
Covenant Living Communities and Services

**Consolidated Financial Report
with Additional Consolidating Information
September 30, 2023**

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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, 2023 and 2022 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, 2023 and 2022 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 18, 2024 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.



January 18, 2024

Covenant Living Communities and Services

Consolidated Statement of Financial Position

September 30, 2023 and 2022
(in thousands)

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 67,830	\$ 51,942
Restricted cash	6,262	10,477
Assets whose use is limited, including interest in investment pool: (Notes 3, 5, 8 and 10)		
Board designated	95,011	90,470
Restricted under debt agreements	12,584	13,077
Accounts receivable - Net	23,471	22,089
Prepaid expenses and other assets	6,788	7,501
Total current assets	211,946	195,556
Property and Equipment - Net (Notes 7, 10 and 12)	777,593	772,056
Other Assets (Notes 6 and 13)	39,539	35,801
Interest in Irrevocable Trusts (Notes 3 and 16)	3,560	2,881
Goodwill - Net (Note 2)	66,477	76,557
Assets Whose Use is Limited, including Interest in Investment Pool (Notes 3, 5, 8 and 10)		
Board designated	254,470	247,951
Restricted under state and debt agreements	103,803	105,049
Endowment	8,619	8,098
Total assets whose use is limited, including interest in investment pool	366,892	361,098
Total assets	\$ 1,466,007	\$ 1,443,949

Covenant Living Communities and Services

Consolidated Statement of Financial Position (Continued)

September 30, 2023 and 2022
(in thousands)

	2023	2022
Liabilities and Net Assets		
Current Liabilities		
Accounts payable - Trade	\$ 19,211	\$ 20,885
Accounts payable - Contractors (Note 12)	1,786	2,349
Accrued salaries and wages	15,603	14,351
Accrued interest	6,890	6,949
Advanced deposits	3,670	1,998
Current maturities of long-term debt (Note 10)	14,995	14,535
Deferred revenue subject to refund (Note 2)	130,774	117,444
Refundable contract liabilities (Note 2)	188,042	185,698
Other current liabilities (Notes 2, 10 and 15)	44,025	32,822
Total current liabilities	424,996	397,031
Long-term Debt - Less current maturities (Note 10)	556,271	581,141
Payable to Covenant Institutions (Note 10)	-	4,000
Other Liabilities (Notes 2, 10 and 11)	71,756	96,502
Deferred Revenue from Entrance Fees (Note 2)	280,620	272,029
Total liabilities	1,333,643	1,350,703
Net Assets		
Without donor restrictions	111,317	73,727
With donor restrictions	21,047	19,519
Total net assets	132,364	93,246
Total liabilities and net assets	\$ 1,466,007	\$ 1,443,949

Covenant Living Communities and Services

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

Years Ended September 30, 2023 and 2022

(in thousands)

	2023	2022
Operating Revenue		
Routine resident services	\$ 304,398	\$ 269,322
Ancillary services	47,419	45,759
Amortization of deferred entrance fees	58,797	53,491
Net assets released from restrictions for operations	3,910	3,302
Other	14,214	13,573
Total operating revenue	428,738	385,447
Expenses		
Routine nursing services	96,279	93,192
Ancillary services	19,573	17,996
Resident benefits	18,581	18,029
Dietary	53,164	50,792
Laundry	2,429	2,296
Housekeeping	12,505	12,087
Maintenance	23,975	22,725
Utilities	17,117	15,418
Administrative and general	69,279	64,824
Interest (Note 10)	19,842	17,439
Property taxes	5,435	4,675
Insurance	7,364	6,242
Marketing and promotion	17,435	16,453
Depreciation	64,633	60,712
Amortization	455	461
Other	1,690	867
Total expenses (Note 19)	429,756	404,208
Operating Loss	(1,018)	(18,761)
Nonoperating (Expense) Revenue		
Gifts and bequests - Net of related expenses (Note 19)	(840)	(1,123)
Gain on extinguishment of debt	701	-
Other nonoperating expense - Net (Note 2)	(2,978)	(11,868)
Interest and dividend income	7,706	5,090
Realized gains (losses) on fixed-income and equity securities - Net	3,693	(438)
Unrealized gains (losses) on fixed-income and equity securities - Net	4,620	(36,119)
Alternative investment income (loss) - Including net unrealized and realized gains (losses)	24,815	(22,858)
Unrealized gains on derivative instruments (Note 11)	125	3,820
Interest income (expense) on interest rate swaps (Notes 11 and 19)	517	(693)
Total nonoperating revenue (expense)	38,359	(64,189)
Income (Loss)	37,341	(82,950)
Net Assets Released from Restrictions for Capital Purchases	249	357
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 37,590	\$ (82,593)

Covenant Living Communities and Services

Consolidated Statement of Changes in Net Assets

Years Ended September 30, 2023 and 2022

(in thousands)

	<u>2023</u>	<u>2022</u>
Net Assets without Donor Restrictions		
Income (loss)	\$ 37,341	\$ (82,950)
Net assets released from restrictions for capital purchases	<u>249</u>	<u>357</u>
Increase (decrease) in net assets without donor restrictions	37,590	(82,593)
Net Assets with Donor Restrictions		
Contributions	4,911	5,388
Net assets released from restrictions for capital purchases	(249)	(357)
Net assets released from restrictions for operations	(3,910)	(3,302)
Net additions (losses) - Present value of new trusts received (Note 16)	130	(499)
Change in present value discount	124	28
Net gain (loss) on perpetual trusts	<u>522</u>	<u>(1,403)</u>
Increase (decrease) in net assets with donor restrictions	<u>1,528</u>	<u>(145)</u>
Increase (Decrease) in Net Assets	39,118	(82,738)
Net Assets - Beginning of year	<u>93,246</u>	<u>175,984</u>
Net Assets - End of year	<u><u>\$ 132,364</u></u>	<u><u>\$ 93,246</u></u>

Covenant Living Communities and Services

Consolidated Statement of Cash Flows

Years Ended September 30, 2023 and 2022

(in thousands)

	2023	2022
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 39,118	\$ (82,738)
Adjustments to reconcile increase (decrease) in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Amortization of deferred entrance fees	(58,797)	(53,491)
Depreciation	64,633	60,712
Amortization	455	461
Bad debt expense	2,031	1,748
Amortization of goodwill	10,081	10,081
Original issue discount amortization	(730)	(704)
Gain on extinguishment of debt	(701)	-
Unrealized gains on derivative instruments	(125)	(3,820)
Loss on disposal of property and equipment	214	866
Net realized and unrealized (gains) losses on assets whose use is limited	(33,128)	59,950
Other changes in irrevocable trusts - Net	(1,250)	844
Net withdrawals from irrevocable trusts	571	47
Nonrefundable entrance fees collected	88,055	80,702
Nonrefundable entrance fees refunded	(7,949)	(5,268)
Change in future service obligation	(7,537)	(3,007)
Changes in operating assets and liabilities that (used) provided cash, cash equivalents, and restricted cash:		
Accounts receivable	(3,115)	(3,003)
Other assets	(3,396)	12,421
Accounts payable	(2,236)	1,365
Accrued and other current liabilities	3,860	1,392
Other liabilities	660	240
Net cash, cash equivalents, and restricted cash provided by operating activities	90,714	78,798
Cash Flows from Investing Activities		
Property and equipment expenditures	(70,384)	(84,724)
Cash paid to acquire Covenant Living of Keene as part of asset acquisition	-	(33,150)
Net change in assets whose use is limited, including interest in investment pool	23,285	19,555
Net change in related party balances	(109)	(70)
Net cash, cash equivalents, and restricted cash used in investing activities	(47,208)	(98,389)
Cash Flows from Financing Activities		
Proceeds from borrowings	-	40,000
Payment of financing costs	-	(280)
Payment of debt	(14,992)	(13,477)
Refundable entrance fees collected	25,849	28,507
Refundable entrance fees refunded	(29,884)	(26,306)
Early buyback of Three Crowns Park bonds	(9,100)	-
Net payments on line of credit	(4,000)	-
Net cash, cash equivalents, and restricted cash (used in) provided by financing activities	(32,127)	28,444
Net Increase in Cash, Cash Equivalents, and Restricted Cash	11,379	8,853
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	60,811	51,958
Cash, Cash Equivalents, and Restricted Cash - End of year	\$ 72,190	\$ 60,811
Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 67,830	\$ 51,942
Restricted cash (excluding entrance fees held in escrow and grant funds)	4,360	8,869
Total cash, cash equivalents, and restricted cash	\$ 72,190	\$ 60,811
Supplemental Cash Flow Information - Interest paid, including interest on derivatives	\$ 25,224	\$ 23,848

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

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 Holdings Three, Inc.; Covenant Living of Geneva; Covenant Home Services dba CovenantCare Home Health and Hospice; 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.

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

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 18, 2024, the date the consolidated financial statements were issued. The Communities have not evaluated events occurring after January 18, 2024 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 29 and 28 percent of the Communities' combined routine resident and ancillary services revenue for the years ended September 30, 2023 and 2022, 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.

The Communities have cash on deposit with financial institutions that at times may be in excess of federally insured limited. The Communities evaluate the financial institutions with which they deposit funds; however, it is not practical to insure all cash deposits.

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

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 \$1,968 and \$2,685 at September 30, 2023 and 2022, respectively. The opening accounts receivable balance at October 1, 2021 was \$22,018.

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, 2023 was 29 percent from private payors, 48 percent from Medicare, and 23 percent from Medicaid. 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.

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 revenue (expense) in the accompanying consolidated statement of operations and changes in net assets without donor restrictions (see Note 11).

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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 \$7,949 of debt issuance costs. Unamortized debt expense is shown net of accumulated amortization of \$1,868 and \$1,572 at September 30, 2023 and 2022, 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 \$4,593, offset by capitalized interest income of \$1,946 for the year ended September 30, 2023, and capitalized interest costs were \$5,753, offset by capitalized interest income of \$1,928 for the year ended September 30, 2022.

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 nonlease component consists of the stand-ready obligation to provide care, daily meals, and daily health services. The Communities have concluded that the nonlease components of the contracts with respect to their senior living communities are the predominant component of the agreements; 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 \$280,620 and \$272,029 at September 30, 2023 and 2022, 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, 2021 was \$252,783.

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 \$130,774 and \$117,444 at September 30, 2023 and 2022, respectively.

The Communities also offer 90 percent; 75 percent; or, on a limited basis, 50 percent refundable contracts (approximately 13 percent of contract residents have chosen these three options).

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 \$253,011 and \$256,678 of refundable entrance fees at September 30, 2023 and 2022, respectively.

Entrance fee refunds under all programs were \$37,833 and \$31,574 for the years ended September 30, 2023 and 2022, 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, 2023 and 2022, 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 \$4,106 and \$11,643, 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.

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

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2023 and 2022 of \$21,047 and \$19,519, respectively, include \$3,560 and \$2,881, respectively, of irrevocable trusts, which are not available for use until assets are distributed from the trusts; \$8,868 and \$8,540, respectively, of contributions restricted for a particular purpose; and \$8,619 and \$8,098, respectively, of endowment net assets that have been restricted by donors to be maintained in perpetuity.

Income (Loss) (Performance Indicator)

Income (loss) reports the results of operations of the entirety of the Communities. In addition to the income from resident care operations, income (loss) 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 income (loss), 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.

Covenant Living Holdings Three, Inc. is a for-profit wholly owned entity of Covenant Living Communities and Services. Income tax provisions are not material to the consolidated financial statements.

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

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 of net assets at September 30, 2023. The allocated goodwill to Covenant Living at Inverness at September 30, 2023 and 2022 is \$66,559, reported net of accumulated amortization of \$26,623 and \$19,968, respectively. Amortization expense for the years ended September 30, 2023 and 2022 is \$6,656. The allocated goodwill to Three Crowns Park at September 30, 2023 and 2022 is \$34,247, reported net of accumulated amortization of \$7,706 and \$4,281, respectively. Amortization expense for the years ended September 30, 2023 and 2022 is \$3,425.

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 June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Communities' accounts receivable, by requiring the Communities to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for the Communities' year ending September 30, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the period of adoption. The Communities are currently assessing the impact this new standard will have on the consolidated financial statements.

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.

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 3 - Fair Value Measurements (Continued)

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, 2023 and 2022 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, 2023, there were no deposits and total allocated pooled earnings of \$10,477. For the year ended September 30, 2022, there were no deposits and total allocated pooled losses of \$50,012.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 3 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2023			
	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, 2023
Assets				
Interest in investment pool	\$ -	\$ -	\$ 346,670	\$ 346,670
Other - Short-term investments	8,903	-	-	8,903
Covenant trust endowment - Equity investment funds (Note 16)	-	2,527	-	2,527
Restricted under state and debt agreements:				
Short-term investments	44,520	-	-	44,520
Fixed-income securities	-	71,867	-	71,867
Total restricted under state and debt agreements	44,520	71,867	-	116,387
Other investments:				
Short-term investments	80	-	-	80
Equity securities	1,655	-	-	1,655
Fixed-income securities	2,624	-	-	2,624
Assets held in perpetual trusts	-	-	468	468
Total other investments (Note 6)	4,359	-	468	4,827
Total	\$ 57,782	\$ 74,394	\$ 347,138	\$ 479,314
Investments held for insurance obligations:				
International equity	\$ -	\$ 4,164	\$ -	\$ 4,164
Fixed-income securities	-	16,454	-	16,454
Total (Note 6)	\$ -	\$ 20,618	\$ -	\$ 20,618
Interest in irrevocable trusts	\$ -	\$ -	\$ 3,560	\$ 3,560
Derivatives - Interest rate swaps (Note 11)	\$ -	\$ 969	\$ -	\$ 969
Liabilities - Derivatives - Interest rate swaps (Note 11)	\$ -	\$ 356	\$ -	\$ 356

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 3 - Fair Value Measurements (Continued)

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.

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, 2023 and 2022 are as follows:

	<u>Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)</u>	
	<u>Interest in Irrevocable Trusts</u>	<u>Assets Held in Perpetual Trusts</u>
Beginning balance - October 1, 2022	\$ 2,881	\$ 432
Net (withdrawals) deposits	(571)	11
Unrealized gains	1,250	25
Ending balance - September 30, 2023	<u>\$ 3,560</u>	<u>\$ 468</u>
	<u>Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)</u>	
	<u>Interest in Irrevocable Trusts</u>	<u>Assets Held in Perpetual Trusts</u>
Beginning balance - October 1, 2021	\$ 3,772	\$ 509
Net (withdrawals) deposits	(47)	23
Unrealized losses	(844)	(100)
Ending balance - September 30, 2022	<u>\$ 2,881</u>	<u>\$ 432</u>

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, 2023 and 2022, unreimbursed costs forgone for charity care were \$4,650 and \$4,226, respectively, and charitable gifts received to offset costs totaled \$5,070 and \$5,292, respectively. The Communities use a cost per resident day amount to determine unreimbursed costs.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 4 - Charity Care and Other Unreimbursed Care (Continued)

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, 2023 and 2022 as follows:

	2023	2022
Estimated cost of Medicaid services provided	\$ 53,611	\$ 47,876
Less government reimbursement	<u>(35,739)</u>	<u>(29,218)</u>
Unreimbursed care - Based on estimated cost	<u>\$ 17,872</u>	<u>\$ 18,658</u>

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, 2023 and 2022 consisted of the following:

	2023	2022
Interest in investment pool:		
Board designated:		
Benevolent care fund	\$ 90,964	\$ 80,400
Capital reserve fund	18,950	38,608
Property replacement fund	103,887	91,492
Reserve for refundable contracts	101,520	97,218
Other	<u>25,257</u>	<u>22,921</u>
Total board designated	340,578	330,639
Endowment - Brandel Fund	<u>6,092</u>	<u>5,554</u>
Total interest in investment pool	346,670	336,193
Endowment - Covenant trust	2,527	2,544
Board-designated investments - Other	8,903	7,782
Restricted under state and debt agreements:		
Bond interest, sinking, and expense fund	12,584	13,077
Bond project fund	70,888	72,423
Debt service reserve fund	20,261	20,236
State-required reserves	<u>12,654</u>	<u>12,390</u>
Total restricted under state and debt agreements	<u>116,387</u>	<u>118,126</u>
Total	<u>\$ 474,487</u>	<u>\$ 464,645</u>

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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, 2023 and 2022 consisted of the following:

	2023	2022
Equity securities:		
Board designated	\$ 53,091	\$ 53,223
Brandel endowment	935	882
Covenant trust endowment	2,527	2,544
Total equity securities	56,553	56,649
Fixed-income securities:		
Board designated	122,867	112,810
Restricted under state and debt agreements	71,867	72,920
Endowment	2,190	1,887
Total fixed-income securities	196,924	187,617
Alternative investments:		
Board designated:		
International equity	53,329	45,579
Hedge funds	32,915	30,407
Private equity	8,258	9,991
Mortgages	1,990	2,119
Domestic equity	67,264	75,790
Puts and calls	2,108	1,831
Endowment:		
International equity	954	766
Hedge funds	589	511
Private equity	148	168
Mortgages	36	36
Domestic equity	1,203	1,273
Puts and calls	37	31
Total alternative investments	168,831	168,502
Short-term investments:		
Board designated	7,659	6,671
Restricted under state and debt agreements	44,520	45,206
Total short-term investments	52,179	51,877
Total	\$ 474,487	\$ 464,645

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 6 - Other Assets

Other assets at September 30, 2023 and 2022 consisted of the following:

	2023	2022
Investment in real estate - Net	\$ 8,636	\$ 7,721
Investment held for insurance obligation by CIIC (Note 3)	20,618	17,884
Other	4,120	4,283
Due from Covenant Ministries of Benevolence (Note 13)	1,338	1,229
Other investments held by Three Crowns Foundation and Three Crowns Park (Note 3)	4,827	4,684
Total	<u>\$ 39,539</u>	<u>\$ 35,801</u>

Included in other assets is \$20,618 and \$17,884 of investments held by CIIC primarily for the purpose of funding insurance obligations as of September 30, 2023 and 2022, respectively (see Note 2).

Note 7 - Property and Equipment

Property and equipment at September 30, 2023 and 2022 consisted of the following:

	2023	2022
Land and land improvements	\$ 72,878	\$ 70,609
Buildings and improvements	1,062,558	1,019,553
Furniture and equipment	301,704	281,280
Construction in progress (Note 12)	43,498	60,002
Property and equipment - At cost	1,480,638	1,431,444
Less accumulated depreciation	703,045	659,388
Property and equipment - Net	<u>\$ 777,593</u>	<u>\$ 772,056</u>

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, 2023 and 2022.

Note 9 - Line of Credit

Covenant Living Communities and Services has a secured bank line of credit with a maximum draw of \$9,500 and has an interest rate of the Bloomberg Short-Term Bank Yield Index (BSBY) rate plus 1.05 percent. The line of credit is reduced by certain outstanding letters of credit, which totaled \$3,996 and \$4,081 at September 30, 2023 and 2022, respectively. The line has no compensating balance arrangement but requires a commitment fee equal to a rate of 0.15 percent per annum on the actual daily unused portion, payable quarterly. There were no draws on the line as of and for the years ended September 30, 2023 and 2022. The line of credit matures on June 1, 2025.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 10 - Long-term Debt and Other Obligations

Long-term debt at September 30, 2023 and 2022 consisted of the following:

	2023	2022
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	\$ 74,775	\$ 78,490
Colorado Health Facilities Authority revenue refunding bonds, Series 2015B, due in 2025, interest adjusted weekly, 5.10 percent and 2.72 percent at September 30, 2023 and 2022, respectively	2,535	3,715
Illinois Finance Authority revenue refunding direct placement bonds, Series 2017, due in 2029, interest rate adjusted weekly, 5.19 percent and 2.82 percent at September 30, 2023 and 2022, respectively	30,125	34,220
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	42,470	43,715
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	159,140	161,560
2019 term loan, due in 2024, interest at 2.45 percent	43,805	45,000
2022 term loan, due in 2027, interest at 2.50 percent	40,000	40,000
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	21,640	31,425
Total long-term debt	559,555	583,190
Less current maturities	(14,995)	(14,535)
Less unamortized debt issuance costs - Net of accumulated amortization	(6,081)	(6,377)
Plus unamortized original issue premium	17,792	18,863
Total long-term debt - Less current maturities	<u>\$ 556,271</u>	<u>\$ 581,141</u>

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 \$534,880 at September 30, 2023, 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, 2023.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

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

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 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 "2019 Term Loan"). The 2019 Term Loan is held by Covenant Living Communities and Services. The 2019 Term 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.

On February 10, 2022, 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 4.3 percent at September 30, 2023.

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 community 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.

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, 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, 2023, Three Crowns Park was in compliance with these financial covenants, as defined.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

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

On December 29, 2022, Three Crowns Park purchased \$9,100 of the par amount of the previously issued and outstanding tax-exempt bonds designated as Illinois Finance Authority revenue refunding bonds, Series 2017. As a result of the bond buyback, Three Crowns Park recognized \$701 as a gain on the debt extinguishment, which includes write-off of unamortized premium and fair value adjustment of \$342 for the year ended September 30, 2023.

Subsequent to September 30, 2023, Three Crowns Park purchased \$7,490 of the par amount of the previously issued and outstanding tax-exempt bonds designated as Illinois Finance Authority revenue refunding bonds, Series 2017. The bond buyback was executed in the secondary market on November 17, 2023. After the bond buyback, \$14,150 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, 2023 are as follows:

Years Ending September 30	Amount
2024	\$ 14,995
2025	56,795
2026	15,674
2027	16,159
2028	53,618
2029 and thereafter	<u>402,314</u>
Total	<u>\$ 559,555</u>

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, 2023 and 2022 are as follows:

	2023	2022
Fund:		
Bond interest, sinking, and expense fund	\$ 12,584	\$ 13,077
Debt service reserve fund	20,261	20,236
Bond project fund	<u>70,888</u>	<u>72,423</u>
Subtotal	103,733	105,736
Less amounts classified as current	<u>(12,584)</u>	<u>(13,077)</u>
Trustee-held funds - Noncurrent	<u>\$ 91,149</u>	<u>\$ 92,659</u>

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

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

Other Obligations

Covenant Living of Geneva (Geneva) and Covenant Living of Bixby (Bixby) have a loan with the Huntington National Bank (Huntington) in the amount of \$21,100 with an interest rate of the one-month Secured Overnight Financing Rate (SOFR) 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, 2023 and 2022, the balance was \$19,540 and \$19,997, 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, 2023 are as follows:

<u>Years Ending September 30</u>	<u>Geneva and Bixby</u>
2024	\$ 473
2025	<u>19,067</u>
Total	<u>\$ 19,540</u>

Line of Credit

Covenant Holdings One, LLC had a revolving line of credit with National Covenant Properties with an available credit line of \$4,000, and, during the year ended September 30, 2023, the line was paid off and terminated. At September 30, 2022, the outstanding balance on the line was \$4,000. The line was recorded within payable to Covenant Institutions within the accompanying consolidated statement of financial position. The line of credit bore interest at the prime rate or a minimum of 4 percent, due monthly. The principal amount borrowed was due no later than 20 years from the date of first disbursement of loan funds, which was November 1, 2010.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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, 2023, the fair values aggregate to an asset of \$969 and a liability of \$356 and are recorded in other assets and other liabilities. 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. 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, 2023 and 2022, the Communities had the following interest rate swaps in effect:

Counterparty	Maturity Date	Rate Paid	Rate Received	Notional Amount	Market Value at September 30, 2023	Market Value at September 30, 2022
Wells Fargo Bank, N.A.	12/1/2034	3.59%	67% of 1M SOFR	\$ 10,750	\$ (353)	\$ (734)
Wells Fargo Bank, N.A.	12/1/2025	3.49%	67% of 1M SOFR	4,040	(3)	(68)
The Huntington National Bank	1/31/2025	1.53%	100% of 1M SOFR	19,540	969	1,290

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, 2023 or 2022.

The net amount received from Wells Fargo Bank, N.A. and Huntington National Bank under the interest rate swap agreements during the year ended September 30, 2023 totaled \$517. The income is recorded as interest income on interest rate swaps. The net amount paid to Wells Fargo Bank, N.A. and Huntington National Bank under the interest rate swap agreements during the year ended September 30, 2022 totaled \$693. 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 \$125 and \$3,820 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, 2023 and 2022, respectively.

Note 12 - Construction in Progress

The construction in progress balance of \$43,498 and \$60,002 at September 30, 2023 and 2022, 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 construction commitments with a total contract price of \$28,271, with a balance to finish of \$4,738, which includes retainage at September 30, 2023.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 13 - Related Party Transactions

Included in assets whose use is limited, including interest in investment pool, classified as noncurrent at September 30, 2023 and 2022 are \$1,268 and \$1,236, respectively, of National Covenant Properties certificates of deposit. During the years ended September 30, 2023 and 2022, interest income earned on the National Covenant Properties certificates of deposit totaled \$36.

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, 2023 and 2022 is \$1,338 and \$1,229, 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 for the years ended September 30, 2023 and 2022.

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, 2023 and 2022.

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 \$2,561 and \$2,497 for the match for the years ended September 30, 2023 and 2022, respectively.

Pension expense, representing the Communities' required contribution to the Plan, was \$500 and \$1,436 for the years ended September 30, 2023 and 2022, 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, 2022 are as follows:

Pension Fund	FEIN	Total Contributions to the Plan for the Year Ended December 31, 2022
The Evangelical Covenant Church Retirement Plan	36-2167730	\$ 1,459

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 14 - Pension Plan (Continued)

As of December 31, 2022, the fair value of the assets of the Plan was \$254,781, and the actuarial present value of accumulated plan benefits was \$270,179. As of December 31, 2021, the fair value of the assets was \$324,626, and the actuarial present value of the accumulated plan benefits was \$275,430.

The information is not yet available for the year ended December 31, 2023.

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, 2023 and 2022, the liability recorded for unpaid and unreported claims was \$3,414 and \$3,562, respectively, and is reported in other current liabilities. For the years ended September 30, 2023 and 2022, the medical benefit expense totaled \$15,201 and \$16,558, 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, 2023 and 2022 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, 2023 and 2022 totaled \$2,527 and \$2,544, 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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 17 - Revenue Recognition (Continued)

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.

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Payors:		
Private/Contract/Other	\$ 250,863	\$ 226,388
Medicare	63,533	58,223
Medicaid	37,421	30,470
	<u>\$ 351,817</u>	<u>\$ 315,081</u>
Total		
Level of care:		
Residential living	\$ 142,235	\$ 119,388
Assisted living	59,877	56,257
Skilled nursing	132,615	122,072
Home health	17,090	17,364
	<u>\$ 351,817</u>	<u>\$ 315,081</u>
Total		

Note 18 - Grant Revenue

Provider Relief Funds and ARP Rural Payments

During the year ended September 30, 2022, the Communities received payments of \$1,695 and had deferred revenue of \$892 as part of general distributions of the CARES Act Provider Relief Fund and ARP Rural payments under the American Rescue Plan Act of 2021 (ARPA). 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 they are in compliance with the applicable terms and conditions required to retain the funds as of September 30, 2022. Therefore, the Communities have recognized \$2,587 in other operating revenue in the accompanying consolidated statement of operations and changes in net assets without donor restrictions for the year ended September 30, 2022.

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 year ended September 30, 2022. 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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(in thousands)

Note 18 - Grant Revenue (Continued)

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credit based on meeting the threshold for gross receipts decline in 2021 compared to 2019. For the year ended September 30, 2023, Three Crowns Park determined these conditions have been met and recognized \$2,482 of ERC revenue within other operating revenue in the accompanying consolidated statement of operations and changes in net assets without donor restrictions for the year ended September 30, 2023.

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

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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:

	2023	2022
Program services:		
Salaries and benefits	\$ 180,938	\$ 175,809
Purchased services	41,961	38,970
Equipment and supplies	30,757	28,415
Depreciation and amortization	58,261	54,758
Interest	17,761	16,230
Insurance	6,592	5,587
Other	31,897	28,870
Total program services	368,167	348,639
Support services:		
Salaries and benefits	24,668	22,336
Purchased services	8,394	10,022
Equipment and supplies	1,993	1,669
Depreciation and amortization	6,827	6,415
Interest	2,081	1,902
Insurance	772	655
Other	16,590	13,000
Total support services	61,325	55,999
Fundraising:		
Salaries and benefits	2,276	1,957
Purchased services	23	32
Equipment and supplies	42	38
Other	1,353	1,313
Total fundraising	3,694	3,340
Total	<u>\$ 433,186</u>	<u>\$ 407,978</u>

The expenses above include \$3,430 and \$3,077 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, 2023 and 2022, respectively.

Note 20 - Liquidity

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

	2023	2022
Cash and cash equivalents	\$ 67,830	\$ 51,942
Accounts receivable - Net	23,471	22,089
Total	<u>\$ 91,301</u>	<u>\$ 74,031</u>

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.

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(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.

Additional Consolidating Information

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, 2023 and have issued our report thereon dated January 18, 2024, 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 18, 2024

Covenant Living Communities and Services

Consolidating Statement of Financial Position Information

September 30, 2023
(In thousands)

Assets	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and Services	All Communities
Current Assets								
Cash and cash equivalents	\$ 67,830	\$ -	\$ -	\$ 9,137	\$ 58,693	\$ -	\$ 57,992	\$ 701
Restricted cash	6,262	-	-	588	5,674	-	4,273	1,401
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	95,011	-	-	-	95,011	-	6,327	88,684
Restricted under debt agreements	12,584	-	-	541	12,043	-	376	11,667
Accounts receivable - Net	23,471	1	-	4,289	19,181	-	456	18,725
Prepaid expenses and other assets	6,788	-	-	154	6,634	-	5,405	1,229
Total current assets	211,946	1	-	14,709	197,236	-	74,829	122,407
Property and Equipment - Net	777,593	-	-	182,205	595,388	-	31,570	563,818
Other Assets	39,539	(106,313)	-	6,515	139,337	27	132,237	7,073
Interest in Irrevocable Trusts	3,560	-	-	-	3,560	-	2	3,558
Goodwill - Net	66,477	-	-	66,477	-	-	-	-
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool								
Board designated	254,470	-	435	1,263	252,772	-	44,398	208,374
Restricted under state and debt agreements	103,803	-	-	5,216	98,587	-	-	98,587
Endowment	8,619	-	-	-	8,619	-	6,090	2,529
Total assets whose use is limited, including beneficial interest in investment pool	366,892	-	435	6,479	359,978	-	50,488	309,490
Total Assets	\$ 1,466,007	\$ (106,312)	\$ 435	\$ 276,385	\$ 1,295,499	\$ 27	\$ 289,126	\$ 1,006,346

Consolidating Statement of Financial Position Information (Continued)

September 30, 2023
(In thousands)

	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and Services	All Communities
Liabilities and Net Assets (Deficits)								
Current Liabilities								
Accounts payable - Trade	\$ 19,211	\$ -	\$ -	\$ 655	\$ 18,556	\$ (1)	\$ 15,760	\$ 2,797
Accounts payable - Contractors	1,766	-	-	-	1,786	-	1,786	-
Accrued salaries and wages	15,603	-	-	-	15,603	-	15,603	-
Accrued interest	6,890	-	-	324	6,566	-	408	6,158
Advanced deposits	3,670	-	-	1,440	2,230	-	18	2,212
Current maturities of long-term debt	14,995	-	-	710	14,285	-	1,394	12,891
Deferred revenue subject to refund	130,774	-	-	16,761	114,013	-	-	114,013
Refundable contract liabilities	188,042	-	-	65,511	122,531	-	-	122,531
Other current liabilities	44,025	-	-	17,982	26,043	-	13,151	12,892
Total current liabilities	424,996	-	-	103,383	321,613	(1)	48,120	273,494
Long-term Debt - Less current maturities	556,271	-	-	24,641	531,630	-	98,614	433,016
Payable to (from) Covenant Institutions								
Covenant Living Communities and Services - Notes and advances	-	(106,313)	-	106,348	(35)	-	13,846	(13,881)
Other Benevolent Institutions - Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	-	(106,313)	-	106,348	(35)	-	13,846	(13,881)
Other Liabilities	71,756	-	-	47,775	23,981	-	8,584	15,397
Deferred Revenue from Entrance Fees	280,620	-	-	30,477	250,143	-	13,566	236,577
Total liabilities	1,333,643	(106,313)	-	312,624	1,127,332	(1)	182,730	944,603
Net Assets (Deficits)								
Without donor restrictions	111,317	1	435	(37,679)	148,560	28	98,822	49,710
With donor restrictions	21,047	-	-	1,440	19,607	-	7,574	12,033
Total net assets (deficits)	132,364	1	435	(36,239)	168,167	28	106,396	61,743
Total liabilities and net assets	\$ 1,466,007	\$ (106,312)	\$ 435	\$ 276,385	\$ 1,295,499	\$ 27	\$ 289,126	\$ 1,006,346

Community Consolidating Statement of Financial Position Information

September 30, 2023
(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	\$ 701	\$ 16	\$ 104	\$ 204	\$ 7	\$ 34	\$ 151	\$ 16
Restricted cash	1,401	515	16	261	175	163	210	5
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	88,684	13,030	-	4,117	5,473	6,402	3,536	-
Restricted under debt agreements	11,667	501	-	610	669	1,095	1,820	-
Accounts receivable - Net	18,725	1,005	75	1,366	1,888	1,325	949	1,865
Prepaid expenses and other assets	1,229	60	24	10	109	98	503	135
Total current assets	122,407	15,127	219	6,568	8,321	9,117	7,169	2,021
Property and Equipment - Net	563,818	42,768	4,354	37,869	26,538	37,724	74,820	2,254
Other Assets	7,073	421	1	38	82	256	972	15
Interest in Irrevocable Trusts	3,558	248	234	410	170	30	177	-
Goodwill - Net								
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool								
Board designated	208,374	2,286	4,568	9,771	6,417	1,170	10,092	-
Restricted under state and debt agreements	98,587	2,916	-	10,776	836	1,315	4,448	-
Endowment	2,529	-	-	-	-	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	309,490	5,202	4,568	20,547	7,253	2,485	14,540	-
Total Assets	\$ 1,006,346	\$ 63,766	\$ 9,376	\$ 65,432	\$ 42,364	\$ 49,612	\$ 97,678	\$ 4,290

Community Consolidating Statement of Financial Position Information (Continued)

September 30, 2023
(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
Liabilities and Net Assets (Deficits)								
Current Liabilities	\$ 2,797	\$ 214	\$ 37	\$ 172	\$ 153	\$ 126	\$ 186	\$ 185
Accounts payable - Trade	-	-	-	-	-	-	-	-
Accounts payable - Contractors	-	-	-	-	-	-	-	-
Accrued salaries and wages	6,158	270	-	238	437	510	708	-
Accrued interest	2,212	118	-	34	88	22	62	-
Advanced deposits	12,891	2,793	-	688	272	1,515	1,310	-
Current maturities of long-term debt	114,013	13,056	-	6,775	5,447	10,265	11,695	-
Deferred revenue subject to refund	122,531	18,160	-	4,977	7,589	9,055	4,083	-
Refundable contract liabilities	12,892	1,401	299	686	968	90	1,078	289
Other current liabilities								
Total current liabilities	273,494	36,012	336	13,570	14,954	21,583	19,122	474
Long-term Debt - Less current maturities	433,016	25,852	-	16,619	31,390	37,004	43,838	-
Payable to (from) Covenant Institutions	(13,881)	3,782	5,581	45,678	35,489	24,736	26,619	12,100
Covenant Living Communities and Services - Notes and advances	-	-	-	-	-	-	-	-
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	(13,881)	3,782	5,581	45,678	35,489	24,736	26,619	12,100
Other Liabilities	15,397	-	-	-	4	-	-	-
Deferred Revenue from Entrance Fees	236,577	16,322	-	10,783	8,894	11,238	14,673	-
Total liabilities	944,603	81,968	5,917	86,650	90,731	94,561	104,252	12,574
Net Assets (Deficits)								
Without donor restrictions	49,710	(18,460)	3,336	(21,591)	(48,607)	(45,494)	(6,762)	(8,496)
With donor restrictions	12,033	258	123	373	240	545	188	212
Total net assets (deficits)	61,743	(18,202)	3,459	(21,218)	(48,367)	(44,949)	(6,574)	(8,284)
Total liabilities and net assets	\$ 1,006,346	\$ 63,766	\$ 9,376	\$ 65,432	\$ 42,364	\$ 49,612	\$ 97,678	\$ 4,290

Community Consolidating Statement of Financial Position Information (Continued)

September 30, 2023
(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	\$ 7	\$ 9	\$ 14	\$ 94	\$ 8	\$ 30	\$ 7
Restricted cash	28	-	21	2	1	-	4
Assets whose use is limited, including beneficial interest in investment pool:							
Board designated	9,204	5,159	14,339	9,571	15,725	2,128	-
Restricted under debt agreements	2,253	444	2,067	72	422	1,087	627
Accounts receivable - Net	2,120	1,780	2,031	1,169	683	1,206	1,263
Prepaid expenses and other assets	6	41	8	54	109	63	9
Total current assets	13,618	7,433	18,480	10,962	16,948	4,514	1,910
Property and Equipment - Net	47,661	37,515	75,969	47,601	37,641	28,917	62,187
Other Assets	404	1,380	2,505	776	-	216	7
Interest in Irrevocable Trusts	447	397	39	654	107	467	178
Goodwill - Net							
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool							
Board designated	21,694	12,443	57,679	44,330	5,964	13,907	18,053
Restricted under state and debt agreements	3,714	587	69,352	216	-	2,606	1,821
Endowment	719	44	-	-	-	-	1,766
Total assets whose use is limited, including beneficial interest in investment pool	26,127	13,074	127,031	44,546	5,964	16,513	21,640
Total Assets	\$ 88,257	\$ 59,799	\$ 224,024	\$ 104,539	\$ 60,960	\$ 50,627	\$ 85,922

Community Consolidating Statement of Financial Position Information (Continued)

September 30, 2023
(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	\$ 261	\$ 221	\$ 387	\$ 209	\$ 161	\$ 164	\$ 321
Accounts payable - Contractors	-	-	-	-	-	-	-
Accrued salaries and wages	-	-	-	-	-	-	-
Accrued interest	926	289	1,520	69	260	339	592
Advanced deposits	184	72	648	330	402	22	230
Current maturities of long-term debt	1,751	452	802	351	395	1,091	1,471
Deferred revenue subject to refund	13,581	8,768	15,923	12,410	9,757	6,336	-
Refundable contract liabilities	12,457	7,978	20,752	13,431	21,195	2,854	-
Other current liabilities	1,068	383	790	383	2,806	325	2,326
Total current liabilities	30,228	18,163	40,822	27,183	34,976	11,131	4,940
Long-term Debt - Less current maturities	61,657	20,285	109,926	4,520	18,415	21,108	42,402
Payable to (from) Covenant Institutions							
Covenant Living Communities and Services - Notes and advances	(4,073)	(44,844)	(36,153)	(60,098)	(30,841)	(2,798)	10,941
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	(4,073)	(44,844)	(36,153)	(60,098)	(30,841)	(2,798)	10,941
Other Liabilities	-	-	-	-	-	-	15,393
Deferred Revenue from Entrance Fees	20,721	20,517	31,312	28,868	21,940	12,314	38,995
Total liabilities	108,533	14,121	145,907	473	44,490	41,755	112,671
Net Assets (Deficits)							
Without donor restrictions	(21,178)	45,467	78,056	98,897	16,053	8,625	(30,136)
With donor restrictions	902	211	61	5,169	117	247	3,387
Total net assets (deficits)	(20,276)	45,678	78,117	104,066	16,170	8,872	(26,749)
Total liabilities and net assets	\$ 88,257	\$ 59,799	\$ 224,024	\$ 104,539	\$ 60,660	\$ 50,627	\$ 85,922

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (In thousands)						
	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and All Communities
Operating Revenue							
Routine resident services	\$ 304,398	\$ -	\$ -	\$ 45,312	\$ 259,086	\$ -	\$ 2,684
Ancillary services	47,419	-	-	18,732	28,687	-	7
Amortization of deferred entrance fees	58,797	-	-	7,186	51,611	-	1,618
Net assets released from restrictions for operations	3,910	-	-	389	3,521	-	386
Other	14,214	(2,820)	-	7,083	9,951	-	2,008
Total operating revenue	428,738	(2,820)	-	78,702	352,856	-	6,703
Expenses							
Routine nursing services	96,279	-	-	19,674	76,605	-	-
Ancillary services	19,573	-	-	2,431	17,142	-	-
Resident benefits	18,581	-	-	2,933	15,648	-	-
Dietary	53,164	-	-	8,417	44,747	-	-
Laundry	2,429	-	-	139	2,290	-	-
Housekeeping	12,505	-	-	1,842	10,663	-	-
Maintenance	23,975	-	-	4,724	19,251	-	266
Utilities	17,117	-	-	2,661	14,456	-	97
Administrative and general	69,279	(1,777)	-	14,926	56,130	16	(530)
Interest	19,842	(4,130)	-	6,756	17,216	(12,993)	3,115
Property taxes	5,435	-	-	1,349	4,086	-	218
Insurance	7,364	-	-	1,189	6,175	-	(1,018)
Marketing and promotion	17,435	(1,043)	-	4,065	14,413	(14)	686
Depreciation	64,633	-	-	10,020	54,613	-	2,116
Amortization	455	-	-	193	262	-	92
Other	1,690	-	-	296	1,394	-	(1,277)
Total expenses	429,756	(6,950)	-	81,615	355,091	(12,991)	3,765
Operating (Loss) Income	\$ (1,018)	\$ 4,130	\$ -	\$ (2,913)	\$ (2,235)	\$ 12,991	\$ 2,938
							\$ (18,164)

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (In thousands)						
	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	All Communities
Operating Income (Loss)	\$ (1,018)	\$ 4,130	\$ -	\$ (2,913)	\$ (2,235)	\$ 12,991	\$ (18,164)
Nonoperating Revenue (Expense)							
Gifts and bequests — net of related expenses	(840)	-	-	(161)	(679)	1	787
Gain on extinguishment of debt	701	-	-	701	-	-	-
Other nonoperating (expenses) revenue	(2,978)	-	-	(3,031)	53	-	103
Interest and dividend income	7,706	(4,130)	9	1,032	10,795	(12,993)	20,460
Realized gains (losses) on fixed-income and equity securities — Net	3,693	-	5	(114)	3,802	-	4,233
Unrealized gains (losses) on fixed-income and equity securities — Net	4,620	-	31	226	4,363	-	(4,698)
Alternative investment income (loss) - Including net unrealized and realized gains	24,815	-	-	-	24,815	-	24,815
Unrealized gains (losses) on derivative instruments	125	-	-	(253)	378	(68)	446
Interest income (expense) on interest rate swaps	517	-	-	575	(58)	-	(58)
Total nonoperating revenue (expense)	38,359	(4,130)	45	(1,025)	43,469	(13,060)	34,644
Income (Loss)	37,341	-	45	(3,938)	41,234	(69)	16,480
Net Assets Released from Restrictions for Capital Purchases	249	-	-	37	212	-	212
Net Asset Transfer from (to) Related Organization	-	-	-	2,000	(2,000)	-	(2,000)
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 37,590	\$ -	\$ 45	\$ (1,901)	\$ 39,446	\$ (69)	\$ 22,823
							\$ 16,692

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

Year Ended September 30, 2023
(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	\$ 256,402	\$ 17,287	\$ 2,832	\$ 16,774	\$ 17,915	\$ 12,429	\$ 20,246	\$ 14,091
Ancillary services	28,680	1,345	14	2,428	2,316	1,655	1,311	1,703
Amortization of deferred entrance fees	49,993	3,921	-	2,987	2,153	2,730	3,109	-
Net assets released from restrictions for operations	3,135	207	-	195	265	45	-	-
Other	7,943	219	102	181	607	1,094	1,189	196
Total operating revenue	346,153	22,979	2,948	22,565	23,256	17,953	26,084	15,990
Expenses								
Routine nursing services	76,605	4,915	748	3,897	6,161	4,166	4,672	8,173
Ancillary services	17,142	865	19	1,447	1,385	847	792	1,412
Resident benefits	15,648	985	237	1,333	1,229	865	1,308	582
Dietary	44,747	3,124	577	3,330	3,667	2,726	3,568	1,768
Laundry	2,290	134	17	83	195	43	139	441
Housekeeping	10,663	473	84	802	903	417	835	553
Maintenance	18,985	1,163	173	1,603	1,452	827	1,613	492
Utilities	14,359	909	174	1,057	1,201	683	1,528	242
Administrative and general	56,644	3,562	490	4,270	4,349	3,671	5,346	3,191
Interest	27,094	1,820	219	2,518	2,517	2,713	3,543	406
Property taxes	3,868	-	-	332	385	406	1,349	1
Insurance	7,193	395	65	471	516	512	569	330
Marketing and promotion	13,741	1,179	52	1,240	1,013	960	985	293
Depreciation	52,497	3,992	274	3,834	3,153	2,981	5,204	270
Amortization	170	26	-	12	4	19	18	-
Other	2,671	184	10	152	706	96	130	52
Total expenses	364,317	23,726	3,139	26,381	28,836	21,932	31,599	18,206
Operating (Loss) Income	\$ (18,164)	\$ (747)	\$ (191)	\$ (3,816)	\$ (5,580)	\$ (3,979)	\$ (5,515)	\$ (2,216)

Covenant Living Communities and Services

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

Year Ended September 30, 2023
(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	\$ (18,164)	\$ (747)	\$ (191)	\$ (3,816)	\$ (5,580)	\$ (3,979)	\$ (5,515)	\$ (2,216)
Nonoperating Revenue (Expense)								
Gifts and bequests — Net of related expenses	787	65	950	44	(89)	(58)	(145)	1
Other nonoperating revenue (expense) — Net	103	29	-	(18)	(2)	180	24	(21)
Interest and dividend income	20,480	667	99	959	320	389	981	(3)
Realized gains on fixed-income and equity securities — Net	4,233	272	67	153	224	135	254	-
Unrealized gains on fixed-income and equity securities — Net	9,081	974	-	561	392	486	314	-
Total nonoperating revenue (expense)	34,644	2,007	1,116	1,699	845	1,132	1,428	(23)
Income (Loss)	16,480	1,260	925	(2,117)	(4,735)	(2,847)	(4,087)	(2,239)
Net Assets Released from Restrictions for Capital Purchases	212	-	-	-	-	-	-	100
Decrease in Net Assets without Donor Restrictions	\$ 16,692	\$ 1,260	\$ 925	\$ (2,117)	\$ (4,735)	\$ (2,847)	\$ (4,087)	\$ (2,139)

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (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	\$ 26,248	\$ 21,629	\$ 24,095	\$ 25,985	\$ 17,240	\$ 15,197	\$ 24,434	
Ancillary services	2,891	2,333	2,272	2,958	2,250	1,155	4,049	
Amortization of deferred entrance fees	4,736	3,925	7,823	5,672	4,374	2,281	6,282	
Net assets released from restrictions for operations	242	356	338	346	465	179	268	
Other	643	363	907	588	1,171	243	440	
	34,760	28,606	35,435	35,549	25,500	19,055	35,473	
Expenses								
Routine nursing services	7,164	6,952	7,076	6,628	5,308	4,014	6,731	
Ancillary services	1,573	1,611	990	1,916	1,198	775	2,312	
Resident benefits	1,542	1,246	1,254	1,603	1,152	918	1,394	
Dietary	3,843	3,554	4,221	3,974	3,120	3,000	4,275	
Laundry	138	243	181	251	92	153	180	
Housekeeping	1,093	992	902	1,190	753	789	877	
Maintenance	1,492	1,658	1,703	1,951	1,605	1,303	1,950	
Utilities	1,224	1,768	953	1,664	981	816	1,159	
Administrative and general	5,280	4,605	4,550	5,098	4,550	3,846	3,836	
Interest	4,600	845	1,122	1,194	832	1,178	3,587	
Property taxes	393	-	-	3	400	6	593	
Insurance	642	609	658	692	637	459	638	
Marketing and promotion	1,289	1,157	1,274	1,027	790	937	1,545	
Depreciation	4,218	3,898	6,540	5,440	3,651	3,063	5,979	
Amortization	31	5	14	4	5	20	12	
Other	197	197	297	205	73	167	205	
	34,719	29,340	31,735	32,840	25,147	21,444	35,273	
Operating (Loss) Income	\$ 41	\$ (734)	\$ 3,700	\$ 2,709	\$ 353	\$ (2,389)	\$ 200	

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (In thousands)							
	Covenant Living at 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	\$ 41	\$ (734)	\$ 3,700	\$ 2,709	\$ 353	\$ (2,389)	\$ 200	
Nonoperating Revenue (Expense)								
Gifts and bequests — Net of related expenses	313	(6)	(137)	55	(154)	(83)	31	
Other nonoperating revenue (expense) — Net	7	(39)	(40)	(16)	(10)	21	(12)	
Interest and dividend income	2,886	2,108	3,572	4,493	1,554	784	1,651	
Realized gains on fixed-income and equity securities — Net	454	308	605	800	412	271	278	
Unrealized gains (losses) on fixed-income and equity securities — Net	739	385	2,328	732	1,109	240	801	
Total nonoperating revenue (expense)	4,399	2,756	6,328	6,064	2,911	1,233	2,749	
Income (Loss)	4,440	2,022	10,028	8,773	3,264	(1,156)	2,949	
Net Assets Released from Restrictions for Capital Purchases	-	-	-	112	-	-	-	
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 4,440	\$ 2,022	\$ 10,028	\$ 8,885	\$ 3,264	\$ (1,156)	\$ 2,949	

Covenant Living Communities and Services

Consolidating Statement of Financial Position - Covenant Living Services

September 30, 2023
(In thousands)

	Consolidated Covenant Living Services	Eliminations	Total Covenant Living Services	Covenant Holdings One, LLC	Covenant Living of Geneva	Covenant Living Bixby
Assets						
Current Assets						
Cash and cash equivalents	\$ 9,137	\$ -	\$ 9,137	\$ 866	\$ 100	\$ 534
Restricted cash	588	-	588	-	-	85
Assets whose use is limited, including beneficial interest in investment pool:						
Board designated	-	-	-	-	-	-
Restricted under debt agreements	541	-	541	-	-	-
Accounts receivable - Net	4,289	(28)	4,317	(1)	-	8
Prepaid expenses and other assets	154	-	154	-	3	15
Total current assets	14,709	(28)	14,737	865	103	642
Property and Equipment - Net	182,205	-	182,205	3,001	5,731	12,764
Other Assets	6,515	(1,815)	8,330	(88)	(577)	(2,468)
Goodwill - Net	66,477	-	66,477	-	-	-
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool						
Board designated	1,263	-	1,263	-	-	-
Restricted under state and debt agreements	5,216	-	5,216	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	6,479	-	6,479	-	-	-
Total Assets	\$ 276,385	\$ (1,843)	\$ 278,228	\$ 3,778	\$ 5,257	\$ 10,938

Covenant Living Communities and Services

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

September 30, 2023
(In thousands)

	Consolidated Covenant Living Services	Eliminations	Total Covenant Living Services	Covenant Holdings One, LLC	Covenant Living of Geneva	Covenant Living Bixby
Liabilities and Net Assets (Deficits)						
Current Liabilities:						
Accounts payable - Trade	\$ 655	\$ (28)	\$ 683	\$ -	\$ -	\$ 5
Accrued interest	324	-	324	25	28	93
Advance deposits	1,440	-	1,440	-	-	-
Current maturities of long-term debt	710	-	710	-	-	-
Deferred revenue subject to refund	16,761	-	16,761	-	-	-
Refundable contract liabilities	65,511	-	65,511	-	-	-
Other current liabilities	17,982	-	17,982	51	209	577
Total current liabilities	103,383	(28)	103,411	76	237	675
Long-term Debt - Less current maturities	24,641	-	24,641	-	(11)	(35)
Payable to (from) Covenant Institutions						
Covenant Living Communities and Services - Notes and advances	106,348	(1,815)	108,163	3,878	2,182	(3,786)
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-
Total payable to (from) Covenant institutions	106,348	(1,815)	108,163	3,878	2,182	(3,786)
Other Liabilities	47,775	-	47,775	-	4,381	14,686
Deferred Revenue from Entrance Fees	30,477	-	30,477	-	-	-
Total liabilities	312,624	(1,843)	314,467	3,954	6,789	11,540
Net Assets (Deficits)						
Without donor restrictions	(37,679)	-	(37,679)	(176)	(1,532)	(610)
With donor restrictions	1,440	-	1,440	-	-	8
Total net assets (deficits)	(36,239)	-	(36,239)	(176)	(1,532)	(602)
TOTAL	\$ 276,385	\$ (1,843)	\$ 278,228	\$ 3,778	\$ 5,257	\$ 10,938

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

September 30, 2023
(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	\$ 371	\$ -	\$ 6,996	\$ 4	\$ 103	\$ 163
Restricted cash	1	-	1	-	501	-
Assets whose use is limited, including beneficial interest in investment pool:						
Board designated	-	-	-	-	-	-
Restricted under debt agreements	-	-	541	-	-	-
Accounts receivable - Net	485	-	132	82	2,954	657
Prepaid expenses and other assets	29	-	27	15	64	1
Total current assets	886	-	7,697	101	3,622	821
Property and Equipment - Net	44,565	-	48,798	67,200	146	-
Other Assets	(7)	415	6,279	-	2,790	1,986
Goodwill - Net	39,935	-	26,542	-	-	-
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool						
Board designated	-	-	-	1,263	-	-
Restricted under state and debt agreements	-	-	2,216	3,000	-	-
Total assets whose use is limited, including beneficial interest in investment pool	-	-	2,216	4,263	-	-
Total Assets	\$ 85,379	\$ 415	\$ 91,532	\$ 71,564	\$ 6,558	\$ 2,807

Covenant Living Communities and Services

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

September 30, 2023
(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	\$ 233	\$ -	\$ 43	\$ 54	\$ 342	\$ 6
Accrued interest	-	-	178	-	-	-
Advance deposits	42	-	1,344	54	-	-
Current maturities of long-term debt	-	-	710	-	-	-
Deferred revenue subject to refund	9,257	-	3,060	4,444	-	-
Refundable contract liabilities	10,177	-	27,591	27,743	-	-
Other current liabilities	13,155	-	1,760	734	1,139	357
Total current liabilities	32,864	-	34,686	33,029	1,481	363
Long-term Debt - Less current maturities	-	-	24,687	-	-	-
Payable to (from) Covenant Institutions						
Covenant Living Communities and Services - Notes and advances	51,699	1,505	11,873	30,210	9,860	742
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-
Total payable to (from) Covenant institutions	51,699	1,505	11,873	30,210	9,860	742
Other Liabilities	24,596	-	4,112	-	-	-
Deferred Revenue from Entrance Fees	6,540	-	11,120	12,817	-	-
Total liabilities	115,699	1,505	86,478	76,056	11,341	1,105
Net Assets (Deficits)						
Without donor restrictions	(30,767)	(1,402)	4,591	(4,556)	(4,929)	1,702
With donor restrictions	447	312	463	64	146	-
Total net assets (deficits)	(30,320)	(1,090)	5,054	(4,492)	(4,783)	1,702
TOTAL	\$ 85,379	\$ 415	\$ 91,532	\$ 71,564	\$ 6,558	\$ 2,807

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (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	\$ 45,312	\$ -	\$ 45,312	\$ -	\$ 1,524	\$ 3,716
Ancillary services	18,732	-	18,732	-	-	20
Amortization of deferred entrance fees	7,186	-	7,186	-	-	-
Net assets released from restrictions for operations	389	-	389	-	-	-
Other	7,083	-	7,083	652	11	122
Total operating revenue	78,702	-	78,702	652	1,535	3,858
Expenses						
Routine nursing services	19,674	-	19,674	-	-	574
Ancillary services	2,431	-	2,431	-	1	16
Resident benefits	2,933	-	2,933	-	19	83
Dietary	8,417	-	8,417	-	22	644
Laundry	139	-	139	-	-	-
Housekeeping	1,842	-	1,842	-	61	84
Maintenance	4,724	-	4,724	263	101	223
Utilities	2,661	-	2,661	-	110	171
Administrative and general	14,926	-	14,926	42	213	570
Interest	6,756	-	6,756	80	293	984
Property taxes	1,349	-	1,349	110	131	168
Insurance	1,189	-	1,189	-	38	75
Marketing and promotion	4,065	-	4,065	-	2	109
Depreciation	10,020	-	10,020	125	259	507
Amortization	193	-	193	18	8	27
Other	296	-	296	-	-	11
Total expenses	81,615	-	81,615	638	1,258	4,246
Operating Income (Loss)	\$ (2,913)	\$ -	\$ (2,913)	\$ 14	\$ 277	\$ (388)

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (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)	\$ (2,913)	\$ -	\$ (2,913)	\$ 14	\$ 277	\$ (388)
Nonoperating (Expense) Revenue						
Gifts and bequests — Net of related expenses	(161)	-	(161)	-	-	1
Net assets released from restriction — Distributions from trusts	-	-	-	-	-	-
Gain on extinguishment of debt	701	-	701	-	-	-
Other nonoperating revenue (expense) — Net	(3,031)	-	(3,031)	-	-	(24)
Interest and dividend income	1,032	-	1,032	-	-	-
Realized gains (losses) on fixed-income and equity securities — Net	(114)	-	(114)	-	-	-
Unrealized losses on fixed-income and equity securities — Net	226	-	226	-	-	-
Unrealized gains (losses) on derivative instruments	(253)	-	(253)	-	(58)	(195)
Interest income on interest rate swaps	575	-	575	-	132	443
	(1,025)	-	(1,025)	-	74	225
(Loss) Income	(3,938)	-	(3,938)	14	351	(163)
Transfers	-	-	-	-	-	-
Net Assets Released from Restrictions for Capital Purchases	37	-	-	-	-	-
Net Asset Transfer from (to) Related Organization	2,000	-	2,000	-	-	-
(Decrease) Increase in Net Assets Without Donor Restrictions	\$ (1,901)	\$ -	\$ (1,938)	\$ 14	\$ 351	\$ (163)

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (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	\$ 16,141	\$ -	\$ 11,796	\$ 12,135	\$ -	\$ -
Ancillary services	1,413	-	98	111	17,090	-
Amortization of deferred entrance fees	2,873	-	2,302	2,011	-	-
Net assets released from restrictions for operations	72	5	12	2	298	-
Other	443	-	2,591	153	4	3,107
Total operating revenue	20,942	5	16,799	14,412	17,392	3,107
Expenses						
Routine nursing services	3,139	-	3,772	3,360	8,829	-
Ancillary services	841	-	67	100	1,406	-
Resident benefits	855	-	748	611	617	-
Dietary	2,967	-	2,587	2,197	-	-
Laundry	75	-	41	23	-	-
Housekeeping	651	-	650	396	-	-
Maintenance	1,846	-	1,385	906	-	-
Utilities	1,112	-	511	727	30	-
Administrative and general	3,454	1	2,284	2,481	4,939	942
Interest	1,863	-	2,453	1,083	-	-
Property taxes	210	-	60	667	3	-
Insurance	392	-	196	293	180	15
Marketing and promotion	1,277	1	547	852	396	881
Depreciation	3,136	-	2,478	3,487	28	-
Amortization	-	-	-	-	140	-
Other	87	-	78	50	70	-
Total expenses	21,905	2	17,857	17,233	16,638	1,838
Operating Income (Loss)	\$ (963)	\$ 3	\$ (1,058)	\$ (2,821)	\$ 754	\$ 1,269

Covenant Living Communities and Services

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

	Year Ended September 30, 2023 (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)	\$ (963)	\$ 3	\$ (1,058)	\$ (2,821)	\$ 754	\$ 1,269
Nonoperating (Expense) Revenue	(116)	(2)	(62)	(1)	19	-
Gifts and bequests — Net of related expenses	-	-	701	-	-	-
Net assets released from restriction — Distributions from trusts	(6,810)	(3)	4,109	(1)	-	(302)
Gain on extinguishment of debt	20	11	983	23	-	(5)
Other nonoperating revenue (expense) — Net interest and dividend income	-	2	(127)	11	-	-
Realized gains (losses) on fixed-income and equity securities — Net	-	22	93	111	-	-
Unrealized losses on fixed-income and equity securities — Net	-	-	-	-	-	-
Total nonoperating (expense) revenue	(6,906)	30	5,697	143	19	(307)
(Loss) Income	(7,869)	33	4,639	(2,678)	773	962
Net Asset Transfer from (to) Related Organization	-	5	1,995	-	-	-
(Decrease) Increase in Net Assets Without Donor Restrictions	\$ (7,832)	\$ 38	\$ 6,634	\$ (2,678)	\$ 773	\$ 962

Covenant Living Communities and Services

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, 2023

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, 2023 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.