Casey's Pond grants credit without collateral to its residents, all of whom are local residents and some of whom are insured under third-party payor agreements. The mix of receivables at December 31 was as follows:

	2022	2021
Private pay	44 %	29 %
Medicare	14	42
Medicaid	38	23
Commercial insurance	4	6
Total	100 %	100 %

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Inventory

Inventory is stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out (FIFO) method.

Notes Receivable

Notes receivable represent promissory notes from residents under the life plan contracts to finance entrance fees in installments. The loans bear interest at 8 percent. The notes are classified as current or long term on the accompanying balance sheet depending on their maturity dates.

Assets Limited as to Use

Assets limited as to use include assets deposited with a trustee under the terms of the bond indenture. Assets limited as to use are composed of investments in money market funds measured at fair value. Investment income (including realized gains and losses on investments, dividends, and interest) is included in operating loss unless restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from operations but reported within changes in net assets without donor restrictions.

Property and Equipment

Land, buildings, works of art, furniture and fixtures, and equipment are stated at cost. Depreciation is computed using the straight-line method at rates designed to amortize the costs of the assets over their estimated useful lives, which range from 3 years to 40 years.

Classification of Net Assets

Net assets of Casey's Pond are classified based on the presence or absence of donor-imposed restrictions.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Resident Care Service Revenue

Revenue is reported at the amount that reflects the consideration to which Casey's Pond expects to be entitled in exchange for services provided. Performance obligations are determined based on the nature of the services provided by Casey's Pond.

Life plan contracts generally contain two payment streams: the advance fee and the monthly fees. Both the advance fee and monthly fees are specified in the contract with the resident. The advance fee is a fixed amount paid at the time the contract is signed and the resident takes occupancy. It may be fully refundable, fully nonrefundable, or a combination of both.

Refundable advance fees are those advance fees that are guaranteed to be refunded regardless of when the contract is terminated. The refundable portion of advance fees is not included in the transaction price, as Casey's Pond expects to refund those amounts to residents. Nonrefundable advance fees are those advance fees that are either nonrefundable at contract inception or are refundable on a decreasing basis for a fixed period of time, at which point the advance fees become nonrefundable and would be considered part of the transaction price.

Skilled nursing and assisted living residency and services represent a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered. Casey's Pond has concluded that each day that a resident receives services represents a separate contract and performance obligation based on the fact that residents have unilateral rights to terminate the contract after each day with no penalty or compensation due. Casey's Pond determines the transaction price based on contractually agreed-upon amounts or rates.

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

The nonrefundable portion of the advance fee represents a right of the resident to access to future services. This right is deemed to be Casey's Pond's performance obligation. The nonrefundable portion is recorded as deferred revenue and is amortized to income using a time-based measurement to recognize revenue over the expected estimated resident contract term, beginning with the move-in date through the estimated remaining life of a resident.

Casey's Pond recognizes the monthly fee component of life plan contracts as revenue when the services for the month are performed (that is, Casey's Pond satisfies the performance obligation).

Lessors are required to separately recognize and measure the lease component of a contract with a resident utilizing the provisions of Accounting Standards Codification (ASC) 842 and the nonlease components utilizing the provisions of ASC 606, *Revenue from Contracts with Customers*. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand-alone selling prices of the components. However, entities are permitted to elect the practical expedient under ASU No. 2018-11, *Leases*, allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met.

Casey's Pond has adopted the practical expedient under ASU No. 2018-11, which allows Casey's Pond to recognize revenue under these resident agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC 842 and ASC 606. Casey's Pond has concluded that the nonlease components of the agreements with respect to its senior living communities are the predominant components of the contract; therefore, Casey's Pond recognizes revenue for these residents' agreements under ASC 606.

Casey's Pond also provides certain ancillary services that are not included in the bundle of services and, as such, are treated as separate performance obligations satisfied over time as the services are rendered.

A summary of the payment arrangements with major third-party payors is as follows:

- Medicare - Certain long-term care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid - Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid, Medicare, and insurance companies. Adjustments that result from this final review and approval are insignificant and are recognized in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations may result in significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. In addition, the contracts Casey's Pond has with commercial payors also provide for retroactive audit and review of claims.

Variable consideration may also exist in the form of settlements with third-party payors as a result of retroactive adjustments due to audits, reviews, or investigations. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Casey's Pond's historical settlement activity. Casey's Pond has not applied a constraint to the transaction price for settlement estimates, as Casey's Pond has determined that it is not probable that a significant reversal in the amount of the cumulative revenue recognized would not occur in the future.

Casey's Pond makes an initial and ongoing evaluation of a resident's creditworthiness or obtains third-party verification of payment coverage and, as such, considers the credit risks it assumes and any billed amounts not expected to be collected from residents or third parties for services rendered to represent bad debt expense.

The following is a summary of key judgments made by Casey's Pond in adopting Accounting Standards Codification 606:

Contract Costs Associated with Resident Care Service Revenue

Casey's Pond has applied the practical expedient provided by ASC 340-40-25-4, and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that Casey's Pond otherwise would have recognized is one year or less in duration.

Financing Component

Casey's Pond has elected the practical expedient allowed under 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 to Casey's Pond'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. Casey's Pond does, in certain instances, enter into payment agreements with residents for entrance fees that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Advance Fees

Fees paid by a resident upon entering into a life care contract, net of the portion thereof that is expected to be refunded to the resident, are recorded as contract liabilities and are amortized to income using the straight-line method over the actuarially determined estimated remaining life expectancy of the resident or the contract term, whichever is shorter. These contracts provide up to 90 percent refunds of the advance fee upon termination of the lease contract. Amortization of advance fees recognized in patient service revenue was \$76,893 and \$20,861 for the years ended December 31, 2022 and 2021, respectively. Contract liabilities from advance fees were \$436,106 and \$126,366 as of January 1, 2022 and 2021, respectively.

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Obligation to Provide Future Services

Casey's Pond periodically calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of contract liabilities from advance fees. If the present value of the net cost of future services and the use of facilities exceeds the contract liabilities from advance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. As of December 31, 2022 and 2021, there was no liability for obligation to provide future services and use of facilities.

Resident Funds

Casey's Pond maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents. At December 31, 2022 and 2021, the funds totaled \$13,285 and \$21,803, respectively, and are included in deposits on the accompanying balance sheet.

Income Taxes

Casey's Pond is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2022 and 2021 was \$9,688 and \$9,155, respectively.

Change in Net Assets without Donor Restrictions

The statement of operations and changes in net assets includes the change in net assets without donor restrictions (performance indicator). Changes in net assets without donor restrictions that are excluded from the performance indicator, consistent with industry practice, include, when applicable, net assets released from restrictions for capital purchases.

Functional Allocation of Expenses

The accompanying disclosure of functional expenses reports certain expense categories that are attributable to more than one health care service or management and general function; therefore, these expenses required an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, utilities, insurance, and interest, are allocated by department based on the department's relative square footage.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 7, 2023, which is the date the financial statements were available to be issued.

Note 3 - Resident Care Service Revenue and Resident Accounts Receivable

Casey's Pond disaggregates revenue from contracts with customers by payor types and service lines. Casey's Pond has determined that the disaggregation of revenue into these categories achieves the disclosure objective to depict the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Tables providing details of these factors are presented below.

Colorado Senior Residences, Inc. d/b/a Casey's Pond Senior Living

Notes to Financial Statements

December 31, 2022 and 2021

Note 3 - Resident Care Service Revenue and Resident Accounts Receivable (Continued)

The composition of resident care service revenue by primary payor for the years ended December 31 is as follows:

	2022	2021
Private pay	\$ 7,662,595	\$ 6,609,335
Medicare	839,225	1,275,806
Medicaid	2,757,805	2,760,254
Commercial insurance	34,551	15,025
Total	<u>\$ 11,294,176</u>	<u>\$ 10,660,420</u>

Revenue from residents' deductibles and coinsurance is included in the categories presented above based on the primary payor.

The composition of resident care service revenue based on Casey's Pond's lines of business for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Skilled nursing	\$ 5,808,053	\$ 5,555,738
Assisted living and memory care	4,388,964	4,131,299
Independent living	1,097,159	973,383
Total	<u>\$ 11,294,176</u>	<u>\$ 10,660,420</u>

The beginning balance of accounts receivable as of January 1, 2022 and 2021 was \$461,105 and \$420,234, respectively.

Because all of its performance obligations relate to contracts with a duration of less than one year, Casey's Pond 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.

Note 4 - CARES Act Provider Relief Funds

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 in response to the COVID-19 pandemic and authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

December 31, 2022 and 2021

Note 4 - CARES Act Provider Relief Funds (Continued)

During the year ended December 31, 2021, Casey's Pond received payments of \$287,650 as part of general and targeted distributions of the CARES Act Provider Relief Fund. No payments were received during the year ended December 31, 2022. These payments are not subject to repayment, provided Casey's Pond is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on Casey's Pond operating results through December 31, 2021, Casey's Pond believes there is reasonable assurance the applicable terms and conditions required to retain the funds were met as of December 31, 2021. Therefore, Casey's Pond has recognized \$0 and \$287,650 within other operating revenue on the statement of operations and changes in net assets for the years ended December 31, 2022 and 2021, respectively.

Note 5 - Employee Retention Credit

The CARES Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credit based on having operations suspended to comply with a government order related to COVID-19 and incurring eligible payroll expenses. For the year ended December 31, 2022, Casey's Pond determined these conditions have been met and recognized \$2,203,569 of ERC revenue within other operating revenue on the accompanying statement of operations and changes in net assets and recognized a corresponding receivable within Employee Retention Credit receivable on the accompanying balance sheet.

Casey's Pond's ERC claim is subject to review by the Internal Revenue Service (IRS) within the applicable statute of limitations. If a portion or all of the ERC is determined to be ineligible upon IRS review, Casey's Pond would be required to return the ineligible portion on demand and could potentially be subject to penalties and interest on unpaid employment taxes.

Note 6 - Liquidity and Availability of Resources

Casey's Pond has \$6,149,782 of financial assets available within one year of December 31, 2022 to meet cash needs for general expenditure consisting of cash and cash equivalents of \$2,842,795, accounts receivable of \$373,273, notes receivable of \$730,145, and Employee Retention Credit receivable of \$2,203,569. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

At December 31, 2021, Casey's Pond had \$1,971,234 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure, consisting of cash and cash equivalents of \$1,510,129 and accounts receivable of \$461,105. None of the financial assets were subject to donor or other contractual restrictions that made them unavailable for general expenditure within one year of the balance sheet date.

Casey's Pond has a goal to maintain cash on hand to meet 25 days of normal operating expenses. Casey's Pond has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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Notes to Financial Statements

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Note 7 - Assets Limited as to Use

The detail of assets limited as to use is summarized in the following schedule:

	2022	2021
Debt service reserve fund	\$ 3,524,797	\$ 3,554,867
Principal fund	718,406	185,742
Interest fund	39,688	39,344
Working capital fund	1	1
Entrance fee escrow	1,008,780	1,000,031
Total assets limited as to use	<u>\$ 5,291,672</u>	<u>\$ 4,779,985</u>

The investment return for the years ended December 31, 2022 and 2021 consists of interest income of \$58,186 and \$3,151, respectively.

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that Casey's Pond has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Casey's Pond's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets limited as to use are carried at fair value at December 31, 2022 and 2021 and consist of money market mutual funds classified as Level 1.

Note 8 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021
Land	\$ 3,777,121	\$ 3,777,121
Buildings	33,358,613	33,331,262
Building improvements	3,289,896	3,212,730
Works of art	208,595	208,595
Transportation equipment	188,310	105,000
Furniture and fixtures	1,762,201	1,762,201
Computer equipment and software	191,612	191,612
Total cost	42,776,348	42,588,521
Accumulated depreciation	10,446,774	9,468,906
Net property and equipment	<u>\$ 32,329,574</u>	<u>\$ 33,119,615</u>

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Notes to Financial Statements

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Note 9 - Long-term Debt

Long-term debt at December 31 is as follows:

	2022	2021
Note payable to Yampa Valley Medical Center	\$ 3,500,000	\$ 3,500,000
Bond payable to Colorado Health Facilities Authority Revenue Bonds Series 2012	44,705,000	44,705,000
Unamortized discount	(346,834)	(361,038)
Unamortized bond issuance costs	(1,189,235)	(1,237,941)
Long-term debt less unamortized discount and debt issuance costs	46,668,931	46,606,021
Less current portion	46,668,931	46,606,021
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

In May 2012, Casey's Pond issued Colorado Health Facilities Authority Revenue Bonds (Colorado Senior Residences Project) Series 2012 (the "Series 2012 Bonds") in the amount of \$45,110,000. The Series 2012 Bonds were issued to finance the acquisition, construction, and equipping of Casey's Pond. The Series 2012 Bonds mature at escalating amounts starting in 2015 and continuing through 2047. Interest rates are defined by the bond agreement, ranging from 4.625 percent to 7.125 percent, and are payable on the first day of June and December of each year, commencing on December 1, 2012. The Series 2012 Bonds maturing on and after June 1, 2023 are subject to optional redemption prior to maturity, in whole or in part, together with accrued interest, without premium.

The Series 2012 Bonds are secured by a deed of trust and subject to certain covenants, including restrictions on the issuance of additional debt and a requirement to maintain at least 100 days' cash on hand. Additionally, the bond covenants require Casey's Pond to achieve certain percentages of occupancy and generate certain amounts of cumulative cash from operations at various reporting periods.

Beginning in 2014 and as of and for the year ended December 31, 2022, Casey's Pond did not meet the occupancy and cumulative cash from operations requirements. Furthermore, Casey's Pond was unable to make the required monthly installment of principal and interest due on the Series 2012 Bonds since July 31, 2015. As a result, Casey's Pond requested and obtained a forbearance agreement in March 2016 that deferred payment of principal and interest on the bonds payable and all subordinated debt, including deferred manager compensation, until January 1, 2017.

Since 2016, Casey's Pond has entered into additional forbearance agreements with various covenants. An amendment was entered into effective October 31, 2021, which restated previous forbearance agreements dating back to September 30, 2018. The agreement included a provision that Casey's Pond's cumulative disbursements in 2022 were not to exceed 105 percent of budgeted expenses. The agreement included a net operating margin covenant that required Casey's Pond to produce net operating income of at least the amount budgeted for the previous six months, measured as of June 30 and December 31. The agreement required that all monthly operating revenue in excess of operating expenses be sequestered by the master trustee, provided Casey's Pond has 25 days' cash on hand. The agreement expired on June 30, 2022.

Note 9 - Long-term Debt (Continued)

In 2023, Casey's Pond entered into an amended and restated forbearance agreement that expires on December 31, 2023. The agreement includes a provision that Casey's Pond's cumulative disbursements in 2023 are not to exceed 110 percent of budgeted expenses without express written approval from the master trustee. The agreement also outlines additional restrictions on capital expenditures and accounts payable balances and requires the borrower to use its best efforts to market and sell the project as a senior living facility during the forbearance period.

As of December 31, 2022 and 2021, the outstanding bonds payable amount was \$44,705,000 plus accrued interest of \$20,256,489 and \$17,164,569, respectively.

The forbearance agreement and subsequent amendments are not intended to be construed as a waiver of any existing or continuing default; rather, they are agreements that the master trustee will forbear from exercising its right to pursue any of its respective remedies as they relate to these defaults. Upon the expiration of the forbearance period on December 31, 2023, the bondholders' rights related to events of default within the bond document become exercisable, including the right to call the Series 2012 Bonds. As Casey's Pond is not in compliance with covenants at December 31, 2022 and 2021, and the bonds are callable within one year of the end of the reporting period, the obligations are classified as current in the accompanying balance sheet.

Costs associated with obtaining bond financing are deferred and amortized over the term of the bonds, which approximate the effective interest method. For each of the years ended December 31, 2022 and 2021, Casey's Pond incurred amortization expense of \$48,706.

Concurrent with the Series 2012 Bonds issuance, Casey's Pond entered into a liquidity and covenant maintenance agreement (the "Liquidity Agreement") with Yampa Valley Medical Center (YVMC), under which YVMC agreed to lend Casey's Pond a total of \$3,500,000. Proceeds from the loan were invested in a liquidity support fund. Advances bear interest at a per annum rate equal to 130 percent of the monthly long-term applicable federal rate published by the U.S. Department of the Treasury at the time of the draw. As of December 31, 2022 and 2021, the note payable was \$3,500,000. The principal and accrued interest on the note payable, as well as income generated on the invested amounts, are due and payable upon Casey's Pond achieving various financial conditions, which have not been achieved as of December 31, 2022. The loan is considered to be in default upon an event of default of the master trust agreement and an event of default of the Liquidity Agreement, whereby all amounts of principal and interest become immediately due at the option of the lender. Casey's Pond met conditions of default of both of these agreements at December 31, 2022 and 2021; accordingly, all outstanding principal and accrued interest are reported as current liabilities in the accompanying balance sheet. The Liquidity Agreement terminates in May 2047. The note payable is unsecured and subordinated to the Series 2012 Bonds.

During the year ended December 31, 2020, Casey's Pond received \$1,005,900 through the Paycheck Protection Program under the CARES Act administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met. Casey's Pond may use the funds on qualifying expenses over a covered period of up to eight weeks. During the year ended December 31, 2022, Casey's Pond received notification of forgiveness of the entire loan balance from the SBA. The amount of the loan forgiven was recorded as PPP loan forgiveness income in 2021.

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Notes to Financial Statements

December 31, 2022 and 2021

Note 9 - Long-term Debt (Continued)

The balance of the bonds and notes payable matures as follows:

Year Ended December 31	Amount
2022 (includes callable amounts)	\$ 48,205,000
Unamortized debt discount and issuance costs	<u>(1,536,069)</u>
Total	<u>\$ 46,668,931</u>

Note 10 - Functional Expenses

Casey's Pond provides various services to its patients. Expenses related to providing these services are as follows for the years ended December 31:

	2022	2021
Health care services:		
Salaries and wages	\$ 3,810,633	\$ 4,259,849
Supplies and culinary	799,090	806,703
Purchased services	4,406,654	3,233,691
Utilities	374,565	350,211
Depreciation	972,796	975,126
Interest	3,259,133	3,253,682
Other	271,413	338,224
Total health care services	<u>13,894,284</u>	<u>13,217,486</u>
Support services:		
Salaries and wages	756,124	887,769
Purchased services	1,221,448	1,091,730
Utilities	5,523	5,164
Depreciation	14,343	14,377
Interest	48,053	47,973
Provision for bad debts	63,236	47,721
Other	345,763	330,920
Total support services	<u>2,454,490</u>	<u>2,425,654</u>
Total	<u>\$ 16,348,774</u>	<u>\$ 15,643,140</u>

Note 11 - Retirement Plan

Casey's Pond has an agreement with a third-party professional employer organization (PEO), which provides salary and benefits administration. The PEO is responsible for administering Casey's Pond's 401(k) plan (the "Plan"). The Plan provides for Casey's Pond to make a discretionary matching contribution. Contributions to the Plan totaled \$29,099 and \$18,090 for the years ended December 31, 2022 and 2021, respectively.

December 31, 2022 and 2021

Note 12 - Contingencies

Health Care

The health care industry is subject to numerous laws and regulations of 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 patient services, and Medicare and Medicaid 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 governmental health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for resident services previously billed.

Government Regulations - Medicaid

Casey's Pond participates in the Medicaid program that is administered by the Colorado Department of Health Care Policy and Financing. The program requires an annual cost report filing, and the cost reports are subject to audit, which could result in retroactive rate adjustments.

The Medicare intermediary has the authority to audit the skilled nursing facilities' records any time within a three-year period after the date the skilled nursing facilities receive a final notice of program reimbursement for each cost reporting period. Any adjustments resulting from these audits could retroactively adjust Medicare revenue.

Medical Malpractice Coverage

Casey's Pond pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. There were no claims outstanding at December 31, 2022 and 2021, and Casey's Pond is not aware of any unasserted claims or unreported incidents that are expected to exceed malpractice insurance coverage limits.