Covenant Living of the Great Lakes

Financial Report

September 30, 2019

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Independent Auditor's Report

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Living of the Great Lakes

We have audited the accompanying financial statements of Covenant Living of the Great Lakes (f/k/a Covenant Retirement Communities of the Great Lakes Conference) (an affiliate of The Evangelical Covenant Church and Covenant Living Communities and Services (see Note 2)), which comprise the statement of financial position as of September 30, 2019 and the statements of operations, changes in total net assets (deficit), and cash flows for the period from February 1, 2019 to September 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant Living of the Great Lakes as of September 30, 2019 and the results of its operations and cash flows for the period from February 1, 2019 to September 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 7, 2020

Statement of Financial Position

September 30, 2019

Assets	
Current Assets	
Cash and cash equivalents	$ 7,487
Restricted cash	165,782
Assets whose use is limited, including beneficial interest in investment pool: (Notes 3 and 5)	
Board designated	4,999,781
Restricted under debt agreements	595,824
Accounts receivable - Net	589,327
Prepaid and other assets	85,120
Total current assets	6,443,321
Property and Equipment	
Land and improvements	1,221,995
Buildings and improvements	46,788,704
Furniture and equipment	7,870,573
Construction in progress (Note 7)	647,696
Total property and equipment - At cost	56,528,968
Less accumulated depreciation	21,049,468
Net property and equipment	35,479,500
Other Assets	200,000
Interest in Irrevocable Trusts (Note 10)	38,743
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool (Notes 3 and 5)	
Board designated	547,064
Restricted under state and debt agreements	4,062,083
Total assets whose use is limited, including beneficial interest in investment pool	4,609,147
Total assets	**$ 46,770,711**

Statement of Financial Position (Continued)

September 30, 2019

Liabilities and Net Assets (Deficiency in Net Assets)

Current Liabilities	
Accounts payable	$ 225,616
Accrued salaries and wages	28,250
Accrued interest	592,117
Advance deposits	68,500
Current maturities of long-term debt (Note 6)	597,505
Deferred revenue subject to refund (Note 2)	8,735,212
Refundable contract liabilities (Note 2)	6,882,482
Other current liabilities	48,751
Total current liabilities	17,178,433
Long-term Debt - Less current maturities (Note 6)	42,722,201
Other Long-term Liabilities	
Due to Covenant Living Communities and Services (Note 8)	11,668,934
Deferred revenue from entrance fees (Note 2)	9,517,463
Total other long-term liabilities	21,186,397
Total liabilities	81,087,031
Net Assets (Deficiency in Net Assets)	
Without donor restrictions	(34,367,313)
With donor restrictions	50,993
Total net assets (deficiency in net assets)	(34,316,320)
Total liabilities and net assets (deficiency in net assets)	**$ 46,770,711**

Statement of Operations

Period from February 1, 2019 to September 30, 2019

Operating Revenue	
Routine resident services	$ 7,379,223
Ancillary services	906,229
Amortization of deferred entrance fees	2,020,141
Net assets released from restrictions used for operations	80,865
Other	363,724
Total operating revenue	10,750,182
Expenses (Note 13)	
Routine nursing services	1,866,700
Ancillary services	482,822
Resident benefits	487,746
Dietary	1,510,324
Laundry	21,329
Housekeeping	199,906
Maintenance	583,523
Utilities	381,456
Administration and general	2,091,605
Interest	1,656,092
Property taxes	250,383
Insurance	176,810
Marketing and promotion	519,682
Depreciation	1,473,376
Amortization	26,207
Other	101,018
Total expenses	11,828,979
Operating Loss	(1,078,797)
Nonoperating (Expense) Revenue	
Gifts and bequests - Net of related expenses (Note 13)	(85,209)
Unrealized gains on investments - Net	236,989
Realized gains on investments - Net	54,522
Interest and dividend income	193,685
Other nonoperating expense - Net	(1,614)
Total nonoperating revenue	398,373
Decrease in Net Assets without Donor Restrictions - Loss	**$ (680,424)**

See notes to financial statements.

Statement of Changes in Total Net Assets (Deficit)

	Period from February 1, 2019 to September 30, 2019
Decrease in Net Assets without Donor Restrictions - Loss	$ (680,424)
Net Assets with Donor Restrictions	
Contributions	81,104
Net assets released from restriction used for operations	(80,865)
Irrevocable trusts - Change in present value discount	1,280
Increase in net assets with donor restrictions	1,519
Decrease in Net Assets	(678,905)
Net Assets (Deficiency in Net Assets) - Beginning of period	(33,637,415)
Net Assets (Deficiency in Net Assets) - End of period	**$ (34,316,320)**

See notes to financial statements.

Statement of Cash Flows

Period from February 1, 2019 to September 30, 2019

Cash Flows from Operating Activities	
Change in net assets	$ (678,905)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization of deferred entrance fees	(2,020,141)
Depreciation	1,473,376
Amortization	26,207
Loss on disposal	1,572
Provision for bad debts	44,056
Original issue premium accretion - Net of original issue discount amortization and unamortized debt expense	(35,680)
Net realized and unrealized gains on assets whose use is limited	(291,511)
Other changes in irrevocable trusts - Net	(1,280)
Nonrefundable entrance fees collected	2,088,358
Nonrefundable entrance fees refunded	(362,648)
Changes in operating assets and liabilities:	
Accounts receivable	781,649
Other assets	(42,789)
Accounts payable	46,184
Accrued salaries and wages	(521)
Accrued interest	285,625
Other liabilities	10,761
Net cash provided by operating activities	1,324,313
Cash Flows from Investing Activities	
Property and equipment expenditures	(1,333,352)
Net change in assets whose use is limited, including beneficial interest in investment pool	(454,297)
Net cash used in investing activities	(1,787,649)
Cash Flows from Financing Activities	
Net advances from Covenant Living Communities and Services	171,789
Refundable entrance fees collected	1,029,244
Refundable entrance fees refunded	(723,151)
Net cash provided by financing activities	477,882
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	14,546
Cash, Cash Equivalents, and Restricted Cash - Beginning of period	158,723
Cash, Cash Equivalents, and Restricted Cash - End of period	**$ 173,269**
Supplemental Disclosure of Operating, Investing, and Financing Activities - Interest paid (including intercompany interest paid of $281,977 for the period from February 1, 2019 to September 30, 2019)	$ 1,406,147

See notes to financial statements.

Note 1 - Mission Statement

As a ministry of The Evangelical Covenant Church, Covenant Living of the Great Lakes (f/k/a Covenant Retirement Communities of the Great Lakes Conference) 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 Financial Statements

Covenant Living of the Great Lakes (the "Community") operates a retirement, assisted living, and skilled care facility for the aged and is owned by Covenant Living Communities and Services (CLCS), an affiliate of Covenant Ministries of Benevolence (CMB), which is administered by the Board of Benevolence of The Evangelical Covenant Church (the "Board of Benevolence"). The financial resources of CLCS support the Community's operations.

The property, plant, and equipment required for residential care operations are generally financed by residents' entrance fees and contributions and supplemented, where required, by long-term debt or funds from CLCS. Except for donor-restricted contributions, CLCS' board of directors designates the use of all available funds.

Basis of Presentation

The 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. Effective April 27, 2019, CLCS' board of directors approved a change in fiscal year end from January 31 to September 30. As a result, the accompanying financial statements present financial information for the period from February 1, 2019 to September 30, 2019.

The Community recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements. The Community does not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are issued; however, such events may be required to be recognized as a disclosure. For these purposes, the Community has evaluated events occurring subsequent to the statement of financial position date through February 6, 2020, which is the date the financial statements were issued. The Community has not evaluated events occurring after February 6, 2020 in these financial statements.

Financial Support from Parent Organization

The Community's parent organization is CLCS, which is committed to the Community's operations in Michigan. Although the Community has a deficiency in net assets as of September 30, 2019, CLCS will support the Community through additional funding, as necessary, to ensure that the Community is able to pay its debts as they come due and to continue as a going concern. Such deficiency in net assets does not place the Community in violation of any state or federal laws or regulations, nor is the Community in any violation of any of its contractual agreements.

Note 2 - Summary of Significant Accounting Policies (Continued)

Industry

The healthcare 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, as well as 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 healthcare 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 Community is in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 18 percent of the Community's combined routine resident and ancillary services revenue for the period from February 1, 2019 to September 30, 2019.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consists principally of deposits received for entrance fees that are required by state law to be held in escrow accounts.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the amounts reported on the statement of cash flows:

	2019
Cash and cash equivalents	$ 7,487
Restricted cash	165,782
Total	$ 173,269

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.

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 Community retains the benefits of ownership of its 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 financial statements.

Note 2 - Summary of Significant Accounting Policies (Continued)

The Community recognizes its interest in the combined investment fund equal to the amounts contributed, less amounts withdrawn, and adjusts the balance for its 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 Community’s 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 statements of financial position and operations.

Accounts Receivable

Accounts receivable from residents, insurance companies, and governmental agencies are based on the amount that reflects the consideration to which the Community expects 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 Community's 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 $56,291 at September 30, 2019.

Overpayments from third-party payors on residents' accounts receivable balances have been included in other current liabilities on the statement of financial position. Total overpayments amounted to $17,669 at September 30, 2019.

The Community provides services without collateral to its residents, most of whom are local residents and insured under third-party agreements. The mix of receivables from residents and third-party payors as of September 30, 2019 was 30 percent from private payors, 44 percent from Medicare, and 26 percent from Medicaid.

Benevolent Care Fund

The Community has adopted a policy requiring amounts received from unrestricted wills and bequests, 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 this 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 on the bonds outstanding method. These costs are recorded as a reduction in the recorded balance of the outstanding long-term debt.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the expected useful lives of the assets as follows:

	Years
Land improvements	8 - 20
Buildings and improvements	10 - 40
Furniture and equipment	3 - 20

Note 2 - Summary of Significant Accounting Policies (Continued)

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. The Community did not capitalize interest costs in the period from February 1, 2019 to September 30, 2019.

During the period from February 1, 2019 to September 30, 2019, the Community recorded the retirement of certain fully depreciated property and equipment having an original cost of approximately $2,834,000, which were physically disposed.

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 Community. Upon entrance to the 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.

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 Community expects to be entitled in exchange for services provided. The majority of the Community's healthcare services represents 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 Community has concluded that each day that a resident receives services represents a separate contract and performance obligation based on the fact that residents have unilateral rights to terminate the contract after each day with no penalty or compensation due. The Community also provides certain ancillary services that are not included in the bundle of services and, as such, are treated as separate performance obligations satisfied over time as the services are rendered. The Community determines the transaction price based on contractually agreed-upon amounts or rates.

Entrance Fees

In addition to monthly services fees, entrance fees are one-time payments made by residents of the Community entitling them admission to and use of the Community's facility.

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 Community expects 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 Community's performance obligation. Nonrefundable entrance fees totaling $9,517,463 at September 30, 2019 are recorded as deferred revenue and are amortized into income over the actuarial life of each resident.

Note 2 - Summary of Significant Accounting Policies (Continued)

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves the Community within the first 50 or 60 months of residency. Included in current liabilities at September 30, 2019 is $8,735,212 of deferred entrance fees subject to the above refund provisions.

The Community also offers contracts that include a 50 and 90 percent refund of the entrance fee. The refundable portion of the one-time entrance fee is treated as a current liability, with the remainder recorded as noncurrent deferred revenue. The Community recognizes income on the noncurrent deferred portion of the entrance fee ratably, using the actuarial life of each resident. Included in refundable contract liabilities is $6,882,482 at September 30, 2019 for refundable entrance fees.

Entrance fee refunds under all programs were $1,085,799 for the period from February 1, 2019 to September 30, 2019. Although the refundable contract liabilities and a portion of deferred revenue are classified as current liabilities, the likelihood of actual payment of these liabilities in full within one year is remote, based on the Community's experience.

Under Accounting Standards Codification (ASC) 606, the Community does, in certain instances, enter into payment arrangement 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.

Obligation to Provide Future Services

Annually, the Community calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares 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 a corresponding charge to income. No such obligation was required to be recorded at September 30, 2019.

Charity Care

Under the terms of the residents' agreements, the Community is 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 statement of operations. Funds to support these residents are derived primarily from contributions, public aid, and earnings from the benevolent care fund (see Note 4).

Classification of Net Assets

Net assets of the Community 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 Community's 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, 2019 of $50,993 include irrevocable trusts, which are not available for use until assets are distributed from the trusts, and contributions restricted for a particular purpose.

Note 2 - Summary of Significant Accounting Policies (Continued)

Loss (Performance Indicator)

Loss reports the results of operations of the entire Community. In addition to the income from resident care operations, 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 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 restriction, were to be used for the purpose of acquiring such assets).

Tax Status

The Community qualifies as a tax-exempt nonprofit organization under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been provided.

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in Note 13. Costs are allocated between the various programs 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 methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Recently Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash should be included in the cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The Community adopted ASU No. 2016-18 effective February 1, 2019.

In February 2016, the FASB established Topic 842, *Leases*, by issuing Accounting Standards Update No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance but with no explicit bright lines.

The Community adopted the standard as of February 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative adjustment in net assets, if applicable. The Community has elected the package of practical expedients permitted under the transition guidance, which, among other things, allows the Community to carry forward the historical lease classification. The new standard also provides practical expedients for an entity’s ongoing accounting. The Community has made an accounting policy to keep leases with an initial term of 12 months or less off the statement of financial position and recognize those lease payments in the statement of operations on a straight-line basis over the lease term. The Community has also elected the practical expedient to not separate lease and nonlease components for all of its leases, as the nonlease components are not significant to the overall lease costs. The standard does not materially affect the Community's statement of financial position.

Note 2 - Summary of Significant Accounting Policies (Continued)

With the adoption of ASU No. 2016-02, *Leases*, lessors are required to separately recognize and measure the lease component of a contract with a resident utilizing the provisions of ASC 842 and the nonlease components utilizing the provisions of ASC 606, *Revenue from Contracts with Customers*. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand-alone selling prices of the components. However, entities are permitted to elect the practical expedient under ASU No. 2018-11, *Leases*, allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/nonlease component combination practical expedient under ASU No. 2018-11 upon initial application of ASC 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date, with a cumulative effect adjustment to beginning net assets as of the initial application date for any changes recognized related to existing transactions.

Upon adoption of ASU No. 2016-02 and ASU No. 2018-11, the Community elected the lessor practical expedient within ASU No. 2018-11. The Community recognizes revenue under these resident agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC 842 and ASC 606. The Community has concluded that the nonlease components of the agreements with respect to its senior living communities are the predominant component of the contracts; therefore, the Community recognizes revenue for these resident agreements under ASC 606. The timing and pattern of revenue recognition is substantially the same as that prior to the adoption of these standards.

Note 3 - Fair Value Measurements

In determining fair value, the Community uses 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.

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 developed based on market data obtained from sources independent of the Community. Unobservable inputs are inputs that reflect the Community's assumptions about the assumptions market participants would use in pricing the asset 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 that the Community has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2

Valuations are not based on quoted prices for identical assets 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.

Note 3 - Fair Value Measurements (Continued)

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.

In instances whereby 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 Community's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Community's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period of the event of change in circumstances that caused the transfer.

Fair Value of Financial Instruments Carried at Fair Value

The following are categories of assets measured at fair value on a recurring basis for the period from February 1, 2019 to September 30, 2019 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 Community's 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 period from February 1, 2019 to September 30, 2019. There were total net deposits of approximately $79,000 and allocated pooled earnings of approximately $288,000 for the period from February 1, 2019 to September 30, 2019.

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2019			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2019
Assets				
Beneficial interest in investment pool - Board designated	$ -	$ -	$ 5,546,845	$ 5,546,845
Restricted under state and debt agreements:				
Money market securities	761,966	-	-	761,966
Fixed-income securities	-	3,895,941	-	3,895,941
Total assets	$ 761,966	$ 3,895,941	$ 5,546,845	$ 10,204,752
Interest in irrevocable trusts	$ -	$ -	$ 38,743	$ 38,743

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

Note 3 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the period from February 1, 2019 to September 30, 2019 are as follows:

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - February 1, 2019	$ 37,463
Unrealized gains	1,280
Ending balance - September 30, 2019	$ 38,743

Note 4 - Charity Care and Other Unreimbursed Care

Pursuant to its mission statement, as described in Note 1, the Community provides free healthcare 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. Unreimbursed costs foregone for charity care were $77,956, and charitable gifts received to offset costs were $80,468 for the period from February 1, 2019 to September 30, 2019. The Community uses a cost per resident day amount to determine unreimbursed costs.

In addition to charity care, the Community provides care to residents under governmental programs that reimburse the Community at rates less than its cost. The Community provided partially reimbursed care for the period from February 1, 2019 to September 30, 2019 as follows:

Estimated cost of Medicaid services provided	$ 1,127,122
Less government reimbursement	(665,120)
Unreimbursed care - Based on estimated cost	$ 462,002

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 two 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.

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

The uses of assets whose use is limited, including interest in investment pool, at September 30, 2019 consisted of the following:

Beneficial interest in investment pool - Board designated:	
Benevolent care fund	$ 229,806
Property replacement fund	317,258
Reserve for refundable contracts	4,999,781
Total beneficial interest in investment pool	5,546,845
Restricted under state and debt agreements:	
Bond interest and sinking fund	577,146
State-required reserves	18,678
Debt service reserve fund	4,062,083
Total restricted under state and debt agreements	4,657,907
Total	$ 10,204,752

The components of assets whose use is limited, including interest in investment pool, at September 30, 2019 consisted of the following:

Equity securities - Board designated	$ 1,233,637
Fixed-income securities:	
Board designated	2,156,471
Restricted under state and debt agreements	3,895,941
Total fixed-income securities	6,052,412
Alternative investments - Board designated:	
Domestic equity	646,306
International equity	843,774
Hedge funds	450,581
Private equity	167,282
Puts and calls	22,026
Mortgages	26,768
Total alternative investments	2,156,737
Short-term investments - Restricted under state and debt agreements	761,966
Total	$ 10,204,752

Note 6 - Long-term Debt

Long-term debt under Master Indenture bonds at September 30, 2019 consisted of the following:

Colorado Health Facilities Authority revenue bonds, series 2012A, due in 2034, interest at 4.500 percent - 5.000 percent	$ 21,396,045
Colorado Health Facilities Authority revenue bonds, series 2012B, due in 2027, interest at 4.000 percent - 5.000 percent	2,264,460
Colorado Health Facilities Authority revenue bonds, series 2013A, due in 2036, interest at 4.250 percent - 5.750 percent	586,000
Colorado Health Facilities Authority revenue refunding bonds, series 2015A due in 2036, interest at 1.000 percent - 5.000 percent	11,083,000
Illinois Finance Authority revenue refunding direct placement bonds, series 2017, due in 2029, interest rate adjusted weekly, 5.000 percent at September 30, 2019	7,329,599
Total long-term debt	42,659,104
Less current maturities	(597,505)
Less unamortized debt issuance costs - Net of accumulated amortization	(433,350)
Plus unamortized original issue discount - Net of unamortized original issue premium	1,093,952
Total long-term debt - Less current maturities	$ 42,722,201

All affiliated facilities of Covenant Living Communities and Services (except Covenant Living Services and its affiliates) are members of the obligated group, as defined under the Master Indenture. As a member, the Community is jointly and severally liable for repayment of the Master Indenture obligations. In the event the Community is required to make payments on the settlement in excess of the agreed-upon amount, the Community could seek to recover those amounts from the affiliate; however, the Community does not hold specific recourse or collateral rights in connection with the agreement.

The Master Indenture obligations, totaling $439,875,000 at September 30, 2019, with maturities extending through 2036, 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 trustees. The Master Indenture and related agreements require the maintenance of debt service coverage ratios, as defined; require the maintenance of 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, 2019.

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.

The weighted-average interest rate on all outstanding borrowings was approximately 4.9 percent at September 30, 2019.

Maturities of long-term debt, excluding original issue premium and discount and unamortized debt expense, for years subsequent to September 30, 2019 are as follows:

Years Ending September 30	Amount
2020	$ 597,505
2021	625,206
2022	655,328
2023	686,256
2024 and thereafter	40,094,809
Total	$ 42,659,104

Note 6 - Long-term Debt (Continued)

The tax-exempt bond indentures for the Community's bonds require certain funds to be held in accounts controlled by the bond trustee. The total trustee-held funds, which are included in assets whose use is limited - restricted under state and debt agreements in the accompanying financial statements, at September 30, 2019 are as follows:

Trustee-held funds - Noncurrent - Debt service reserve fund	$	4,062,083

Note 7 - Construction in Progress

The construction in progress balance of $647,696 at September 30, 2019 relates to ongoing projects at the Community that will be paid for from operations and reserves. Sufficient funds to complete all projects are available from board-designated reserves.

Note 8 - Related Party Transactions

Included in administrative and general expense are management fees charged by the central office of Covenant Living Communities and Services. These fees aggregated to $603,245 for the period from February 1, 2019 to September 30, 2019.

Notes and advances from Covenant Living Communities and Services bear interest at 3 percent and generally have no fixed repayment terms. These advances are classified as long term, as the Community has the intent and ability to postpone repayment of the balance for at least one year. Amounts due to Covenant Living Communities and Services were $11,668,934 at September 30, 2019.

Net interest charges from Covenant Living Communities and Services were $222,080 for the period from February 1, 2019 to September 30, 2019.

Each facility within Covenant Living Communities and Services is assessed a percentage of reoccupancy entrance fees to support the national marketing expenses of Covenant Living Communities and Services. The Community's marketing assessment totaled $75,005 for the period from February 1, 2019 to September 30, 2019.

Note 9 - 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 on January 1, 2013, the Community began to match contributions to a defined contribution plan, based on certain eligibility requirements, made by employees up to 3 percent of each employee's salary. The Community recorded expense of $34,759 for the match for the period from February 1, 2019 to September 30, 2019.

Pension expense, representing the Community's required contribution to the Plan, was $20,975 for the period from February 1, 2019 to September 30, 2019. The contributions made by the Community represented less than 5 percent of the total contributions made to the Plan for the period from February 1, 2019 to September 30, 2019. 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.

Note 9 - Pension Plan (Continued)

Contributions from all employers to the Plan for the year ended December 31, 2018 are as follows:

Name of Plan	FEIN	Total Contributions to the Plan for the Year Ended December 31, 2018
The Evangelical Covenant Church Retirement Plan	36-2167730	$ 1,776,430

As of December 31, 2018, the fair value of the assets of the Plan was $267,047,158, and the actuarial present value of accumulated plan benefits was $313,464,667.

Note 10 - Beneficial Interest of Gift Instruments

A source of funds to the Community is in the form of bequests from The Evangelical Covenant Church members, residents of the Community, and other parties. The Office of Covenant Estate Planning Services of The Evangelical Covenant Church maintains information as to the estimated values of the Community's 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 Community has recorded its interest in irrevocable trusts as of September 30, 2019 at fair value.

Revocable trusts and bequests may be revoked by the donor at any time and, therefore, have not been recorded as contribution income in the accompanying 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 Community is named beneficiary, but which 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 statement of financial position.

Note 11 - Employee Medical Benefit Plan

The Community participates in a medical benefit plan, which is sponsored by CLCS and available to full-time and eligible part-time employees and their dependents. 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. The medical benefit expense was $386,181 for the period from February 1, 2019 to September 30, 2019.

Note 12 - Revenue Recognition

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

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

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

Note 12 - Revenue Recognition (Continued)

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.

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

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

Because all of its performance obligations relate to contracts with a duration of less than one year, the Community has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Community has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Community's 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 composition of routine resident and ancillary services by primary payor and level of care for the period from February 1, 2019 to September 30, 2019 is as follows:

Payors:	
Private	$ 6,796,054
Medicare	824,277
Medicaid	665,121
Total	$ 8,285,452
Level of care:	
Residential living	$ 2,941,402
Assisted living	2,824,588
Skilled nursing/memory care	2,519,462
Total	$ 8,285,452

Note 13 - Functional Expenses

The Community provides various services to its residents. Expenses related to providing these services are as follows for the period from February 1, 2019 to September 30, 2019:

Program services:	
Salaries and benefits	$ 3,766,417
Purchased services	863,060
Equipment and supplies	890,604
Depreciation and amortization	1,400,011
Interest	1,546,127
Insurance	165,070
Other	1,248,981
Total program services	9,880,270
Support services:	
Salaries and benefits	339,597
Purchased services	737,058
Equipment and supplies	60,545
Depreciation and amortization	99,572
Interest	109,965
Insurance	11,740
Other	580,991
Total support services	1,939,468
Fundraising:	
Salaries and benefits	69,933
Purchased services	14,211
Supplies	2,860
Other	7,446
Total fundraising	94,450
Total	$ 11,914,188

The expenses above include $85,209 of gifts and bequest expenses, which are netted on the accompanying statement of operations within gifts and bequests - net of related expenses for the period from February 1, 2019 to September 30, 2019.

Note 14 - Liquidity

The Community's financial assets available within one year of September 30, 2019 for general expenditure are as follows:

Cash and cash equivalents	$ 7,487
Accounts receivable - Net	589,327
Total	$ 596,814

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 statement of financial position date.

The Community operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures over the next 12 months. To help manage unanticipated liquidity needs, the Community also has certain board-designated assets limited as to use, which, as noted 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.