# Covenant Living Communities and Services

**Consolidated Financial Report**
**with Additional Consolidating Information**
**September 30, 2022**

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# Independent Auditor's Report

To the Covenant Living Board
Covenant Living Communities and Services

## Report on the Audits of the Consolidated Financial Statements

### *Opinion*

We have audited the consolidated financial statements of Covenant Living Communities and Services (an affiliate of The Evangelical Covenant Church (see Note 2)), which comprise the consolidated statement of financial position as of September 30, 2022 and 2021 and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Covenant Living Communities and Services as of September 30, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Covenant Living of Florida, Inc. and Covenant Living of the Great Lakes were not audited in accordance with *Government Auditing Standards*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of Covenant Living Communities and Services 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.

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Covenant Living Communities and Services' ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

### *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 and *Government Auditing Standards* 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 consolidated financial statements.

To the Covenant Living Board
Covenant Living Communities and Services

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Covenant Living Communities and Services' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Covenant Living Communities and Services' 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2023 on our consideration of Covenant Living Communities and Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Covenant Living Communities and Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covenant Living Communities and Services' internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 19, 2023

# Consolidated Statement of Financial Position

**September 30, 2022 and 2021**
**(in thousands)**

| | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 51,942 | $ 43,171 |
| Restricted cash | 10,477 | 10,769 |
| Assets whose use is limited, including interest in investment pool: (Notes 3, 5, 8 and 10) | | |
| Board designated | 90,470 | 91,074 |
| Restricted under debt agreements | 13,077 | 13,816 |
| Accounts receivable - Net | 22,089 | 22,018 |
| Prepaid expenses and other assets | 7,501 | 6,994 |
| Total current assets | 195,556 | 187,842 |
| **Property and Equipment** - Net (Notes 7, 10 and 12) | 772,056 | 679,390 |
| **Other Assets** (Notes 6 and 13) | 35,801 | 48,017 |
| **Interest in Irrevocable Trusts** (Notes 3 and 16) | 2,881 | 3,772 |
| **Goodwill** - Net (Notes 2 and 21) | 76,557 | 86,638 |
| **Assets Whose Use is Limited, including Interest in Investment Pool** (Notes 3, 5, 8 and 10) | | |
| Board designated | 247,951 | 295,742 |
| Restricted under state and debt agreements | 105,049 | 128,049 |
| Endowment | 8,098 | 9,501 |
| Total assets whose use is limited, including interest in investment pool | 361,098 | 433,292 |
| Total assets | **$ 1,443,949** | **$ 1,438,951** |

# Consolidated Statement of Financial Position (Continued)

**September 30, 2022 and 2021**
**(in thousands)**

| | 2022 | 2021 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable - Trade | $ 20,885 | $ 17,747 |
| Accounts payable - Contractors (Note 12) | 2,349 | 4,121 |
| Accrued salaries and wages | 14,351 | 12,596 |
| Accrued interest | 6,949 | 6,849 |
| Advanced deposits | 1,998 | 2,172 |
| Current maturities of long-term debt (Note 10) | 14,535 | 13,035 |
| Deferred revenue subject to refund (Note 2) | 117,444 | 101,276 |
| Refundable contract liabilities (Note 2) | 185,698 | 153,737 |
| Other current liabilities (Notes 2, 10 and 15) | 32,822 | 29,231 |
| Total current liabilities | 397,031 | 340,764 |
| **Long-term Debt** - Less current maturities (Note 10) | 581,141 | 556,358 |
| **Payable to Covenant Institutions** (Note 10) | 4,000 | 4,000 |
| **Other Liabilities** (Notes 2, 10 and 11) | 96,502 | 109,062 |
| **Deferred Revenue from Entrance Fees** (Note 2) | 272,029 | 252,783 |
| Total liabilities | 1,350,703 | 1,262,967 |
| **Net Assets** | | |
| Without donor restrictions | 73,727 | 156,320 |
| With donor restrictions | 19,519 | 19,664 |
| Total net assets | 93,246 | 175,984 |
| Total liabilities and net assets | **$ 1,443,949** | **$ 1,438,951** |

# Consolidated Statement of Operations and Changes in Net Assets without Donor Restrictions

**Years Ended September 30, 2022 and 2021**
**(in thousands)**

| | 2022 | 2021 |
|---|---|---|
| **Operating Revenue** | | |
| Routine resident services | $ 269,322 | $ 242,278 |
| Ancillary services | 45,759 | 45,235 |
| Amortization of deferred entrance fees | 53,491 | 50,482 |
| Net assets released from restrictions for operations | 3,302 | 3,022 |
| Other | 13,573 | 28,249 |
| Total operating revenue | 385,447 | 369,266 |
| **Expenses** | | |
| Routine nursing services | 93,192 | 80,461 |
| Ancillary services | 17,996 | 17,469 |
| Resident benefits | 18,029 | 16,254 |
| Dietary | 50,792 | 43,769 |
| Laundry | 2,296 | 2,062 |
| Housekeeping | 12,087 | 11,131 |
| Maintenance | 22,725 | 20,822 |
| Utilities | 15,418 | 13,189 |
| Administrative and general | 64,824 | 59,521 |
| Interest (Note 10) | 17,439 | 13,038 |
| Property taxes | 4,675 | 3,924 |
| Insurance | 6,242 | 6,384 |
| Marketing and promotion | 16,453 | 14,078 |
| Depreciation | 60,712 | 55,026 |
| Amortization | 461 | 492 |
| Other | 867 | 3,837 |
| Total expenses (Note 19) | 404,208 | 361,457 |
| **Operating (Loss) Income** | (18,761) | 7,809 |
| **Nonoperating (Expense) Revenue** | | |
| Gifts and bequests - Net of related expenses (Note 19) | (1,123) | 515 |
| Net assets released from restrictions - Distributions from trusts | - | 454 |
| Loss on extinguishment of debt | - | (18,754) |
| Other nonoperating expense - Net (Note 2) | (11,868) | (431) |
| Interest and dividend income | 5,090 | 3,945 |
| Realized (losses) gains on fixed-income and equity securities - Net | (438) | 3,543 |
| Unrealized (losses) gains on fixed-income and equity securities - Net | (36,119) | 10,531 |
| Alternative investment (loss) income - Including net unrealized and realized (losses) gains | (22,858) | 34,298 |
| Unrealized gains on derivative instruments (Note 11) | 3,820 | 1,538 |
| Interest expense on interest rate swaps (Notes 11 and 19) | (693) | (894) |
| Total nonoperating (expense) revenue | (64,189) | 34,745 |
| **(Loss) Income** | (82,950) | 42,554 |
| **Transfers** | - | (642) |
| **Net Assets Released from Restrictions for Capital Purchases** | 357 | 54 |
| **(Decrease) Increase in Net Assets without Donor Restrictions** | **$ (82,593)** | **$ 41,966** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

**Years Ended September 30, 2022 and 2021**
**(in thousands)**

| | 2022 | 2021 |
|---|---|---|
| **Net Assets without Donor Restrictions** | | |
| (Loss) Income | $ (82,950) | $ 42,554 |
| Transfers | - | (642) |
| Net assets released from restrictions for capital purchases | 357 | 54 |
| (Decrease) increase in net assets without donor restrictions | (82,593) | 41,966 |
| **Net Assets with Donor Restrictions** | | |
| Contributions | 5,388 | 3,508 |
| Net assets released from restrictions for capital purchases | (357) | (54) |
| Net assets released from restrictions for operations | (3,302) | (3,022) |
| Net (losses) additions - Present value of new trusts received (Note 16) | (499) | 516 |
| Net assets released from restrictions - Distributions from trusts - Net | - | (454) |
| Change in present value discount | 28 | 42 |
| Net (loss) gain on perpetual trusts | (1,403) | 982 |
| Transfers | - | 642 |
| (Decrease) increase in net assets with donor restrictions | (145) | 2,160 |
| **(Decrease) Increase in Net Assets** | (82,738) | 44,126 |
| **Net Assets** - Beginning of year | 175,984 | 131,858 |
| **Net Assets** - End of year | **$ 93,246** | **$ 175,984** |

# Consolidated Statement of Cash Flows

## Years Ended September 30, 2022 and 2021
## (in thousands)

| | 2022 | 2021 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| (Decrease) increase in net assets | $ (82,738) | $ 44,126 |
| Adjustments to reconcile (decrease) increase in net assets to net cash, cash equivalents, and restricted cash from operating activities: | | |
| Amortization of deferred entrance fees | (53,491) | (50,482) |
| Depreciation | 60,712 | 55,026 |
| Amortization | 461 | 492 |
| Bad debt expense | 1,748 | 2,360 |
| Amortization of goodwill | 10,081 | 7,512 |
| Original issue discount amortization | (704) | (654) |
| Loss on extinguishment of debt | - | 18,754 |
| Unrealized gains on derivative instruments | (3,820) | (1,538) |
| Loss on disposal of property and equipment | 866 | 3,586 |
| Net realized and unrealized losses (gains) on assets whose use is limited | 59,950 | (48,087) |
| Other changes in irrevocable trusts - Net | 844 | 6 |
| Net withdrawals from (deposits to) irrevocable trusts | 47 | (832) |
| Nonrefundable entrance fees collected | 80,702 | 70,229 |
| Nonrefundable entrance fees refunded | (5,268) | (2,540) |
| Change in future service obligation | (3,007) | (922) |
| Changes in operating assets and liabilities that (used) provided cash, cash equivalents, and restricted cash: | | |
| Accounts receivable | (3,003) | (2,414) |
| Other assets | 12,421 | (10,274) |
| Accounts payable | 1,365 | 1,790 |
| Accrued and other current liabilities | 1,392 | (20,165) |
| Other liabilities | 240 | 390 |
| Net cash, cash equivalents, and restricted cash provided by operating activities | 78,798 | 66,363 |
| **Cash Flows from Investing Activities** | | |
| Property and equipment expenditures | (84,724) | (80,627) |
| Proceeds from sale of property and equipment | - | 29 |
| Cash paid to acquire as part of asset acquisition of Hillside Village Keene | (33,150) | - |
| Net cash from Three Crowns Foundation/Park affiliation | - | 691 |
| Net change in assets whose use is limited, including interest in investment pool | 19,555 | (50,681) |
| Net change in related party balances | (70) | (20) |
| Net cash, cash equivalents, and restricted cash used in investing activities | (98,389) | (130,608) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from borrowings | 40,000 | 248,608 |
| Payment of financing costs | (280) | (2,431) |
| Payment of debt | (13,477) | (12,322) |
| Refundable entrance fees collected | 28,507 | 29,877 |
| Refundable entrance fees refunded | (26,306) | (18,533) |
| Early extinguishment of debt | - | (182,305) |
| Net cash, cash equivalents, and restricted cash provided by financing activities | 28,444 | 62,894 |
| **Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash** | 8,853 | (1,351) |
| **Cash, Cash Equivalents, and Restricted Cash** - Beginning of year | 51,958 | 53,309 |
| **Cash, Cash Equivalents, and Restricted Cash** - End of year | **$ 60,811** | **$ 51,958** |
| **Classification of Cash, Cash Equivalents, and Restricted Cash** | | |
| Cash and cash equivalents | $ 51,942 | $ 43,171 |
| Restricted cash | 8,869 | 8,787 |
| Total cash, cash equivalents, and restricted cash | **$ 60,811** | **$ 51,958** |
| **Supplemental Cash Flow Information** - Interest paid, including interest on derivatives | $ 23,848 | $ 21,788 |

See notes to consolidated financial statements.

## Note 1 - Mission Statement

As a ministry of The Evangelical Covenant Church, Covenant Living Communities and Services celebrates God's gift of life in Christian community. We follow the Great Commandment to love and serve God and one another, as taught by Jesus Christ. That compels us to affirm the dignity of each person and to pursue excellence and financial integrity in all that we do.

As we provide a broad range of resources, services, and programs to enhance individual and community wellness, we collaborate with residents and families to achieve the best possible results. While seeking to foster independence, we respond to each individual's evolving needs in order to provide the security that assures peace of mind.

## Note 2 - Summary of Significant Accounting Policies

***Basis of Consolidation***

Covenant Living Communities and Services, an Illinois not-for-profit corporation, and its consolidated facilities (together, the "Communities") are responsible for operating retirement, assisted living, and skilled care facilities and home and community-based services. Covenant Living Communities and Services is affiliated with Covenant Ministries of Benevolence (CMB) and is administered by the Board of Benevolence of The Evangelical Covenant Church (the "Board of Benevolence"), and the consolidated facilities operate as wholly owned subsidiaries of Covenant Living Communities and Services.

The consolidated financial statements include the accounts of Covenant Living Communities and Services and the following entities for which it is the sole corporate member: Covenant Living of Florida, Inc.; Covenant Living of the Great Lakes; Covenant Living of Cromwell, Inc.; Covenant Living of Golden Valley; Covenant Home (Illinois) dba Covenant Living of Northbrook; Covenant Living at the Holmstad; Covenant Health Care Center, Inc. dba Axelson Assisted Living; Brandel Health and Rehab; Michealson Health Center; Harry J. Ekstam Assisted Living Residence NFP; Covenant Home of Chicago; Covenant Living of Colorado, Inc.; Covenant Living at Windsor Park; Covenant Living West dba Covenant Living at the Samarkand; Covenant Living of Turlock; Brandel Manor; Covenant Living at Mount Miguel; and Covenant Living at the Shores.

The consolidated financial statements also include the accounts of Covenant Living Services and its wholly owned subsidiaries: Covenant Holdings One, LLC; Covenant Living of Geneva; Covenant Home Services dba CovenantCare at Home; Covenant Living of Bixby, Inc; Tulsa Hills Community, Inc. dba Covenant Living at Inverness; Covenant Housing Corporation; Three Crowns Foundation; Three Crowns Park; and Covenant Living of Keene. Covenant Living Communities and Services is the sole corporate member of Covenant Living Services. All significant interfacility transactions and balances have been eliminated in the consolidated financial statements.

On July 1, 2021, Covenant Living Services, an entity of Covenant Living Communities and Services, entered into an affiliation agreement with Three Crowns Foundation and Three Crowns Park, a senior living community located in Evanston, Illinois, whereby Covenant Living Services became the sole corporate member of Three Crowns Foundation. Three Crowns Park continues to own and operate the campus after the effective date of the affiliation agreement. Three Crowns Foundation remains the sole corporate member of Three Crowns Park, and Three Crowns Park remains the only member of the Three Crowns Park Obligated Group created under the Master Trust Indenture (see Note 10). The affiliation agreement transaction was accounted for as a business combination by Covenant Living Services (see Note 21).

Covenant Living Communities and Services is the sole shareholder of Covenant International Insurance Company, Ltd. (CIIC).

## Note 2 - Summary of Significant Accounting Policies (Continued)

### *Basis of Presentation*

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as codified in the Accounting Standards Codification.

In the consolidated financial statements, the Communities recognize the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing consolidated financial statements. The Communities do not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position and arose after the consolidated statement of financial position date but before consolidated financial statements are issued; however, such events may be required to be recognized as a disclosure. For these purposes, the Communities have evaluated events occurring subsequent to the consolidated statement of financial position date through January 19, 2023, the date the consolidated financial statements were issued. The Communities have not evaluated events occurring after January 19, 2023 in the consolidated financial statements.

### *Industry*

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation and regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Communities are in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 28 and 30 percent of the Communities' combined routine resident and ancillary services revenue for the years ended September 30, 2022 and 2021, respectively.

### *Use of Estimates*

The preparation of consolidated 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist principally of bank money market demand deposits with maturities of three months or less at the date of purchase.

### *Restricted Cash*

Restricted cash consists principally of deposits received for entrance fees that are required by state law to be held in escrow accounts and grant funds restricted for specific use based on the grant agreement.

### *Assets Whose Use is Limited, Including Interest in Investment Pool*

Assets whose use is limited are recorded at fair value. See Note 3 for more information regarding the methods used to estimate fair value. See Note 5 for details regarding the composition of assets whose use is limited.

## Note 2 - Summary of Significant Accounting Policies (Continued)

Board-designated assets are invested in a combined investment fund that aggregates investments of all of the Board of Benevolence's institutions. While these funds are held and invested by CMB, the Communities retain the benefits of ownership of their proportional interest in the combined investment fund. This ownership interest in the combined investment fund is reported as assets whose use is limited - board designated, which is an interest in investment pool in the accompanying consolidated financial statements (see Note 5).

The Communities recognize their interest in the combined investment fund equal to the amounts contributed, less amounts withdrawn, and adjust the balance for their share of the changes in the fair values of the underlying investments in the combined investment fund. Realized gains and losses from sales of investments and unrealized gains and losses on investments are determined using the average cost method. Interest, dividends, realized gains and losses, and unrealized gains and losses are recorded as nonoperating revenue.

The Communities' investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the consolidated statement of financial position and the consolidated statement of operations and changes in net assets without donor restrictions.

***Accounts Receivable***

Accounts receivable from residents, insurance companies, and governmental agencies are based on the amount that reflects the consideration to which the Communities expect to be entitled in exchange for services provided. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Communities' ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts totaled $2,685 and $2,482 at September 30, 2022 and 2021, respectively. The opening accounts receivable balance at October 1, 2020 was $17,949.

Overpayments from third-party payors on residents' accounts receivable balances have been included in other current liabilities on the consolidated statement of financial position.

The Communities provide services without collateral to their residents, most of whom are local residents and are insured under third-party agreements. The mix of receivables from residents and third-party payors as of September 30, 2022 was 33 percent from private payors, 48 percent from Medicare, and 19 percent from Medicaid. The mix of receivables from residents and third-party payors as of September 30, 2021 was 34 percent from private payors, 49 percent from Medicare, and 17 percent from Medicaid.

***Derivative Instruments***

All derivative instruments, specifically interest rate swaps, are recorded on the consolidated statement of financial position at their fair value. The Communities use interest rate swaps to reduce volatility in cash flow arising from their variable-rate borrowings. Management did not elect hedge accounting. Therefore, the change in the fair value of derivative instruments is reflected in nonoperating expense in the accompanying consolidated statement of operations and changes in net assets without donor restrictions (see Note 11).

(in thousands)

## Note 2 - Summary of Significant Accounting Policies (Continued)

***Benevolent Care Fund***

The Communities have adopted a policy requiring amounts received from unrestricted wills and bequests through Covenant Estate Planning Services, net of assessments for Covenant Estate Planning Services' operating expenses, to be placed into the benevolent care fund (a component of board-designated assets whose use is limited). The earnings from the benevolent care fund are used to offset charity care costs (see Notes 4 and 5).

***Unamortized Debt Expense***

Underwriting fees and expenses related to the procurement of debt are deferred and amortized straight-line over the life of the related long-term debt. These costs are recorded as a reduction in the recorded balance of outstanding long-term debt. In previous years, in conjunction with the issuance of long-term debt (see Note 10), the Communities incurred $9,044 of debt issuance costs. The Communities incurred $280 and $2,431 of debt expense during the year ended September 31, 2022 and 2021, respectively. In addition, the Communities wrote off $3,807 of debt expense due to the refunding of Series 2012, Series 2013, and Series 2015A (see Note 10). Unamortized debt expense is shown net of accumulated amortization of $1,571 and $1,269 at September 30, 2022 and 2021, respectively.

***Property and Equipment***

Property and equipment acquired through business combination are recorded at fair value on the date of acquisition. All other property and equipment are recorded at cost or fair value if contributed and depreciated using the straight-line method over the expected useful lives of the assets, which are as follows:

| | Years |
|---|---|
| Land improvements | 5-20 |
| Buildings and improvements | 10-50 |
| Furniture and equipment | 3-20 |

Interest costs are capitalized during periods of active construction for qualified expenditures based upon interest rates in place during the construction period until construction is substantially complete. Capitalized interest costs are amortized over the lives consistent with the constructed assets. Capitalized interest costs were $5,753, offset by capitalized interest income of $1,928 for the year ended September 30, 2022, and capitalized interest costs were $8,262, offset by capitalized interest income of $2,677 for the year ended September 30, 2021.

***Long-lived Assets***

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

***Advance Deposits***

These amounts are deposits made by prospective residents of the Communities. Upon entrance to a community, the deposit is applied toward the resident's entrance fee. If the prospect does not become a resident, the deposit, less a service charge, is refunded. Advance deposits are recorded as a current liability.

## Note 2 - Summary of Significant Accounting Policies (Continued)

***Paycheck Protection Program Deferred Income Liability***

Funding received under the Paycheck Protection Program (PPP) is considered an in-substance government grant under the provisions of ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, and is being recognized as the conditions of the PPP agreement have been met. See Note 18 for additional information on the terms and conditions of the PPP agreement.

***Revenue Recognition***

***Routine Resident and Ancillary Service Revenue***

Service revenue consists of monthly rental and routine board and care service income as earned under resident contracts. Resident care service revenue is reported at the amount that reflects the consideration to which the Communities expect to be entitled in exchange for services provided. The majority of the Communities' health care 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. The Communities have 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. The Communities also provide 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. The Communities determine the transaction price based on contractually agreed-upon amounts or rates.

The Communities 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. The Communities have concluded that the nonlease components of the agreements with respect to their senior living communities are the predominant component of the contracts; therefore, the Communities recognize revenue for these resident agreements under Accounting Standards Codification (ASC) 606.

***Entrance Fees***

In addition to monthly service fees, entrance fees are one-time payments made by residents of the Communities entitling them admission to and use of the Communities' facilities.

Entrance fees contracts generally contain two payment streams: the entrance fee and the monthly fees. Both the entrance fee and monthly fees are specified in the contract with the resident. The entrance fee is a fixed amount paid at the time the contract is signed and the resident takes occupancy.

Refundable entrance fees are those entrance fees that are guaranteed to be refunded, regardless of when the contract is terminated. The refundable portion of entrance fees is not included in the transaction price, as the Communities expect to refund those amounts to residents. Nonrefundable entrance fees are those entrance 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 entrance fees become nonrefundable and would be considered part of the transaction price.

The nonrefundable portion of the entrance fee represents a right to the resident to access future services. This right is deemed to be the Communities' performance obligation. Nonrefundable entrance fees totaled $272,029 and $252,783 at September 30, 2022 and 2021, respectively; are recorded as deferred revenue; and are amortized into income over the actuarial life of each resident. The opening nonrefundable entrance fees balance at October 1, 2020 was $234,086.

## Note 2 - Summary of Significant Accounting Policies (Continued)

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves a community within the first 50 or 60 months of residency. Deferred entrance fees subject to the above refund provisions totaled $117,444 and $101,276 at September 30, 2022 and 2021, respectively.

The Communities also offer 90 percent; 75 percent; or, on a limited basis, 50 percent refundable contracts (approximately 14 percent of contract residents have chosen these three options).

Certain communities offer resident agreements that are life-care agreements that include a 50, 55, or 90 percent refund of the entrance fee (payable at the date of resale of the apartment) to the resident’s estate. The nonrefundable portion is recognized as income ratably over the estimated remaining life expectancy of each resident, which is evaluated annually. The refundable portion is not amortized.

Included in refundable contract liabilities, other current liabilities, and other long-term liabilities on the consolidated statement of financial position are $256,678 and $231,178 of refundable entrance fees at September 30, 2022 and 2021, respectively.

Entrance fee refunds under all programs were $31,574 and $21,073 for the years ended September 30, 2022 and 2021, respectively. Although a portion of refundable contract liabilities and deferred revenue is classified as current liabilities, the likelihood of actual payment of these total liabilities within one year is remote based on the Communities' experience.

***Obligation to Provide Future Services***

Annually, the Communities actuarially calculate the present value of the net cost of future services and use of facilities to be provided to current residents and compare that amount to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities were to exceed the deferred revenue from entrance fees, a liability (obligation to provide future services) would be recorded with the corresponding charge to income. At September 30, 2022 and 2021, the present value of the net cost of future services and the use of facilities was greater than deferred revenue from nonrefundable entrance fees for Three Crowns Park, and, accordingly, a future services obligation of $11,644 and $14,651, respectively, has been recognized in the accompanying consolidated statement of financial position within other liabilities. The obligation was discounted at 5 percent.

***Charity Care***

Under the terms of the residents’ agreements, the Communities are not required to maintain those residents who are unable to pay their entire monthly maintenance charges; however, as a matter of policy, such residents generally have remained in the facility. Normal charges for these services are not recorded as revenue in the consolidated statement of operations and changes in net assets without donor restrictions. Funds to support these residents are derived primarily from contributions, public aid, and earnings from the benevolent care fund (see Note 4).

***Contributions***

Contributions are reported at fair value at the date of the contribution. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost.

Government grants are accounted for as conditional contributions, being nonexchange in nature. These grants are reported within other operating revenue on the consolidated statement of operations and changes in net assets without donor restrictions and are recognized as revenue as certain conditions are met, as outlined within the U.S. Department of Health and Human Services (HHS) published terms and conditions.

## Note 2 - Summary of Significant Accounting Policies (Continued)

Donor-restricted contributions whose restrictions are met in the year in which the gift is recognized are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

***Classification of Net Assets***

Net assets of the Communities are classified as net assets without donor restrictions or net assets with donor restrictions, depending on the presence and characteristics of donor-imposed restrictions limiting the Communities' ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements and donor-imposed restrictions that limit the use of net assets in perpetuity result in net assets with donor 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. Total net assets with donor restrictions at September 30, 2022 and 2021 of $19,519 and $19,664, respectively, include $2,881 and $3,772, respectively, of irrevocable trusts, which are not available for use until assets are distributed from the trusts; $8,540 and $6,391, respectively, of contributions restricted for a particular purpose; and $8,098 and $9,501, respectively, of endowment net assets that have been restricted by donors to be maintained in perpetuity.

***(Loss) Income (Performance Indicator)***

(Loss) income reports the results of operations of the entirety of the Communities. In addition to the income from resident care operations, (loss) income includes investment income, realized gains and losses on investments, unrealized gains and losses on investments, and other items. Changes in net assets without donor restrictions, which are excluded from (loss) income, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods (net asset transfer to support benevolent care) and services and contributions of long-lived assets (including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets).

***Tax Status***

The Communities qualify as tax-exempt organizations under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code. The Communities follow the accounting standards for contingencies in evaluating uncertain tax positions. The income tax returns are subject to review and examination by federal, state, and local authorities.

***Functional Allocation of Expenses***

The costs of providing the program and support services have been reported on a functional basis in Note 19. Costs are allocated between the various program and support services on an actual basis, where available, or based upon reasonable methods. Expenses that are allocated include depreciation and amortization, interest, and insurance, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

***Goodwill***

The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition.

## Note 2 - Summary of Significant Accounting Policies (Continued)

The Communities have elected to apply the private company accounting alternative for goodwill developed by the Private Company Council. Under the accounting alternative, goodwill is amortized on a straight-line basis over a 10-year period. Two reporting units, Tulsa Hills Community, Inc. dba Covenant Living at Inverness and Three Crowns Park have goodwill, each has a negative carrying amount at September 30, 2022. The allocated goodwill to Covenant Living at Inverness at September 30, 2022 and 2021 is $66,559, reported net of accumulated amortization of $19,968 and $13,312, respectively. Amortization expense for the years ended September 30, 2022 and 2021 is $6,656. The allocated goodwill to Three Crowns Park at September 30, 2022 and 2021 is $34,247, reported net of accumulated amortization of $4,281 and $856, respectively. Amortization expense for the years ended September 30, 2022 and 2021 is $3,425 and $856, respectively.

Additionally, goodwill is assessed for potential impairment if events occur or circumstances change that indicate the fair value of the Communities' reporting unit may be less than its carrying value. The Communities have elected to test goodwill for impairment at the reporting unit level.

***Upcoming Accounting Pronouncement***

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 was issued to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments of ASU No. 2020-04 only apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2024. The Communities do not expect ASU No. 2020-04 to have a material effect on the current financial position, results of operations, or consolidated financial statement disclosures.

***Recently Adopted Accounting Pronouncement***

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The standard removes the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. The Communities adopted the new ASU effective October 1, 2021 on a prospective basis.

***Reclassification***

The Communities previously classified $665 of current maturities of long-term debt and $35,767 of long-term debt related to Three Crowns Park bonds as current other liabilities and other liabilities, respectively, on the 2021 consolidated statement of financial position. These amounts have been reclassified to current maturities of long-term debt and long-term debt - less current maturities to conform to the 2022 presentation. The reclassification did not change the total current or long-term liabilities as of September 30, 2021.

## Note 3 - Fair Value Measurements

In determining fair value, the Communities use various valuation approaches. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or a liability.

## Note 3 - Fair Value Measurements (Continued)

ASC 820 establishes a hierarchy 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 input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Communities. Unobservable inputs are inputs that reflect the Communities' assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

The hierarchy is measured in the following three levels based on the reliability of inputs:

***Level 1***

Valuations are based on quoted prices in active markets for identical assets or liabilities that the Communities have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

***Level 2***

Valuations are not based on quoted prices for identical assets or liabilities but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third-party pricing services for comparable assets or liabilities.

***Level 3***

Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

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. The Communities’ assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

***Fair Value of Financial Instruments Carried at Fair Value***

The following are categories of assets measured at fair value on a recurring basis during the years ended September 30, 2022 and 2021 using unadjusted quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

The Communities' interest in the investment pool is valued on a recurring basis and is a direct interest in the investment pool, valued using Level 3 inputs of the valuation hierarchy. For the year ended September 30, 2022, there were no deposits and total allocated pooled losses of $50,012. For the year ended September 30, 2021, there was a deposit of $10,000 and total allocated pooled earnings of $54,594.

**(in thousands)**

## Note 3 - Fair Value Measurements (Continued)

| | Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2022 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at September 30, 2022 |
| **Assets** | | | | |
| Interest in investment pool | $ - | $ - | $ 336,193 | $ 336,193 |
| Other - Short-term investments | 7,782 | - | - | 7,782 |
| Covenant trust endowment - Equity investment funds (Note 16) | - | 2,544 | - | 2,544 |
| Restricted under state and debt agreements: | | | | |
| Short-term investments | 45,206 | - | - | 45,206 |
| Fixed-income securities | - | 72,920 | - | 72,920 |
| Total restricted under state and debt agreements | 45,206 | 72,920 | - | 118,126 |
| Other investments: | | | | |
| Short-term investments | 18 | - | - | 18 |
| Equity securities | 247 | - | - | 247 |
| Fixed-income securities | 3,987 | - | - | 3,987 |
| Assets held in perpetual trusts | - | - | 432 | 432 |
| Total other investments (Note 6) | 4,252 | - | 432 | 4,684 |
| Total | $ 57,240 | $ 75,464 | $ 336,625 | $ 469,329 |
| Investments held for insurance obligations: | | | | |
| International equity | $ - | $ 3,473 | $ - | $ 3,473 |
| Fixed-income securities | - | 14,224 | - | 14,224 |
| Alternative investment funds (held within interest in investment pool) | - | - | 187 | 187 |
| Total (Note 6) | $ - | $ 17,697 | $ 187 | $ 17,884 |
| Interest in irrevocable trusts | $ - | $ - | $ 2,881 | $ 2,881 |
| Derivatives - Interest rate swaps (Note 11) | $ - | $ 1,290 | $ - | $ 1,290 |
| **Liabilities** - Derivatives - Interest rate swaps (Note 11) | $ - | $ 802 | $ - | $ 802 |

(in thousands)

## Note 3 - Fair Value Measurements (Continued)

| | Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2021 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at September 30, 2021 |
| **Assets** | | | | |
| Interest in investment pool | $ - | $ - | $ 386,205 | $ 386,205 |
| Other - Short-term investments | 7,078 | - | - | 7,078 |
| Covenant trust endowment - Equity investment funds (Note 16) | - | 3,034 | - | 3,034 |
| Restricted under state and debt agreements: | | | | |
| Short-term investments | 47,194 | - | - | 47,194 |
| Fixed-income securities | - | 94,671 | - | 94,671 |
| Total restricted under state and debt agreements | 47,194 | 94,671 | - | 141,865 |
| Other investments: | | | | |
| Short-term investments | 7,262 | - | - | 7,262 |
| Assets held in perpetual trusts | - | - | 509 | 509 |
| Total other investments (Note 6) | 7,262 | - | 509 | 7,771 |
| Total | $ 61,534 | $ 97,705 | $ 386,714 | $ 545,953 |
| Investments held for insurance obligations: | | | | |
| International equity | $ - | $ 2,877 | $ - | $ 2,877 |
| Fixed-income securities | - | 15,680 | - | 15,680 |
| Alternative investment funds (held within interest in investment pool) | - | - | 157 | 157 |
| Total (Note 6) | $ - | $ 18,557 | $ 157 | $ 18,714 |
| Interest in irrevocable trusts | $ - | $ - | $ 3,772 | $ 3,772 |
| **Liabilities** - Derivatives - Interest rate swaps (Note 11) | $ - | $ 3,333 | $ - | $ 3,333 |

The interest in irrevocable trusts and perpetual trusts are categorized as Level 3 assets. The Communities estimate the fair value of these assets based upon the fair value of the underlying assets in the trusts, unless facts and circumstances indicate the fair value would be different from the present value of estimated future distributions. The fair value of the interest rate swaps were determined primarily based on Level 2 inputs. The Level 2 inputs used in estimating the fair value of the swap agreements includes the notional amounts, effective interest rates, and maturity dates.

**(in thousands)**

## Note 3 - Fair Value Measurements (Continued)

See Note 5 for details regarding the composition of assets whose use is limited, including interest in investment pool.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended September 30, 2022 and 2021 are as follows:

| | Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | Interest in Irrevocable Trusts | Assets Held in Perpetual Trusts |
| Beginning balance - October 1, 2021 | $ 3,772 | $ 509 |
| Net (withdrawals) deposits | (47) | 23 |
| Unrealized losses | (844) | (100) |
| Ending balance - September 30, 2022 | $ 2,881 | $ 432 |

| | Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | Interest in Irrevocable Trusts | Assets Held in Perpetual Trusts |
| Beginning balance - October 1, 2020 | $ 2,946 | $ - |
| Balance acquired through Three Crowns Park affiliation | - | 510 |
| Net deposits | 832 | - |
| Unrealized losses | (6) | (1) |
| Ending balance - September 30, 2021 | $ 3,772 | $ 509 |

## Note 4 - Charity Care and Other Unreimbursed Care

Pursuant to their mission statement, as described in Note 1, the Communities provide free services to those residents who are unable to pay all or a portion of their charges and who meet certain eligibility criteria.

Records are maintained to identify and monitor the level of charity care provided. For the years ended September 30, 2022 and 2021, unreimbursed costs forgone for charity care were $4,226 and $3,979, respectively, and charitable gifts received to offset costs totaled $5,292 and $4,218, respectively. The Communities use a cost per resident day amount to determine unreimbursed costs.

In addition to charity care, the Communities provide care to residents under governmental programs that reimburse the Communities at rates less than their cost. The Communities provided partially reimbursed care for the years ended September 30, 2022 and 2021 as follows:

| | 2022 | 2021 |
|---|---|---|
| Estimated cost of Medicaid services provided | $ 47,876 | $ 44,930 |
| Less government reimbursement | (29,218) | (28,690) |
| Unreimbursed care - Based on estimated cost | $ 18,658 | $ 16,240 |

(in thousands)

## Note 5 - Assets Whose Use is Limited, Including Interest in Investment Pool

Assets whose use is limited, including interest in investment pool, include assets classified in the following three categories:

Board designated - Assets set aside by the board of directors (the "Board") for benevolent care, property replacement, reserve for refundable contracts, and certain current and future construction and capital projects over which the Board retains control and, at its direction, may subsequently use for other purposes.

Restricted under state and debt agreements - Assets held by bond trustees under the terms of the Master Indenture agreement, various bond trust indentures, and state laws for debt service reserves, certain construction projects, and operating expense escrow accounts.

Endowment - Assets restricted by donors in perpetuity as an endowment fund.

The uses of assets whose use is limited, including interest in investment pool, at September 30, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Interest in investment pool: | | |
| Board designated: | | |
| Benevolent care fund | $ 80,400 | $ 89,286 |
| Capital reserve fund | 38,608 | 65,282 |
| Property replacement fund | 91,492 | 101,455 |
| Reserve for refundable contracts | 97,218 | 97,424 |
| Other | 22,921 | 26,291 |
| Total board designated | 330,639 | 379,738 |
| Endowment - Brandel Fund | 5,554 | 6,467 |
| Total interest in investment pool | 336,193 | 386,205 |
| Endowment - Covenant trust | 2,544 | 3,034 |
| Board-designated investments - Other | 7,782 | 7,078 |
| Restricted under state and debt agreements: | | |
| Bond interest, sinking, and expense fund | 13,077 | 13,816 |
| Bond project fund | 72,423 | 97,321 |
| Debt service reserve fund | 20,236 | 20,988 |
| State-required reserves | 12,390 | 9,740 |
| Total restricted under state and debt agreements | 118,126 | 141,865 |
| Total | $ 464,645 | $ 538,182 |

(in thousands)

## Note 5 - Assets Whose Use is Limited, Including Interest in Investment Pool (Continued)

The components of assets whose use is limited, including the underlying assets within the interest in investment pool held by the Communities, at September 30, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Equity securities: | | |
| Board designated | $ 53,223 | $ 66,648 |
| Brandel endowment | 882 | 1,135 |
| Covenant trust endowment | 2,544 | 3,034 |
| Total equity securities | 56,649 | 70,817 |
| Fixed-income securities: | | |
| Board designated | 112,810 | 133,566 |
| Restricted under state and debt agreements | 72,920 | 94,671 |
| Endowment | 1,887 | 2,275 |
| Total fixed-income securities | 187,617 | 230,512 |
| Alternative investments: | | |
| Board designated: | | |
| International equity | 45,579 | 62,177 |
| Hedge funds | 30,407 | 31,173 |
| Private equity | 9,991 | 11,246 |
| Mortgages | 2,119 | 2,193 |
| Domestic equity | 75,790 | 70,563 |
| Puts and calls | 1,831 | 2,172 |
| Endowment: | | |
| International equity | 766 | 1,059 |
| Hedge funds | 511 | 531 |
| Private equity | 168 | 192 |
| Mortgages | 36 | 37 |
| Domestic equity | 1,273 | 1,202 |
| Puts and calls | 31 | 36 |
| Total alternative investments | 168,502 | 182,581 |
| Short-term investments: | | |
| Board designated | 6,671 | 7,078 |
| Restricted under state and debt agreements | 45,206 | 47,194 |
| Total short-term investments | 51,877 | 54,272 |
| Total | $ 464,645 | $ 538,182 |

**(in thousands)**

## Note 6 - Other Assets

Other assets at September 30, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Investment in real estate - Net | $ 7,721 | $ 6,952 |
| Investment held for insurance obligation by CIIC (Note 3) | 17,884 | 18,714 |
| Other | 4,283 | 2,975 |
| Symbria, Inc. Employee Stock Ownership Trust subordinated note | - | 3,201 |
| Due from Covenant Ministries of Benevolence (Note 13) | 1,229 | 1,159 |
| Investment in Covenant Living of Portland, LP | - | 7,245 |
| Other investments held by Three Crowns Foundation and Three Crowns Park (Note 3) | 4,684 | 7,771 |
| Total | $ 35,801 | $ 48,017 |

Included in other assets is $17,884 and $18,714 of investments held by CIIC primarily for the purpose of funding insurance obligations as of September 30, 2022 and 2021, respectively (see Note 2).

During the year ended September 30, 2021, Covenant Living of Portland, LP, a wholly owned subsidiary of Covenant Housing Corporation (CHC), sold its real estate assets to an unrelated third party. CHC's investment in Covenant Living of Portland, LP is $7,245 at September 30, 2021 and is included in other assets. During 2022, a net asset transfer to Covenant Living Communities and Services was made for $7,121, which represented the remaining net assets of Covenant Living of Portland, LP. This activity is eliminated within the accompanying consolidated financial statements.

In October 2015, the Communities sold their shares of Symbria, Inc. to the Symbria, Inc. Employee Stock Ownership Trust, with a portion of the consideration in an interest-bearing note and 32,051 of unexercised warrant shares. At September 30, 2021, the subordinated note plus accrued interest totaled $3,201 and is recorded in other assets. During 2022, the Communities determined the note receivable to be impaired and recognized $3,201 as an impairment loss within other nonoperating expense for the year ended September 30, 2022. The Communities have not recorded any amounts related to the warrant shares, as the value is not material at September 30, 2022 and 2021.

## Note 7 - Property and Equipment

Property and equipment at September 30, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Land and land improvements | $ 70,609 | $ 65,138 |
| Buildings and improvements | 1,019,553 | 917,287 |
| Furniture and equipment | 281,280 | 265,459 |
| Construction in progress (Note 12) | 60,002 | 54,401 |
| Property and equipment - At cost | 1,431,444 | 1,302,285 |
| Less accumulated depreciation | 659,388 | 622,895 |
| Property and equipment - Net | $ 772,056 | $ 679,390 |

On August 17, 2021, Covenant Living Services entered into an agreement with The Prospect-Woodward Home d/b/a Hillside Village Keene, a New Hampshire not-for-profit corporation to purchase Hillside Village Keene, a licensed continuing care retirement facility.

**(in thousands)**

## Note 7 - Property and Equipment (Continued)

Upon close of the sale on February 10, 2022, the operations were established with Covenant Living of Keene. Covenant Living Services applied Accounting Standards Update No. 2017-01: *Business Combinations (Topic 805): Clarifying the Definition of the Business.* Covenant Living Services determined that the purchased continuing care retirement facility did not meet the definition of a business and, therefore, has recorded the transaction as an asset purchase at the fair value of consideration paid of $33,150 and $42,339 of liabilities assumed.

## Note 8 - Continuing Care Requirements

Under the provisions of various state regulations, the Communities are required to maintain escrow accounts to cover defined portions of debt service and annual operating expenses. Management believes the Communities were in compliance with all such state regulations at September 30, 2022 and 2021.

## Note 9 - Line of Credit

Covenant Living Communities and Services has a secured bank line of credit with a maximum draw of $9,500. The line of credit is reduced by certain outstanding letters of credit, which totaled $4,081 and $4,096 at September 30, 2022 and 2021, respectively. The line has no compensating balance arrangement but required a commitment fee equal to one-quarter of 1 percent per annum on the average daily unused portion, payable quarterly. There were no draws on the line as of and for the years ended September 30, 2022 and 2021. The line of credit matured on June 1, 2022. During 2022, the line of credit was modified to amend the commitment fee to a rate of 0.15 percent per annum on the actual daily unused portion of the revolving credit loan commitment; amend the interest rate to the Bloomberg Short-Term Bank Yield Index (BSBY) rate plus 1.05 percent; and to extend the maturity date to June 1, 2025.

## Note 10 - Long-term Debt and Other Obligations

Long-term debt at September 30, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Master Trust Indenture obligations of Covenant Living Communities and Services Obligated Group: | | |
| Colorado Health Facilities Authority revenue refunding bonds, Series 2015A, due in 2036, interest at 1.0 percent - 5.0 percent | $ 78,490 | $ 82,675 |
| Colorado Health Facilities Authority revenue refunding bonds, Series 2015B, due in 2025, interest adjusted weekly, 2.72 percent at September 30, 2022 | 3,715 | 6,805 |
| Illinois Finance Authority revenue refunding direct placement bonds, Series 2017, due in 2029, interest rate adjusted weekly, 2.82 percent at September 30, 2022 | 34,220 | 38,130 |
| Colorado Health Facilities Authority revenue bonds, Series 2018A, due in 2048, interest at 5.0 percent | 59,780 | 59,780 |
| State of Connecticut Health and Educational Facilities Authority revenue bonds, Series 2018B, due in 2040, interest at 5.0 percent | 43,715 | 44,900 |
| Colorado Health Facilities Authority revenue bonds, Series 2020A, due in 2051, interest at 4.00 percent | 82,250 | 82,250 |
| Colorado Health Facilities Authority revenue bonds, Series 2020B, due in 2040, interest at 2.80 percent - 4.48 percent | 161,560 | 161,560 |
| 2019 term loan, due in 2024, interest at 2.45 percent | 45,000 | 45,000 |
| 2022 term loan, due in 2027, interest at 2.50 percent | 40,000 | - |

(in thousands)

## Note 10 - Long-term Debt and Other Obligations (Continued)

| | 2022 | 2021 |
|---|---|---|
| Master Trust Indenture obligations of Three Crowns Park: | | |
| Three Crowns Park - Illinois Finance Authority revenue bonds Series 2013, due in 2040, interest at 5.25 percent | 3,035 | 3,035 |
| Three Crowns Park - Illinois Finance Authority revenue refunding bonds, Series 2017, due in 2047, interest at 3.25 percent - 5.25 percent | 31,425 | 32,090 |
| Total long-term debt | 583,190 | 556,225 |
| Less current maturities | (14,535) | (13,035) |
| Less unamortized debt issuance costs - Net of accumulated amortization | (6,377) | (6,399) |
| Plus unamortized original issue premium | 18,863 | 19,567 |
| Total long-term debt - Less current maturities | $ 581,141 | $ 556,358 |

### *Master Trust Indenture Obligations*

The Communities, excluding Covenant Living Services and its affiliates, are members of the obligated group, as defined (the "Obligated Group") under the Master Trust Indenture. As members, each community is jointly and severally liable for the repayment of the Master Trust Indenture bonds. The Master Trust Indenture obligations, totaling $548,730 at September 30, 2022, are secured by mortgages on substantially all real estate, personal property (equipment and fixtures), and accounts receivable of the Obligated Group. Members of the Obligated Group make monthly interest and principal deposits into bond interest and sinking funds controlled by the bond trustee. The Master Trust Indenture and related agreements require the maintenance of minimum debt service coverage and days cash on hand ratios, as defined; require the maintenance of minimum debt service reserve funds; and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the Obligated Group was in compliance with these requirements at September 30, 2022.

All of the tax-exempt revenue bonds are subject to optional early redemption by the issuers prior to maturity at premiums of up to 2 percent for redemptions within stated time periods.

On October 1, 2020, the Obligated Group issued revenue bonds, Series 2020A and 2020B for $82,250 and $161,560, respectively, to pay the Colorado Health Facilities Authority 2012A, 2012B, 2012C, and 2013A bonds; to pay the California Statewide Communities Development Authority 2013C bonds; to buy back $6,500 of the 2015A bonds; to fund capital project and interest reserve accounts; and to pay the costs of issuance.

As a result of the 2020A and 2020B issuance, $182,305 of previously held obligations were extinguished early. The Communities recognized $18,754 as a loss on the debt extinguishment in 2021.

On October 31, 2019, Tulsa Hills Community, Inc., an entity of Covenant Living Services, acquired Inverness Village, a senior living community located in Tulsa, Oklahoma, through bankruptcy proceedings. Pursuant to the terms and conditions of an asset purchase agreement dated July 22, 2019 between Inverness Village and Tulsa Hills, the assets and liabilities were acquired for a purchase price of $41,000, funded through a $45,000 taxable term loan (the “Bank Loan”). The Bank Loan is held by Covenant Living Communities and Services. The Bank Loan matures on October 24, 2024 and has a fixed interest rate of 2.45 percent per annum, with payments of interest only through November 1, 2022, at which time principal payments are due annually. All remaining unpaid principal and interest is due on the maturity date.

**(in thousands)**

## Note 10 - Long-term Debt and Other Obligations (Continued)

As described in Note 7, Covenant Living Services acquired Covenant Living of Keene, a senior living community located in Keene, New Hampshire, through bankruptcy proceedings. Pursuant to the terms and conditions of an asset purchase agreement dated August 17, 2021 between Hillside Village and Covenant Living Services, the assets and liabilities were acquired for a purchase price of $33,150, funded through a $40,000 taxable term loan (the "2022 Term Loan"). The 2022 Term Loan is held by Covenant Living Communities and Services. The 2022 Term Loan matures on February 10, 2027 and has a fixed interest rate of 2.50 percent per annum, with payments of interest only through February 1, 2025, at which time principal payments are due annually. All remaining unpaid principal and interest is due on the maturity date.

The weighted-average interest rate on all outstanding borrowings was approximately 3.9 percent at September 30, 2022.

On April 25, 2013, Three Crowns Park issued $3,035 in revenue bonds through the Illinois Finance Authority (Series 2013). The bonds are secured by substantially all assets of TCP. The bonds are subject to mandatory sinking fund redemption of $1,400 due in February 2039, and the final balance is due at maturity in February 2040.

On July 25, 2017, Three Crowns Park issued $34,210 in refunding revenue bonds through the Illinois Finance Authority (Series 2017). The bonds are secured by substantially all assets of Three Crowns Park. The bonds are subject to mandatory sinking fund redemptions in varying installments prior to the final maturity dates ranging from 2018 to 2047. The bonds were sold at a premium of $1,106, which is being amortized as a reduction of interest expense over the life of the associated bond term using the effective interest method. As part of the affiliation, as described in Note 2, the fair market value of the Three Crowns Park bonds was based on the market price as of July 1, 2021. The estimated fair value of the bonds exceeded the value at acquisition, resulting in a fair value adjustment of $450, which is being amortized over the remaining bond term.

Under the terms of the bond agreement, Three Crowns Park is required to maintain certain financial covenants. At September 30, 2022, Three Crowns Park was in compliance with these financial covenants, as defined.

Subsequent to year end, Three Crowns Park purchased $9,100 (the “Bond Buyback”) of the par amount of the previously issued and outstanding tax-exempt bonds designated as $34,210 Illinois Finance Authority Revenue Refunding Bonds, Series 2017. The Bond Buyback was executed in the secondary market on December 29, 2022. After the Bond Buyback, $22,325 of the Series 2017 Bonds remain outstanding.

***Total Long-term Debt***

Contractual maturities of long-term debt, excluding original issue premium, for years subsequent to September 30, 2022 are as follows:

| Years Ending September 30 | Amount |
|---|---|
| 2023 | $ 14,535 |
| 2024 | 14,995 |
| 2025 | 56,795 |
| 2026 | 15,674 |
| 2027 | 16,159 |
| 2028 and thereafter | 465,032 |
| Total | $ 583,190 |

(in thousands)

## Note 10 - Long-term Debt and Other Obligations (Continued)

The tax-exempt revenue bond indentures require certain funds to be held in accounts controlled by the bond trustees. The funds are primarily invested in fixed-income securities and cash and short-term investments. The total trustee-held funds, which are included in assets whose use is limited, including interest in investment pool as restricted under state and debt agreements at September 30, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Fund: | | |
| Bond interest, sinking, and expense fund | $ 13,077 | $ 13,816 |
| Debt service reserve fund | 20,236 | 20,988 |
| Bond project fund | 72,423 | 97,321 |
| Subtotal | 105,736 | 132,125 |
| Less amounts classified as current | (13,077) | (13,816) |
| Trustee-held funds - Noncurrent | $ 92,659 | $ 118,309 |

### *Other Obligations*

On January 31, 2020, Covenant Living of Geneva (Geneva) and Covenant Living of Bixby (Bixby) entered into a loan with the Huntington National Bank (Huntington) in the amount of $21,100 with an interest rate of the one-month LIBOR (London Interbank Offered Rate) plus 175 basis points (the "Huntington Loan"). Monthly principal and interest payments are due beginning on March 1, 2020, with a final payment of all outstanding principal and accrued interest due on January 31, 2025. A swap was also entered into in connection with the Huntington Loan in order to fix net interest expense at a rate of 3.28 percent (see Note 11). Covenant Living Communities and Services fully guarantees the loan and the swap. At September 30, 2022 and 2021, the balance was $19,997 and $20,438, respectively, and is recorded within other current liabilities and other liabilities within the accompanying consolidated statement of financial position.

Current maturities of other long-term debt obligations for years subsequent to September 30, 2022 are as follows:

| Years Ending September 30 | Geneva and Bixby |
|---|---|
| 2023 | $ 458 |
| 2024 | 473 |
| 2025 | 19,066 |
| Total | $ 19,997 |

### *Line of Credit*

On September 27, 2010, Covenant Holdings One, LLC entered into a revolving line of credit with National Covenant Properties with an available credit line of $4,000. During the year ended January 31, 2011, Covenant Holdings One, LLC borrowed $4,000 on the line of credit. As of September 30, 2022 and 2021, the outstanding balance on the line is $4,000 and is recorded within payable to Covenant Institutions within the accompanying consolidated statement of financial position. The line of credit bears interest at the prime rate or a minimum of 4 percent, due monthly. The principal amount borrowed is due no later than 20 years from the date of first disbursement of loan funds, which was November 1, 2010. Subsequent to year end, the $4,000 outstanding balance was paid off.

(in thousands)

## Note 11 - Derivative Instruments

The Communities entered into interest rate swap agreements to manage their debt structure and lessen interest rate risk. At September 30, 2022, the fair values aggregate to an asset of $1,290 and a liability of $802 and are recorded in other assets and other liabilities. At September 30, 2021, the fair values aggregated to a liability of $3,333 and is recorded in other liabilities. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable-rate debt. The swap agreements are contracts to exchange variable-rate payments for fixed-rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. During the years ended September 30, 2022 and 2021, the Communities had the following interest rate swaps in effect:

| Counterparty | Maturity Date | Rate Paid | Rate Received | Notional Amount | Market Value at September 30, 2022 | Market Value at September 30, 2021 |
|---|---|---|---|---|---|---|
| Wells Fargo Bank, N.A. | 12/1/2034 | 3.59 % | 67% of 1M LIBOR | $ 11,360 | $ (734) | $ (2,283) |
| Wells Fargo Bank, N.A. | 12/1/2025 | 3.49 % | 67% of 1M LIBOR | 5,275 | (68) | (447) |
| The Huntington National Bank | 1/31/2025 | 1.53 % | 100% of 1M LIBOR | 19,997 | 1,290 | (603) |

The Wells Fargo Bank, N.A. and the Huntington National Bank International Swaps and Dealers Association, Inc. (ISDA) contain an additional termination event. If the long-term unsecured, unenhanced senior debt rating falls below certain thresholds, it triggers an additional termination event. The Communities have three remedies available in lieu of termination, including collateral posting. No collateral was required to be posted at September 30, 2022 or 2021.

The net amount paid to Wells Fargo Bank, N.A. and Huntington National Bank under the interest rate swap agreements during the years ended September 30, 2022 and 2021 totaled $693 and $894, respectively. The expense is recorded as interest expense on interest rate swaps.

The change in the fair market value of the swaps of a gain of $3,820 and $1,538 is recorded as a component of nonoperating revenue (expense) in the consolidated statement of operations and changes in net assets without donor restrictions for the years ended September 30, 2022 and 2021, respectively.

## Note 12 - Construction in Progress

The construction in progress balance of $60,002 and $54,401 at September 30, 2022 and 2021, respectively, relates to various projects across the Communities. All of the projects are for the purpose of improving or expanding resident facilities and are in accordance with Covenant Living Communities and Services' not-for-profit tax status. Sufficient funds to complete all projects are available from bond project funds and board-designated reserves. The Communities entered into a construction commitment with a total contract price of $29,213, with a balance to finish of $5,320, which includes retainage at September 30, 2022.

## Note 13 - Related Party Transactions

Included in assets whose use is limited, including interest in investment pool, classified as noncurrent at September 30, 2022 and 2021 are $1,236 and $1,206, respectively, of National Covenant Properties certificates of deposit. During the years ended September 30, 2022 and 2021, interest income earned on the National Covenant Properties certificates of deposit totaled $36.

(in thousands)

## Note 13 - Related Party Transactions (Continued)

On July 31, 2014, CMB sold its ownership in Emanuel Medical Center (EMC) to a third-party provider. On August 1, 2014, ownership of Brandel Manor-Cypress, a 145-bed skilled nursing facility, and Cypress, a 29-bed assisted living facility, transferred to CMB. While ownership of the facilities belongs to CMB, Covenant Living Communities and Services signed a lease agreement to lease the operations and management for both facilities. The initial lease term is 10 years with two optional 5-year extension periods and a $300 annual base rent.

Included in other assets at September 30, 2022 and 2021 is $1,229 and $1,159, respectively, of amounts due from Covenant Ministries of Benevolence.

Included in administrative and general expenses are management fees paid to Covenant Ministries of Benevolence of $565 and $1,400 for the years ended September 30, 2022 and 2021, respectively.

Certain costs, which relate to trust contributions, are incurred by the Communities in connection with Covenant Estate Planning Services of The Evangelical Covenant Church, which assists certain residents and nonresidents in managing assets, establishing trusts, and other related activities. There were no amounts paid to Covenant Estate Planning Services during the years ended September 30, 2022 and 2021.

## Note 14 - Pension Plan

Certain full-time employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning January 1, 2013, the Communities began to match contributions to a defined contribution plan, based on eligibility, made by employees up to 3 percent of each employee's salary. The Communities recorded expense of $2,497 and $2,186 for the match for the years ended September 30, 2022 and 2021, respectively.

Pension expense, representing the Communities' required contribution to the Plan, was $1,436 and $1,772 for the years ended September 30, 2022 and 2021, respectively. The contributions made by the Communities represented more than 5 percent of the total contributions made to the Plan. To the extent the Plan is underfunded, future contributions to the Plan may increase.

The Evangelical Covenant Church Retirement Plan is not an Employee Retirement Income Security Act of 1974 plan and is not required to file Form 5500. The Plan's fiscal year is from January 1 to December 31.

Contributions from all employers to the Plan for the year ended December 31, 2021 are as follows:

| Pension Fund | FEIN | Total Contributions to the Plan for the Year Ended December 31, 2021 |
|---|---|---|
| The Evangelical Covenant Church Retirement Plan | 36-2167730 | $ 1,167 |

As of December 31, 2021, the fair value of the assets of the Plan was $324,626, and the actuarial present value of accumulated plan benefits was $275,430. As of December 31, 2020, the fair value of the assets was $297,830, and the actuarial present value of the accumulated plan benefits was $278,706.

The information is not yet available for the year ended December 31, 2022.

## Note 15 - Employee Medical Benefit Plan

The Communities sponsor a medical benefit plan available to full-time and eligible part-time employees and their dependents. The plan includes a $250 deductible per plan participant. The medical benefit expense is based on actual medical, dental, and prescription claims paid; administration fees; and the provision for unpaid and unreported claims at year end. At September 30, 2022 and 2021, the liability recorded for unpaid and unreported claims was $3,562 and $2,505, respectively, and is reported in other current liabilities. For the years ended September 30, 2022 and 2021, the medical benefit expense totaled $16,558 and $14,889, respectively.

## Note 16 - Beneficial Interest in Gift Instruments

A source of funds to the Communities is in the form of bequests from The Evangelical Covenant Church members, residents of the Communities, and other parties. The Office of Covenant Estate Planning Services (CEPS) of The Evangelical Covenant Church maintains information as to the estimated values of certain of the Communities' share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal values (where available) for real property, and other reasonable estimates made by the trustees for specific assets. The Communities have recorded their interest in irrevocable trusts as of September 30, 2022 and 2021 at fair value.

Revocable trusts and bequests may be revoked by the donor at any time and, therefore, have not been recorded in the accompanying consolidated financial statements. Proceeds from revocable trusts and bequests will be recorded when received. The ultimate realization of such trusts and bequests may be affected by investment income and appreciation or depreciation, morbidity, mortality, principal reductions, and other factors. Accordingly, the ultimate amounts that will be realized and their timing are not presently determinable.

Amounts related to irrevocable trusts for which the Communities are the named beneficiary but that allow the beneficiary to be changed to a different entity related to The Evangelical Covenant Church at the discretion of the grantor are not considered irrevocable for accounting purposes and, accordingly, are not included in interest in irrevocable trusts in the consolidated statement of financial position.

The Communities have recorded their interest in three endowment accounts funded by distributions from irrevocable trusts. The endowment accounts are managed by CEPS and are to be held in perpetuity. Income on the endowment funds is paid to the Communities quarterly and increases net assets with donor restrictions until the funds are spent for the designated purpose. The value of the endowment accounts at September 30, 2022 and 2021 totaled $2,544 and $3,034, respectively, and is recorded in assets whose use is limited and net assets with donor restrictions in the consolidated statement of financial position.

## Note 17 - Revenue Recognition

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

Medicare - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by each facility.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at per diem rates prospectively determined by the respective states and are adjusted periodically for changes in resident acuity.

Insurance - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates and discounts from established charges.

## Note 17 - Revenue Recognition (Continued)

The payment methodology and amounts earned related to these programs are based on cost and clinical assessments that are subject to review and approval by Medicare and Medicaid. Any adjustment that is a result of this final review and approval will be recorded 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.

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.

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 the Communities' historical settlement activity. The Communities have not applied a constraint to the transaction price for settlement estimates, as the Communities have determined that it is probable that a significant reversal in the amount of the cumulative revenue recognized would occur in the future.

The Communities make an initial and ongoing evaluation of a resident's creditworthiness or obtain third-party verification of payment coverage and, as such, consider the credit risks they assume and any billed amounts not expected to be collected from residents or third parties for services rendered to represent bad debt expense.

For contracts that have performance obligations with a duration of less than one year, the Communities have elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, are 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 Communities have elected the practical expedient allowed under FASB ASC 606-10-32-18 and do not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Communities' expectation that the period between the time the resident services are 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. The Communities do, in certain instances, enter into payment arrangements 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.

(in thousands)

## Note 17 - Revenue Recognition (Continued)

The composition of routine resident and ancillary services by primary payor and by level of care for the years ended September 30, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| Payors: | | |
| Private | $ 226,388 | $ 202,116 |
| Medicare | 58,223 | 54,837 |
| Medicaid | 30,470 | 30,560 |
| Total | $ 315,081 | $ 287,513 |
| Level of care: | | |
| Residential living | $ 119,388 | $ 106,554 |
| Assisted living | 56,257 | 49,249 |
| Skilled nursing | 122,072 | 114,020 |
| Home health | 17,364 | 17,690 |
| Total | $ 315,081 | $ 287,513 |

## Note 18 - COVID-19 Impact

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted health care business operations. During the last quarter of fiscal year 2020 and continuing through fiscal year 2022, the Communities' operations have been significantly impacted. The Communities continued to experience staffing shortages and rising costs to retain and attract employees. The Communities mitigated the impact by managing workforce productivity, delaying capital expenditures, actively managing cash disbursements, and implementing other cost-reduction measures.

The CARES Act was enacted on March 27, 2020 and authorized $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. There was also an additional $8.5 billion in funds appropriated under the American Rescue Plan (ARP) Act of 2021, which were distributed in December 2021 to eligible health care providers.

## Note 18 - COVID-19 Impact (Continued)

***Provider Relief Funds and ARP Rural Payments***

During the year ended September 30, 2022, the Communities received payments of $1,695 as part of general distributions of the CARES Act Provider Relief Fund and ARP Rural payments under the American Rescue Plan Act of 2021. As of September 30, 2021, the Communities had received a total of $9,110 of payments as part of general and targeted distributions of the CARES Act Provider Relief Fund, which were distributed between April 2020 and September 30, 2021. These payments are not subject to repayment, provided the Communities are 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 ARP Rural payments and the impact of the pandemic on the Communities' operating results through September 30, 2022, the Communities believe there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of September 30, 2022 and 2021. Therefore, the Communities have recognized $2,587 and $3,299 in other operating revenue in the accompanying consolidated statement of operations and changes in net assets without donor restrictions for the years ended September 30, 2022 and 2021, respectively.

The Communities have the remaining amount of approximately $32 and $925 recorded within other current liabilities as deferred revenue on the consolidated statement of financial position as of September 30, 2022 and 2021, respectively, where conditions for recognition had not yet been met.

HHS' requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as other operating revenue during the years ended September 30, 2022 and 2021. If the Communities are unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

***Paycheck Protection Program***

During the year ended September 30, 2020, the Communities received a PPP loan through a financial institution of $16,714 under the CARES Act. The loan structure required the Communities' officials to certify certain statements that permitted the Communities to qualify for the loan and provides loan forgiveness for a portion or all of the borrowed amount if the Communities use the loan proceeds for the permitted loan purpose described in the note agreement. While the legal form of the PPP agreement is a loan, the Communities concluded the loan represents, in substance, a grant that was expected to be forgiven and, therefore, had accounted for the agreement as a conditional contribution.

Accounting principles generally accepted in the United States of America (U.S. GAAP) provide that government grants, including certain forgivable government loans, are recognized as income in the period in which the Communities have substantially overcome all measurable performance-related barriers necessary to be entitled to keep the grant funds, based on the notification received from the Small Business Administration of full forgiveness. As of September 30, 2021, the Communities have assessed that all requirements for forgiveness were achieved and, therefore, have recorded contribution revenue for the full balance of the PPP loan within other operating revenue, consistent with generally accepted accounting principles. An audit may be conducted at any time, at the SBA's sole discretion, for up to six years after the date each loan is forgiven.

(in thousands)

## Note 19 - Functional Expenses

The Communities provide various services to their residents. Expenses related to providing these services for the years ended September 30 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Program services: | | |
| Salaries and benefits | $ 175,809 | $ 159,002 |
| Purchased services | 38,970 | 29,888 |
| Equipment and supplies | 28,415 | 25,562 |
| Depreciation and amortization | 54,758 | 50,246 |
| Interest | 16,230 | 12,609 |
| Insurance | 5,587 | 5,778 |
| Other | 28,870 | 27,856 |
| Total program services | 348,639 | 310,941 |
| Support services: | | |
| Salaries and benefits | 22,336 | 20,034 |
| Purchased services | 10,022 | 7,523 |
| Equipment and supplies | 1,669 | 1,686 |
| Depreciation and amortization | 6,415 | 5,272 |
| Interest | 1,902 | 1,323 |
| Insurance | 655 | 606 |
| Other | 13,000 | 14,723 |
| Total support services | 55,999 | 51,167 |
| Fundraising: | | |
| Salaries and benefits | 1,957 | 1,964 |
| Purchased services | 32 | 50 |
| Equipment and supplies | 38 | 30 |
| Other | 1,313 | 352 |
| Total fundraising | 3,340 | 2,396 |
| Total | $ 407,978 | $ 364,504 |

The expenses above include $3,077 and $2,153 of gifts and bequests expenses, which are netted on the accompanying consolidated statement of operations and changes in net assets without donor restrictions within gifts and bequests - net of related expenses for the years ended September 30, 2022 and 2021, respectively.

## Note 20 - Liquidity

The Communities' financial assets available within one year of September 30 for general expenditure are as follows:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 51,942 | $ 43,171 |
| Accounts receivable - Net | 22,089 | 22,018 |
| Total | $ 74,031 | $ 65,189 |

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date.

**(in thousands)**

## Note 20 - Liquidity (Continued)

The Communities have a policy to structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Communities also have certain board-designated assets limited as to use, which, as described in Note 5, have been designated by the board of directors for future capital improvement and may, at its discretion, be made available for general expenditures within the next year. Additionally, the Communities maintain a $9.5 million line of credit, as disclosed in Note 9, which could be drawn upon if necessary.

## Note 21 - Business Combination

***Three Crowns Foundation and Three Crowns Park***

On July 1, 2021, Covenant Living Services, an entity of Covenant Living Communities and Services, entered into an affiliation agreement with Three Crowns Foundation (TCF) and Three Crowns Park (TCP). The primary reason for the acquisition was to continue expansion within Illinois. The total fair value of the assets at the date of acquisition was $62,507, which was allocated to the acquired property and equipment. The aggregate fair value of the assets acquired and liabilities assumed of TCF and TCP exceeded the fair value of the consideration transferred. As a result, Covenant Living Services recognized goodwill of $34,247 as a result of the transaction.

The amounts of TCF and TCP revenue and decrease in net assets without donor restrictions included in the accompanying consolidated statement of operations and changes in net assets without donor restrictions for the year ended September 30, 2021 totaled $2,927 and $(2,647), respectively.

The following table summarizes the acquisition-date fair values of the assets acquired and liabilities assumed:

| | |
|---|---|
| Assets: | |
| Property and equipment | $ 49,435 |
| Financial assets | 12,381 |
| Cash | 691 |
| Total assets | 62,507 |
| Liabilities assumed: | |
| Refundable resident deposits and refundable and nonrefundable entrance fees | (55,648) |
| Accrued liabilities | (5,311) |
| Long-term debt | (35,795) |
| Total liabilities assumed | (96,754) |
| Total identifiable net assets | (34,247) |
| Goodwill | 34,247 |
| Total | $ - |

# Additional Consolidating Information

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## Independent Auditor's Report on Additional Consolidating Information

To the Covenant Living Board
Covenant Living Communities and Services

We have audited the consolidated financial statements of Covenant Living Communities and Services as of and for the year ended September 30, 2022 and have issued our report thereon dated January 19, 2023, which contained an unmodified opinion on the consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional consolidating information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

January 19, 2023

## Consolidating Statement of Financial Position Information

**September 30, 2022**
**(In thousands)**

| | Consolidated | Eliminations | Covenant Housing Corporation | Covenant Living Services | Obligated Group | Eliminations | Covenant Living Communities and Services | All Campuses |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Current Assets** | | | | | | | | |
| Cash and cash equivalents | $ 51,942 | $ - | $ - | $ 7,218 | $ 44,724 | $ - | $ 44,295 | $ 429 |
| Restricted cash | 10,477 | - | - | 613 | 9,864 | - | 8,757 | 1,107 |
| Assets whose use is limited, including interest in investment pool: | | | | | | | | |
| Board designated | 90,470 | - | - | - | 90,470 | - | 5,392 | 85,078 |
| Restricted under debt agreements | 13,077 | - | - | 547 | 12,530 | - | 443 | 12,087 |
| Accounts receivable - Net | 22,089 | 1 | - | 3,967 | 18,121 | - | 508 | 17,613 |
| Prepaid expenses and other assets | 7,501 | - | - | 170 | 7,331 | - | 6,275 | 1,056 |
| Total current assets | 195,556 | 1 | - | 12,515 | 183,040 | - | 65,670 | 117,370 |
| **Property and Equipment - Net** | 772,056 | - | - | 183,378 | 588,678 | - | 31,189 | 557,489 |
| **Other Assets** | 35,801 | (88,854) | - | 6,780 | 117,875 | (1,689) | 113,571 | 5,993 |
| **Interest in Irrevocable Trusts** | 2,881 | - | - | - | 2,881 | - | 3 | 2,878 |
| **Goodwill - Net** | 76,557 | - | - | 76,557 | - | - | - | - |
| **Assets Whose Use is Limited, Including Interest in Investment Pool** | | | | | | | | |
| Board designated | 247,951 | - | 390 | 1,116 | 246,445 | - | 46,696 | 199,749 |
| Restricted under state and debt agreements | 105,049 | - | - | 5,774 | 99,275 | - | - | 99,275 |
| Endowment | 8,098 | - | - | - | 8,098 | - | 5,554 | 2,544 |
| Total assets whose use is limited, including interest in investment pool | 361,098 | - | 390 | 6,890 | 353,818 | - | 52,250 | 301,568 |
| Total Assets | $ 1,443,949 | $ (88,853) | $ 390 | $ 286,120 | $ 1,246,292 | $ (1,689) | $ 262,683 | $ 985,298 |

## Consolidating Statement of Financial Position Information (Continued)

September 30, 2022
(In thousands)

| Liabilities and Net Assets (Deficits) | Consolidated | Eliminations | Covenant Housing Corporation | Covenant Living Services | Obligated Group | Eliminations | Covenant Living Communities and Services | All Campuses |
|---|---|---|---|---|---|---|---|---|
| **Current Liabilities** | | | | | | | | |
| Accounts payable - Trade | $ 20,885 | $ - | $ - | $ 832 | $ 20,053 | $ (1) | $ 16,698 | $ 3,356 |
| Accounts payable - Contractors | 2,349 | - | - | - | 2,349 | - | 2,349 | - |
| Accrued salaries and wages | 14,351 | - | - | - | 14,351 | - | 14,261 | 90 |
| Accrued interest | 6,949 | - | - | 320 | 6,629 | - | 419 | 6,210 |
| Advanced deposits | 1,998 | - | - | 202 | 1,796 | - | 17 | 1,779 |
| Current maturities of long-term debt | 14,535 | - | - | 685 | 13,850 | - | 1,448 | 12,402 |
| Deferred revenue subject to refund | 117,444 | - | - | 13,686 | 103,758 | - | - | 103,758 |
| Refundable contract liabilities | 185,698 | - | - | 64,432 | 121,266 | - | - | 121,266 |
| Other current liabilities | 32,822 | - | - | 9,348 | 23,474 | (89) | 13,074 | 10,489 |
| Total current liabilities | 397,031 | - | - | 89,505 | 307,526 | (90) | 48,266 | 259,350 |
| **Long-term Debt - Less current maturities** | 581,141 | - | - | 34,880 | 546,261 | - | 99,913 | 446,348 |
| **Payable to (from) Covenant Instritutions** | | | | | | | | |
| Covenant Living Communities and Services - Notes and advances | - | (88,854) | - | 88,891 | (37) | (1,694) | 9,642 | (7,985) |
| Other Benevolent institutions- Notes and advances | 4,000 | - | - | 4,000 | - | - | - | - |
| Total payable to (from) Covenant institutions | 4,000 | (88,854) | - | 92,891 | (37) | (1,694) | 9,642 | (7,985) |
| **Other Liabilities** | 96,502 | - | - | 73,843 | 22,659 | - | 8,437 | 14,222 |
| **Deferred Revenue from Entrance Fees** | 272,029 | - | - | 29,725 | 242,304 | - | 13,225 | 229,079 |
| Total liabilities | 1,350,703 | (88,854) | - | 320,844 | 1,118,713 | (1,784) | 179,483 | 941,014 |
| **Net Assets (Deficits)** | | | | | | | | |
| Without donor restrictions | 73,727 | 1 | 390 | (35,777) | 109,113 | 95 | 76,000 | 33,018 |
| With donor restrictions | 19,519 | - | - | 1,053 | 18,466 | - | 7,200 | 11,266 |
| Total net assets (deficits) | 93,246 | 1 | 390 | (34,724) | 127,579 | 95 | 83,200 | 44,284 |
| Total liabilities and net assets | $ 1,443,949 | $ (88,853) | $ 390 | $ 286,120 | $ 1,246,292 | $ (1,689) | $ 262,683 | $ 985,298 |

## Campus Consolidating Statement of Financial Position Information

**September 30, 2022**
**(In thousands)**

| | Total All Campuses | Covenant Living of Colorado | Covenant Home of Chicago | Covenant Living of Florida | Covenant Living of Golden Valley | Covenant Living of the Great Lakes | Covenant Living of Cromwell | Brandel Manor-Cypress |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Current Assets** | | | | | | | | |
| Cash and cash equivalents | $ 429 | $ 12 | $ 105 | $ 98 | $ 5 | $ 7 | $ 145 | $ 3 |
| Restricted cash | 1,107 | 515 | 16 | 31 | 115 | 157 | 212 | 8 |
| Assets whose use is limited, including interest in investment pool: | | | | | | | | |
| Board designated | 85,078 | 12,638 | - | 4,285 | 5,870 | 5,850 | 3,646 | - |
| Restricted under debt agreements | 12,087 | 540 | - | 599 | 784 | 1,182 | 1,770 | - |
| Accounts receivable - Net | 17,613 | 854 | 102 | 1,085 | 1,331 | 693 | 1,250 | 2,047 |
| Prepaid expenses and other assets | 1,056 | 29 | 5 | 12 | 127 | 114 | 401 | 185 |
| Total current assets | 117,370 | 14,588 | 228 | 6,110 | 8,232 | 8,003 | 7,424 | 2,243 |
| **Property and Equipment - Net** | 557,489 | 43,327 | 4,249 | 36,351 | 27,975 | 36,527 | 76,050 | 1,975 |
| **Other Assets** | 5,993 | 434 | - | - | 66 | 200 | 983 | - |
| **Interest in Irrevocable Trusts** | 2,878 | 84 | 71 | 562 | 135 | 10 | 185 | - |
| **Goodwill - Net** | | | | | | | | |
| **Assets Whose Use is Limited, Including Interest in Investment Pool** | | | | | | | | |
| Board designated | 199,749 | 2,014 | 4,818 | 9,263 | 6,186 | 1,343 | 9,880 | - |
| Restricted under state and debt agreements | 99,275 | 4,194 | - | 11,644 | 1,327 | 1,275 | 4,306 | - |
| Endowment | 2,544 | - | - | - | - | - | - | - |
| Total assets whose use is limited, including interest in investment pool | 301,568 | 6,208 | 4,818 | 20,907 | 7,513 | 2,618 | 14,186 | - |
| Total Assets | $ 985,298 | $ 64,641 | $ 9,366 | $ 63,930 | $ 43,921 | $ 47,358 | $ 98,828 | $ 4,218 |

## Campus Consolidating Statement of Financial Position Information (Continued)

September 30, 2022
(In thousands)

| Liabilities and Net Assets (Deficits) | Total All Campuses | Covenant Living of Colorado | Covenant Home of Chicago | Covenant Living of Florida | Covenant Living of Golden Valley | Covenant Living of the Great Lakes | Covenant Living of Cromwell | Brandel Manor-Cypress |
|---|---|---|---|---|---|---|---|---|
| **Current Liabilities** | | | | | | | | |
| Accounts payable - Trade | $ 3,356 | $ 149 | $ 42 | $ 150 | $ 314 | $ 119 | $ 230 | $ 149 |
| Accounts payable - Contractors | - | - | - | - | - | - | - | - |
| Accrued salaries and wages | 90 | - | - | - | - | - | - | - |
| Accrued interest | 6,210 | 270 | - | 246 | 448 | 513 | 729 | - |
| Advanced deposits | 1,779 | 121 | - | 30 | 72 | 19 | 31 | - |
| Current maturities of long-term debt | 12,402 | 2,385 | - | 653 | 401 | 1,476 | 1,245 | - |
| Deferred revenue subject to refund | 103,758 | 9,557 | - | 6,113 | 3,759 | 9,553 | 12,445 | - |
| Refundable contract liabilities | 121,266 | 19,672 | - | 5,939 | 8,251 | 8,886 | 5,140 | - |
| Other current liabilities | 10,489 | 795 | 643 | 541 | 833 | 131 | 340 | 266 |
| Total current liabilities | 259,350 | 32,949 | 685 | 13,672 | 14,078 | 20,697 | 20,160 | 415 |
| **Long-term Debt - Less current maturities** | 446,348 | 30,105 | - | 17,532 | 32,237 | 38,549 | 45,246 | - |
| **Payable to (from) Covenant Instritutions** | | | | | | | | |
| Covenant Living Communities and Services - Notes and advances | (7,985) | 5,159 | 6,162 | 40,797 | 32,107 | 19,763 | 23,285 | 9,948 |
| Other Benevolent institutions- Notes and advances | - | - | - | - | - | - | - | - |
| Total payable to (from) Covenant institutions | (7,985) | 5,159 | 6,162 | 40,797 | 32,107 | 19,763 | 23,285 | 9,948 |
| **Other Liabilities** | 14,222 | - | - | - | 7 | - | - | - |
| **Deferred Revenue from Entrance Fees** | 229,079 | 16,004 | - | 11,078 | 9,142 | 10,556 | 12,634 | - |
| Total liabilities | 941,014 | 84,217 | 6,847 | 83,079 | 87,571 | 89,565 | 101,325 | 10,363 |
| **Net Assets (Deficits)** | | | | | | | | |
| Without donor restrictions | 33,018 | (19,720) | 2,411 | (19,474) | (43,872) | (42,646) | (2,675) | (6,357) |
| With donor restrictions | 11,266 | 144 | 108 | 325 | 222 | 439 | 178 | 212 |
| Total net assets (deficits) | 44,284 | (19,576) | 2,519 | (19,149) | (43,650) | (42,207) | (2,497) | (6,145) |
| Total liabilities and net assets | $ 985,298 | $ 64,641 | $ 9,366 | $ 63,930 | $ 43,921 | $ 47,358 | $ 98,828 | $ 4,218 |

## Campus Consolidating Statement of Financial Position Information (Continued)

**September 30, 2022**
**(In thousands)**

| | Covenant Living at the Holmstad | Covenant Living at Mount Miguel | Covenant Living of Northbrook | Covenant Living at the Samarkand | Covenant Living at the Shores | Covenant Living of Turlock | Covenant Living at Windsor Park |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | $ 10 | $ 6 | $ 6 | $ 11 | $ 5 | $ 7 | $ 9 |
| Restricted cash | 30 | 2 | 7 | 4 | 1 | - | 9 |
| Assets whose use is limited, including interest in investment pool: | | | | | | | |
| Board designated | 9,218 | 4,971 | 13,291 | 8,422 | 14,914 | 1,973 | - |
| Restricted under debt agreements | 2,378 | 529 | 1,946 | 93 | 498 | 1,091 | 677 |
| Accounts receivable - Net | 2,287 | 1,669 | 1,345 | 1,493 | 1,292 | 855 | 1,310 |
| Prepaid expenses and other assets | 22 | 36 | 13 | 58 | 17 | 18 | 19 |
| Total current assets | 13,945 | 7,213 | 16,608 | 10,081 | 16,727 | 3,944 | 2,024 |
| **Property and Equipment - Net** | 48,153 | 38,249 | 72,368 | 46,011 | 37,723 | 29,222 | 59,309 |
| **Other Assets** | 371 | 1,432 | 1,481 | 789 | - | 237 | - |
| **Interest in Irrevocable Trusts** | 172 | 307 | 78 | 519 | 101 | 615 | 39 |
| **Goodwill - Net** | | | | | | | |
| **Assets Whose Use is Limited, Including Interest in Investment Pool** | | | | | | | |
| Board designated | 20,930 | 11,248 | 54,497 | 41,658 | 4,901 | 16,848 | 16,163 |
| Restricted under state and debt agreements | 5,038 | 1,444 | 60,038 | 1,680 | - | 4,071 | 4,258 |
| Endowment | 724 | 44 | - | - | - | - | 1,776 |
| Total assets whose use is limited, including interest in investment pool | 26,692 | 12,736 | 114,535 | 43,338 | 4,901 | 20,919 | 22,197 |
| Total Assets | $ 89,333 | $ 59,937 | $ 205,070 | $ 100,738 | $ 59,452 | $ 54,937 | $ 83,569 |

## Campus Consolidating Statement of Financial Position Information (Continued)

September 30, 2022
(In thousands)

| | Covenant Living at the Holmstad | Covenant Living at Mount Miguel | Covenant Living of Northbrook | Covenant Living at the Samarkand | Covenant Living at the Shores | Covenant Living of Turlock | Covenant Living at Windsor Park |
|---|---|---|---|---|---|---|---|
| **Liabilities and Net Assets (Deficits)** | | | | | | | |
| **Current Liabilities** | | | | | | | |
| Accounts payable - Trade | $ 694 | $ 197 | $ 376 | $ 148 | $ 202 | $ 254 | $ 332 |
| Accounts payable - Contractors | - | - | - | - | - | - | - |
| Accrued salaries and wages | - | - | - | - | 90 | - | - |
| Accrued interest | 967 | 303 | 1,417 | 87 | 262 | 371 | 597 |
| Advanced deposits | 306 | 72 | 472 | 276 | 278 | 29 | 73 |
| Current maturities of long-term debt | 1,840 | 521 | 759 | 330 | 472 | 1,055 | 1,265 |
| Deferred revenue subject to refund | 11,744 | 10,582 | 15,068 | 11,647 | 8,416 | 4,874 | - |
| Refundable contract liabilities | 12,528 | 7,162 | 17,853 | 11,667 | 21,550 | 2,618 | - |
| Other current liabilities | 1,324 | 347 | 1,857 | 343 | 1,054 | 211 | 1,804 |
| Total current liabilities | 29,403 | 19,184 | 37,802 | 24,498 | 32,324 | 9,412 | 4,071 |
| **Long-term Debt - Less current maturities** | 64,960 | 21,692 | 101,933 | 6,314 | 18,806 | 23,665 | 45,309 |
| **Payable to (from) Covenant Instritutions** | | | | | | | |
| Covenant Living Communities and Services - Notes and advances | (87) | (44,229) | (33,517) | (53,564) | (27,051) | (554) | 13,796 |
| Other Benevolent institutions- Notes and advances | - | - | - | - | - | - | - |
| Total payable to (from) Covenant institutions | (87) | (44,229) | (33,517) | (53,564) | (27,051) | (554) | 13,796 |
| **Other Liabilities** | - | - | - | - | - | - | 14,215 |
| **Deferred Revenue from Entrance Fees** | 19,738 | 19,523 | 30,801 | 28,353 | 22,455 | 12,475 | 36,320 |
| Total liabilities | 114,014 | 16,170 | 137,019 | 5,601 | 46,534 | 44,998 | 113,711 |
| **Net Assets (Deficits)** | | | | | | | |
| Without donor restrictions | (25,618) | 43,445 | 68,028 | 90,012 | 12,788 | 9,781 | (33,085) |
| With donor restrictions | 937 | 322 | 23 | 5,125 | 130 | 158 | 2,943 |
| Total net assets (deficits) | (24,681) | 43,767 | 68,051 | 95,137 | 12,918 | 9,939 | (30,142) |
| Total liabilities and net assets | $ 89,333 | $ 59,937 | $ 205,070 | $ 100,738 | $ 59,452 | $ 54,937 | $ 83,569 |

## Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

Year Ended September 30, 2022
(In thousands)

| | Consolidated | Eliminations | Covenant Housing Corporation | Covenant Living Services | Obligated Group | Eliminations | Covenant Living Communities and Services | All Campuses |
|---|---|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | | | |
| Routine resident services | $ 269,322 | $ - | $ - | $ 33,710 | $ 235,612 | $ - | $ 2,608 | $ 233,004 |
| Ancillary services | 45,759 | - | - | 18,663 | 27,096 | - | 7 | 27,089 |
| Amortization of deferred entrance fees | 53,491 | - | - | 4,447 | 49,044 | - | 1,143 | 47,901 |
| Net assets released from restrictions for operations | 3,302 | - | - | 439 | 2,863 | - | - | 2,863 |
| Other | 13,573 | (2,528) | - | 4,983 | 11,118 | - | 1,971 | 9,147 |
| Total operating revenue | 385,447 | (2,528) | - | 62,242 | 325,733 | - | 5,729 | 320,004 |
| **Expenses** | | | | | | | | |
| Routine nursing services | 93,192 | - | - | 17,093 | 76,099 | - | - | 76,099 |
| Ancillary services | 17,996 | - | - | 2,333 | 15,663 | - | - | 15,663 |
| Resident benefits | 18,029 | - | - | 2,716 | 15,313 | - | - | 15,313 |
| Dietary | 50,792 | - | - | 7,593 | 43,199 | - | - | 43,199 |
| Laundry | 2,296 | - | - | 90 | 2,206 | - | - | 2,206 |
| Housekeeping | 12,087 | - | - | 1,604 | 10,483 | - | - | 10,483 |
| Maintenance | 22,725 | - | - | 4,074 | 18,651 | - | 229 | 18,422 |
| Utilities | 15,418 | - | - | 2,099 | 13,319 | - | 57 | 13,262 |
| Administrative and general | 64,824 | (1,537) | - | 14,160 | 52,201 | 20 | (1,342) | 53,523 |
| Interest | 17,439 | (1,213) | - | 3,557 | 15,095 | (9,981) | 783 | 24,293 |
| Property taxes | 4,675 | - | - | 1,044 | 3,631 | - | 225 | 3,406 |
| Insurance | 6,242 | - | - | 1,152 | 5,090 | - | (1,624) | 6,714 |
| Marketing and promotion | 16,453 | (991) | - | 3,630 | 13,814 | (15) | 756 | 13,073 |
| Depreciation | 60,712 | - | - | 8,291 | 52,421 | - | 1,909 | 50,512 |
| Amortization | 461 | - | - | 193 | 268 | - | 88 | 180 |
| Other | 867 | - | - | 109 | 758 | - | (1,080) | 1,838 |
| Total expenses | 404,208 | (3,741) | - | 69,738 | 338,211 | (9,976) | 1 | 348,186 |
| **Operating (Loss) Income** | $ (18,761) | $ 1,213 | $ - | $ (7,496) | $ (12,478) | $ 9,976 | $ 5,728 | $ (28,182) |

# Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information (Continued)

**Year Ended September 30, 2022**
**(In thousands)**

| | Consolidated | Eliminations | Covenant Housing Corporation | Covenant Living Services | Obligated Group | Eliminations | Covenant Living Communities and Services | All Campuses |
|---|---|---|---|---|---|---|---|---|
| **Operating Income (Loss)** | $ (18,761) | $ 1,213 | $ - | $ (7,496) | $ (12,478) | $ 9,976 | $ 5,728 | $ (28,182) |
| **Nonoperating Revenue (Expense)** | | | | | | | | |
| Gifts and bequests — net of related expenses | (1,123) | - | - | (3) | (1,120) | 4 | (1,208) | 84 |
| Other nonoperating (expenses) revenue | (11,868) | - | (7,245) | (7,550) | 2,927 | - | 3,871 | (944) |
| Interest and dividend income | 5,090 | (1,213) | 5 | 126 | 6,172 | (9,981) | 2,030 | 14,123 |
| Realized gains (losses) on fixed income and equity securities — Net | (438) | - | 6 | 219 | (663) | - | (5,111) | 4,448 |
| Unrealized gains (losses) on fixed income and equity securities — Net | (36,119) | - | (70) | (1,042) | (35,007) | - | (18,047) | (16,960) |
| Alternative investment income (loss) - Including net unrealized and realized gains | (22,858) | - | - | - | (22,858) | - | (22,858) | - |
| Unrealized gains (losses) on derivative instruments | 3,820 | - | - | 1,799 | 2,021 | 6 | 2,015 | - |
| Interest expense on interest rate swaps | (693) | - | - | (191) | (502) | | (502) | - |
| Total nonoperating revenue (expense) | (64,189) | (1,213) | (7,304) | (6,642) | (49,030) | (9,971) | (39,810) | 751 |
| **Income (Loss)** | (82,950) | - | (7,304) | (14,138) | (61,508) | 5 | (34,082) | (27,431) |
| **Net Assets Released from Restrictions for Capital Purchases** | 357 | - | - | - | 357 | - | - | 357 |
| **Net Asset Transfer from (to) Related Organization** | - | - | - | 5,500 | (5,500) | - | (5,500) | - |
| **Increase (Decrease) in Net Assets Without Donor Restrictions** | $ (82,593) | $ - | $ (7,304) | $ (8,638) | $ (66,651) | $ 5 | $ (39,582) | $ (27,074) |

## Campus Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

**Year Ended September 30, 2022**
**(In thousands)**

| | Total All Campuses | Covenant Living of Colorado | Covenant Home of Chicago | Covenant Living of Florida | Covenant Living of Golden Valley | Covenant Living of the Great Lakes | Covenant Living of Cromwell | Brandel Manor-Cypress |
|---|---|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | | | |
| Routine resident services | $ 233,004 | $ 15,696 | $ 2,406 | $ 15,391 | $ 16,365 | $ 11,635 | $ 18,507 | $ 12,509 |
| Ancillary services | 27,089 | 1,328 | 14 | 2,123 | 2,244 | 1,543 | 1,222 | 1,763 |
| Amortization of deferred entrance fees | 47,901 | 3,223 | - | 2,752 | 2,257 | 3,032 | 3,129 | - |
| Net assets released from restrictions for operations | 2,863 | 179 | - | 202 | 125 | 48 | 155 | - |
| Other | 9,147 | 1,065 | 85 | 471 | 934 | 986 | 1,308 | 130 |
| Total operating revenue | 320,004 | 21,491 | 2,505 | 20,939 | 21,925 | 17,244 | 24,321 | 14,402 |
| **Expenses** | | | | | | | | |
| Routine nursing services | 76,099 | 5,488 | 727 | 3,872 | 6,918 | 3,995 | 4,817 | 7,558 |
| Ancillary services | 15,663 | 849 | 6 | 1,138 | 1,272 | 812 | 776 | 1,433 |
| Resident benefits | 15,313 | 1,020 | 233 | 1,318 | 1,191 | 822 | 1,267 | 534 |
| Dietary | 43,199 | 2,872 | 550 | 3,192 | 3,312 | 2,397 | 3,477 | 1,662 |
| Laundry | 2,206 | 131 | 14 | 87 | 172 | 46 | 136 | 432 |
| Housekeeping | 10,483 | 407 | 91 | 775 | 984 | 259 | 880 | 491 |
| Maintenance | 18,422 | 1,093 | 158 | 1,452 | 1,317 | 843 | 1,558 | 417 |
| Utilities | 13,262 | 904 | 170 | 968 | 1,017 | 615 | 1,445 | 216 |
| Administrative and general | 53,523 | 3,444 | 602 | 3,623 | 3,799 | 3,257 | 4,528 | 2,801 |
| Interest | 24,293 | 1,903 | 225 | 2,410 | 2,290 | 2,547 | 3,350 | 314 |
| Property taxes | 3,406 | - | - | 305 | 377 | 391 | 1,126 | 1 |
| Insurance | 6,714 | 379 | 127 | 466 | 481 | 389 | 507 | 277 |
| Marketing and promotion | 13,073 | 992 | 127 | 1,278 | 914 | 839 | 961 | 251 |
| Depreciation | 50,512 | 3,886 | (13) | 3,787 | 3,161 | 2,683 | 4,962 | 254 |
| Amortization | 180 | 28 | - | 13 | 4 | 20 | 18 | - |
| Other | 1,838 | 114 | - | 103 | 178 | 147 | 138 | 66 |
| Total expenses | 348,186 | 23,510 | 3,017 | 24,787 | 27,387 | 20,062 | 29,946 | 16,707 |
| **Operating (Loss) Income** | $ (28,182) | $ (2,019) | $ (512) | $ (3,848) | $ (5,462) | $ (2,818) | $ (5,625) | $ (2,305) |

# Campus Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information (Continued)

Year Ended September 30, 2022
(In thousands)

| | Total All Campuses | Covenant Living of Colorado | Covenant Home of Chicago | Covenant Living of Florida | Covenant Living of Golden Valley | Covenant Living of the Great Lakes | Covenant Living of Cromwell | Brandel Manor-Cypress |
|---|---|---|---|---|---|---|---|---|
| **Operating (Loss) Income** | $ (28,182) | $ (2,019) | $ (512) | $ (3,848) | $ (5,462) | $ (2,818) | $ (5,625) | $ (2,305) |
| **Nonoperating Revenue (Expense)** | | | | | | | | |
| Gifts and bequests — Net of related expenses | 84 | (95) | 1 | (4) | 168 | (57) | (65) | - |
| Other nonoperating expense | (944) | (66) | - | 2 | (1) | 20 | (7) | - |
| Interest and dividend income | 14,123 | 498 | 72 | 871 | 246 | 264 | 772 | 10 |
| Realized gains on fixed income and equity securities — Net | 4,448 | 195 | 97 | 160 | 209 | 101 | 257 | - |
| Unrealized gains on fixed income and equity securities — Net | (16,960) | (2,250) | - | (1,129) | (975) | (1,067) | (897) | - |
| Total nonoperating revenue (expense) | 751 | (1,718) | 170 | (100) | (353) | (739) | 60 | 10 |
| **Income (Loss)** | (27,431) | (3,737) | (342) | (3,948) | (5,815) | (3,557) | (5,565) | (2,295) |
| **Net Assets Released from Restrictions for Capital Purchases** | 357 | - | - | - | - | - | 3 | - |
| **Decrease in Net Assets without Donor Restrictions** | $ (27,074) | $ (3,737) | $ (342) | $ (3,948) | $ (5,815) | $ (3,557) | $ (5,562) | $ (2,295) |

## Campus Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information (Continued)

**Year Ended September 30, 2022**
**(In thousands)**

| | Covenant Living at the Holmstad | Covenant Living at Mount Miguel | Covenant Living of Northbrook | Covenant Living at the Samarkand | Covenant Living at the Shores | Covenant Living of Turlock | Covenant Living at Windsor Park |
|---|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | | |
| Routine resident services | $ 24,216 | $ 19,834 | $ 21,648 | $ 23,938 | $ 16,524 | $ 13,709 | $ 20,626 |
| Ancillary services | 2,681 | 2,295 | 2,354 | 2,986 | 2,298 | 1,036 | 3,202 |
| Amortization of deferred entrance fees | 4,942 | 4,070 | 6,880 | 5,248 | 4,333 | 2,586 | 5,449 |
| Net assets released from restrictions for operations | 218 | 568 | 308 | 278 | 355 | 152 | 275 |
| Other | 643 | 358 | 833 | 630 | 1,139 | 167 | 398 |
| Total operating revenue | 32,700 | 27,125 | 32,023 | 33,080 | 24,649 | 17,650 | 29,950 |
| **Expenses** | | | | | | | |
| Routine nursing services | 7,673 | 6,752 | 6,499 | 6,515 | 5,137 | 3,871 | 6,277 |
| Ancillary services | 1,405 | 1,484 | 1,091 | 1,932 | 1,115 | 713 | 1,637 |
| Resident benefits | 1,579 | 1,169 | 1,281 | 1,561 | 1,057 | 846 | 1,435 |
| Dietary | 3,895 | 3,476 | 4,247 | 3,985 | 3,037 | 2,998 | 4,099 |
| Laundry | 123 | 224 | 188 | 239 | 110 | 134 | 170 |
| Housekeeping | 1,229 | 1,036 | 849 | 1,211 | 688 | 774 | 809 |
| Maintenance | 1,648 | 1,549 | 1,779 | 1,940 | 1,485 | 1,316 | 1,867 |
| Utilities | 1,206 | 1,571 | 960 | 1,496 | 896 | 754 | 1,044 |
| Administrative and general | 4,973 | 5,018 | 5,182 | 5,071 | 4,481 | 3,728 | 3,016 |
| Interest | 3,959 | 839 | 1,235 | 827 | 848 | 1,104 | 2,442 |
| Property taxes | 298 | - | - | 1 | 421 | 17 | 469 |
| Insurance | 625 | 552 | 635 | 647 | 605 | 424 | 600 |
| Marketing and promotion | 1,174 | 1,097 | 1,275 | 1,010 | 797 | 887 | 1,471 |
| Depreciation | 4,072 | 3,832 | 6,363 | 5,656 | 3,408 | 2,923 | 5,538 |
| Amortization | 31 | 6 | 15 | 5 | 6 | 21 | 13 |
| Other | 157 | 262 | 226 | 121 | 89 | 96 | 141 |
| Total expenses | 34,047 | 28,867 | 31,825 | 32,217 | 24,180 | 20,606 | 31,028 |
| **Operating (Loss) Income** | $ (1,347) | $ (1,742) | $ 198 | $ 863 | $ 469 | $ (2,956) | $ (1,078) |

## Campus Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information (Continued)

**Year Ended September 30, 2022**
**(In thousands)**

| | Covenant Living at the Holmstad | Covenant Living at Mount Miguel | Covenant Living of Northbrook | Covenant Living at the Samarkand | Covenant Living at the Shores | Covenant Living of Turlock | Covenant Living at Windsor Park |
|---|---|---|---|---|---|---|---|
| **Operating (Loss) Income** | $ (1,347) | $ (1,742) | $ 198 | $ 863 | $ 469 | $ (2,956) | $ (1,078) |
| **Nonoperating Revenue (Expense)** | | | | | | | |
| Gifts and bequests — Net of related expenses | 246 | (43) | (158) | 9 | (87) | 304 | (135) |
| Other nonoperating expense - Net | 2 | (33) | (352) | (20) | (432) | 25 | (82) |
| Interest and dividend income | 1,856 | 1,645 | 2,254 | 2,845 | 1,004 | 505 | 1,281 |
| Realized gains on fixed-income and equity securities — Net | 624 | 222 | 785 | 1,053 | 286 | 438 | 21 |
| Unrealized gains (losses) on fixed-income and equity securities — Net | (1,755) | (827) | (2,905) | (1,247) | (1,942) | (484) | (1,482) |
| Total nonoperating revenue (expense) | 973 | 964 | (376) | 2,640 | (1,171) | 788 | (397) |
| **Income (Loss)** | (374) | (778) | (178) | 3,503 | (702) | (2,168) | (1,475) |
| **Net Assets Released from Restrictions for Capital Purchases** | - | - | - | 354 | - | - | - |
| **Increase (Decrease) in Net Assets without Donor Restrictions** | $ (374) | $ (778) | $ (178) | $ 3,857 | $ (702) | $ (2,168) | $ (1,475) |

## Consolidating Statement of Financial Position - Covenant Living Services

**September 30, 2022**
**(In thousands)**

| Assets | Consolidated Covenant Living Services | Eliminations | Total Covenant Living Services | Covenant Holdings One, LLC | Covenant Living of Geneva | Covenant Living Bixby |
|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | |
| Cash and cash equivalents | $ 7,218 | $ - | $ 7,218 | $ 707 | $ 101 | $ 427 |
| Restricted cash | 613 | - | 613 | - | - | 107 |
| Assets whose use is limited, including interest in investment pool: | | | | | | |
| Board designated | - | - | - | - | - | - |
| Restricted under debt agreements | 547 | - | 547 | - | - | - |
| Accounts receivable - Net | 3,967 | (28) | 3,995 | - | 2 | 27 |
| Prepaid expenses and other assets | 170 | - | 170 | - | 3 | 16 |
| Total current assets | 12,515 | (28) | 12,543 | 707 | 106 | 577 |
| **Property and Equipment - Net** | 183,378 | - | 183,378 | 3,126 | 5,752 | 13,180 |
| **Other Assets** | 6,780 | (1,815) | 8,595 | (83) | (235) | (1,316) |
| **Goodwill - Net** | 76,557 | - | 76,557 | - | - | - |
| **Assets Whose Use is Limited, Including Interest in Investment Pool** | | | | | | |
| Board designated | 1,116 | - | 1,116 | - | - | - |
| Restricted under state and debt agreements | 5,774 | - | 5,774 | - | - | - |
| Total assets whose use is limited, including interest in investment pool | 6,890 | - | 6,890 | - | - | - |
| **Total Assets** | $ 286,120 | $ (1,843) | $ 287,963 | $ 3,750 | $ 5,623 | $ 12,441 |

# Consolidating Statement of Financial Position - Covenant Living Services (Continued)

September 30, 2022
(In thousands)

| Liabilities and Net Assets (Deficits) | Consolidated Covenant Living Services | Eliminations | Total Covenant Living Services | Covenant Holdings One, LLC | Covenant Living of Geneva | Covenant Living Bixby |
|---|---|---|---|---|---|---|
| **Current Liabilities:** | | | | | | |
| Accounts payable - Trade | $ 832 | $ (28) | $ 860 | $ - | $ - | $ 5 |
| Accrued interest | 320 | - | 320 | 20 | 18 | 59 |
| Advance deposits | 202 | - | 202 | - | - | - |
| Current maturities of long-term debt | 685 | - | 685 | - | - | - |
| Deferred revenue subject to refund | 13,686 | - | 13,686 | - | - | - |
| Refundable contract liabilities | 64,432 | - | 64,432 | - | - | - |
| Other current liabilities | 9,348 | - | 9,348 | 55 | 258 | 578 |
| Total current liabilities | 89,505 | (28) | 89,533 | 75 | 276 | 642 |
| **Long-term Debt - Less current maturities** | 34,880 | - | 34,880 | - | (19) | (62) |
| **Payable to (from) Covenant Institutions** | | | | | | |
| Covenant Living Communities and Services - Notes and advances | 88,891 | (1,815) | 90,706 | (134) | 2,762 | (2,739) |
| Other Benevolent institutions- Notes and advances | 4,000 | - | 4,000 | 4,000 | - | - |
| Total payable to (from) Covenant institutions | 92,891 | (1,815) | 94,706 | 3,866 | 2,762 | (2,739) |
| **Other Liabilities** | 73,843 | - | 73,843 | - | 4,488 | 15,048 |
| **Deferred Revenue from Entrance Fees** | 29,725 | - | 29,725 | - | - | - |
| Total liabilities | 320,844 | (1,843) | 322,687 | 3,941 | 7,507 | 12,889 |
| **Net Assets (Deficits)** | | | | | | |
| Without donor restrictions | (35,777) | - | (35,777) | (191) | (1,884) | (448) |
| With donor restrictions | 1,053 | - | 1,053 | - | - | - |
| Total net assets (deficits) | (34,724) | - | (34,724) | (191) | (1,884) | (448) |
| TOTAL | $ 286,120 | $ (1,843) | $ 287,963 | $ 3,750 | $ 5,623 | $ 12,441 |

# Consolidating Statement of Financial Position - Covenant Living Services (Continued)

September 30, 2022
(In thousands)

| | Covenant Living of Inverness | Three Crowns Foundation | Three Crowns Park | Covenant Living of Keene | Covenant Care at Home | Covenant Living Services |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | $ 7 | $ 123 | $ 5,625 | $ 3 | $ 56 | $ 169 |
| Restricted cash | - | - | 5 | - | 501 | - |
| Assets whose use is limited, including interest in investment pool: | | | | | | |
| Board designated | - | - | - | - | - | - |
| Restricted under debt agreements | - | - | 547 | - | - | - |
| Accounts receivable - Net | 617 | - | 85 | 25 | 2,982 | 257 |
| Prepaid expenses and other assets | 31 | - | 67 | 13 | 39 | 1 |
| Total current assets | 655 | 123 | 6,329 | 41 | 3,578 | 427 |
| **Property and Equipment - Net** | 44,081 | - | 48,764 | 68,327 | 148 | - |
| **Other Assets** | - | 383 | 6,171 | - | 2,934 | 741 |
| **Goodwill - Net** | 46,591 | - | 29,966 | - | - | - |
| **Assets Whose Use is Limited, Including Interest in Investment Pool** | | | | | | |
| Board designated | - | - | - | 1,116 | - | - |
| Restricted under state and debt agreements | - | - | 2,774 | 3,000 | - | - |
| Total assets whose use is limited, including interest in investment pool | - | - | 2,774 | 4,116 | - | - |
| **Total Assets** | $ 91,327 | $ 506 | $ 94,004 | $ 72,484 | $ 6,660 | $ 1,168 |

# Consolidating Statement of Financial Position - Covenant Living Services (Continued)

September 30, 2022
(In thousands)

| | Covenant Living of Inverness | Three Crowns Foundation | Three Crowns Park | Covenant Living of Keene | Covenant Care at Home | Covenant Living Services |
|---|---|---|---|---|---|---|
| **Liabilities and Net Assets (Deficits)** | | | | | | |
| **Current Liabilities:** | | | | | | |
| Accounts payable - Trade | $ 196 | $ - | $ 305 | $ 29 | $ 320 | $ 5 |
| Accrued interest | - | - | 223 | - | - | - |
| Advance deposits | 15 | - | 94 | 93 | - | - |
| Current maturities of long-term debt | - | - | 685 | - | - | - |
| Deferred revenue subject to refund | 5,963 | - | 3,043 | 4,680 | - | - |
| Refundable contract liabilities | 9,460 | - | 28,373 | 26,599 | - | - |
| Other current liabilities | 4,503 | - | 524 | 2,248 | 1,179 | 3 |
| Total current liabilities | 20,137 | - | 33,247 | 33,649 | 1,499 | 8 |
| **Long-term Debt - Less current maturities** | - | - | 34,961 | - | - | - |
| **Payable to (from) Covenant Institutions** | | | | | | |
| Covenant Living Communities and Services - Notes and advances | 43,782 | 1,696 | 4,422 | 29,842 | 10,655 | 420 |
| Other Benevolent institutions- Notes and advances | - | - | - | - | - | - |
| Total payable to (from) Covenant institutions | 43,782 | 1,696 | 4,422 | 29,842 | 10,655 | 420 |
| **Other Liabilities** | 42,995 | 3 | 11,645 | (336) | - | - |
| **Deferred Revenue from Entrance Fees** | 7,179 | - | 11,337 | 11,209 | - | - |
| Total liabilities | 114,093 | 1,699 | 95,612 | 74,364 | 12,154 | 428 |
| **Net Assets (Deficits)** | | | | | | |
| Without donor restrictions | (22,933) | (1,438) | (2,040) | (1,880) | (5,703) | 740 |
| With donor restrictions | 167 | 245 | 432 | - | 209 | - |
| Total net assets (deficits) | (22,766) | (1,193) | (1,608) | (1,880) | (5,494) | 740 |
| TOTAL | $ 91,327 | $ 506 | $ 94,004 | $ 72,484 | $ 6,660 | $ 1,168 |

# Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information - Covenant Living Services

Year Ended September 30, 2022
(In thousands)

| | Consolidated Covenant Living Services | Eliminations | Total Covenant Living Services | Covenant Holdings One, LLC | Covenant Living of Geneva | Covenant Living Bixby |
|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | |
| Routine resident services | $ 33,710 | $ - | $ 33,710 | $ - | $ 1,317 | $ 3,529 |
| Ancillary services | 18,663 | - | 18,663 | - | - | 23 |
| Amortization of deferred entrance fees | 4,447 | - | 4,447 | - | - | - |
| Net assets released from restrictions for operations | 439 | - | 439 | - | - | - |
| Other | 4,983 | - | 4,983 | 633 | 9 | 152 |
| Total operating revenue | 62,242 | - | 62,242 | 633 | 1,326 | 3,704 |
| **Expenses** | | | | | | |
| Routine nursing services | 17,093 | - | 17,093 | - | - | 626 |
| Ancillary services | 2,333 | - | 2,333 | - | - | 21 |
| Resident benefits | 2,716 | - | 2,716 | - | 24 | 72 |
| Dietary | 7,593 | - | 7,593 | - | 23 | 651 |
| Laundry | 90 | - | 90 | - | - | - |
| Housekeeping | 1,604 | - | 1,604 | - | 69 | 75 |
| Maintenance | 4,074 | - | 4,074 | 220 | 93 | 239 |
| Utilities | 2,099 | - | 2,099 | - | 122 | 167 |
| Administrative and general | 14,160 | - | 14,160 | 41 | 218 | 565 |
| Interest | 3,557 | - | 3,557 | 175 | 121 | 406 |
| Property taxes | 1,044 | - | 1,044 | 122 | 124 | 121 |
| Insurance | 1,152 | - | 1,152 | 15 | 36 | 71 |
| Marketing and promotion | 3,630 | - | 3,630 | - | 40 | 92 |
| Depreciation | 8,291 | - | 8,291 | 125 | 247 | 503 |
| Amortization | 193 | - | 193 | 18 | 8 | 26 |
| Other | 109 | - | 109 | - | - | - |
| Total expenses | 69,738 | - | 69,738 | 716 | 1,125 | 3,635 |
| **Operating Income (Loss)** | $ (7,496) | $ - | $ (7,496) | $ (83) | $ 201 | $ 69 |

# Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information - Covenant Living Services (Continued)

**Year Ended September 30, 2022**
**(In thousands)**

| | Consolidated Covenant Living Services | Eliminations | Total Covenant Living Services | Covenant Holdings One, LLC | Covenant Living of Geneva | Covenant Living Bixby |
|---|---|---|---|---|---|---|
| **Operating Income (Loss)** | $ (7,496) | $ - | $ (7,496) | $ (83) | $ 201 | $ 69 |
| **Nonoperating (Expense) Revenue** | | | | | | |
| Gifts and bequests — Net of related expenses | (3) | - | (3) | - | - | - |
| Other nonoperating expense - Net | (7,550) | - | (7,550) | - | (2) | - |
| Interest and dividend income | 126 | - | 126 | - | (1) | - |
| Realized gains (losses) on fixed income and equity securities — Net | 219 | - | 219 | - | - | - |
| Unrealized losses on fixed-income and equity securities — Net | (1,042) | - | (1,042) | - | - | - |
| Unrealized gains on derivative instruments | 1,799 | - | 1,799 | - | 413 | 1,386 |
| Interest expense on interest rate swaps | (191) | | (191) | - | (44) | (147) |
| Total nonoperating (expense) revenue | (6,642) | - | (6,642) | - | 366 | 1,239 |
| **(Loss) Income** | (14,138) | - | (14,138) | (83) | 567 | 1,308 |
| **Net Asset Transfer from (to) Related Organization** | 5,500 | - | 5,500 | - | - | - |
| **(Decrease) Increase in Net Assets Without Donor Restrictions** | $ (8,638) | $ - | $ (8,638) | $ (83) | $ 567 | $ 1,308 |

# Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information - Covenant Living Services (Continued)

**Year Ended September 30, 2022**
**(In thousands)**

| | Covenant Living of Inverness | Three Crowns Foundation | Three Crowns Park | Covenant Living of Keene | Covenant Care at Home | Covenant Living Services |
|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | |
| Routine resident services | $ 13,901 | $ - | $ 9,512 | $ 5,451 | $ - | $ - |
| Ancillary services | 1,154 | - | 78 | 44 | 17,364 | - |
| Amortization of deferred entrance fees | 1,796 | - | 1,737 | 914 | - | - |
| Net assets released from restrictions for operations | 127 | 11 | 10 | - | 291 | - |
| Other | 671 | 99 | 190 | 420 | 169 | 2,640 |
| Total operating revenue | 17,649 | 110 | 11,527 | 6,829 | 17,824 | 2,640 |
| **Expenses** | | | | | | |
| Routine nursing services | 3,087 | - | 3,194 | 1,045 | 9,141 | - |
| Ancillary services | 691 | - | 49 | 31 | 1,541 | - |
| Resident benefits | 921 | - | 815 | 305 | 579 | - |
| Dietary | 2,684 | - | 3,085 | 1,150 | - | - |
| Laundry | 70 | - | 4 | 16 | - | - |
| Housekeeping | 650 | - | 563 | 247 | - | - |
| Maintenance | 1,716 | - | 1,323 | 483 | - | - |
| Utilities | 986 | - | 460 | 333 | 31 | - |
| Administrative and general | 3,020 | 119 | 2,752 | 1,543 | 5,144 | 758 |
| Interest | 1,213 | - | 1,642 | - | - | - |
| Property taxes | 200 | - | 60 | 414 | 3 | - |
| Insurance | 413 | - | 232 | 177 | 196 | 12 |
| Marketing and promotion | 1,363 | - | 748 | 657 | 387 | 343 |
| Depreciation | 2,747 | - | 2,912 | 1,728 | 29 | - |
| Amortization | - | - | - | - | 141 | - |
| Other | - | - | 24 | 4 | 81 | - |
| Total expenses | 19,761 | 119 | 17,863 | 8,133 | 17,273 | 1,113 |
| **Operating Income (Loss)** | $ (2,112) | $ (9) | $ (6,336) | $ (1,304) | $ 551 | $ 1,527 |

# Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information - Covenant Living Services (Continued)

Year Ended September 30, 2022
(In thousands)

| | Covenant Living of Inverness | Three Crowns Foundation | Three Crowns Park | Covenant Living of Keene | CovenantCare at Home | Covenant Living Services |
|---|---|---|---|---|---|---|
| **Operating Income (Loss)** | $ (2,112) | $ (9) | $ (6,336) | $ (1,304) | $ 551 | $ 1,527 |
| **Nonoperating (Expense) Revenue** | | | | | | |
| Gifts and bequests — Net of related expenses | (95) | (7) | 47 | - | 52 | - |
| Other nonoperating expense - Net | (6,593) | - | (414) | (403) | - | (138) |
| Interest and dividend income | 17 | 17 | 86 | 13 | - | (6) |
| Realized gains (losses) on fixed income and equity securities — Net | - | (9) | (10) | 238 | - | - |
| Unrealized losses on fixed-income and equity securities — Net | - | (101) | (517) | (424) | - | - |
| Total nonoperating (expense) revenue | (6,671) | (100) | (808) | (576) | 52 | (144) |
| **(Loss) Income** | (8,783) | (109) | (7,144) | (1,880) | 603 | 1,383 |
| **Net Asset Transfer from (to) Related Organization** | - | 96 | 5,404 | - | - | - |
| **(Decrease) Increase in Net Assets Without Donor Restrictions** | $ (8,783) | $ (13) | $ (1,740) | $ (1,880) | $ 603 | $ 1,383 |

# Note to Consolidating Statement of Financial Position and Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

**As of and For the Year Ended September 30, 2022**

**1. Basis of Reporting**

In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position and consolidating statement of operations and changes in net assets without donor restrictions information as of and for the year ended September 30, 2022 for the Obligated Group exclude the effects of consolidating entities controlled by members of the Obligated Group but which themselves are not members of the Obligated Group. Those entities which are not members of the Obligated Group are Covenant Housing Corporation and those entities included in Covenant Living Services. The balances for Covenant Living Communities and the Obligated Group do not include interests in controlled entities.