
Covenant Living of the Great Lakes

Financial Report
September 30, 2020

Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2-3
Statement of Operations	4
Statement of Changes in Total Net Assets (Deficit)	5
Statement of Cash Flows	6
Notes to Financial Statements	7-22

Independent Auditor's Report

To the Covenant Living Board
Covenant Living of the Great Lakes

We have audited the accompanying financial statements of Covenant Living of the Great Lakes (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, 2020 and the related statements of operations, changes in total net assets (deficit), and cash flows for the year then ended, 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, 2020 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13 to the financial statements, the COVID-19 pandemic has impacted the operations of Covenant Living of the Great Lakes. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

January 21, 2021

Covenant Living of the Great Lakes

Statement of Financial Position

September 30, 2020

Assets

Current Assets

Cash and cash equivalents	\$	5,820
Restricted cash		178,309
Assets whose use is limited, including beneficial interest in investment pool: (Notes 3 and 5)		
Board designated		5,320,384
Restricted under debt agreements		593,551
Accounts receivable - Net		433,786
Prepaid expenses and other assets		96,706
		<hr/>
Total current assets		6,628,556

Property and Equipment

Land and improvements		1,457,720
Buildings and improvements		47,205,186
Furniture and equipment		9,285,667
Construction in progress (Note 7)		1,371,729
		<hr/>
Total property and equipment - At cost		59,320,302
Less accumulated depreciation		23,464,899
		<hr/>
Net property and equipment		35,855,403

Other Assets

200,000

Interest in Irrevocable Trusts (Note 10)

19,016

Assets Whose Use is Limited, Including Beneficial Interest in Investment

Pool (Notes 3 and 5)

Board designated		722,477
Restricted under state and debt agreements		4,125,600
		<hr/>

Total assets whose use is limited, including beneficial interest in investment pool

4,848,077

Total assets

\$ 47,551,052

Covenant Living of the Great Lakes

Statement of Financial Position (Continued)

September 30, 2020

Liabilities and Deficiency in Net Assets

Current Liabilities

Accounts payable	\$	174,324
Accrued interest		579,854
Advance deposits		432,850
Current maturities of long-term debt (Note 6)		625,206
Deferred revenue subject to refund (Note 2)		8,038,071
Refundable contract liabilities (Note 2)		8,872,290
Other current liabilities		1,197,631

Total current liabilities 19,920,226

Long-term Debt - Less current maturities (Note 6) 42,070,404

Other Long-term Liabilities

Due to Covenant Living Communities and Services (Note 8)		11,411,395
Deferred revenue from entrance fees (Note 2)		10,253,688

Total other long-term liabilities 21,665,083

Total liabilities 83,655,713

Deficiency in Net Assets

Without donor restrictions		(36,174,618)
With donor restrictions		69,957

Total deficiency in net assets (36,104,661)

Total liabilities and deficiency in net assets **\$ 47,551,052**

Statement of Operations**Year Ended September 30, 2020****Operating Revenue**

Routine resident services	\$ 11,743,456
Ancillary services	1,211,618
Amortization of deferred entrance fees	2,583,217
Net assets released from restrictions for operations	93,205
Other	667,538

Total operating revenue 16,299,034

Expenses

Routine nursing services	3,408,569
Ancillary services	597,251
Resident benefits	747,870
Dietary	2,451,259
Laundry	46,057
Housekeeping	325,951
Maintenance	880,933
Utilities	607,615
Administrative and general	3,011,818
Interest (Note 6)	2,455,455
Property taxes	381,581
Insurance	299,858
Marketing and promotion	808,532
Depreciation	2,415,431
Amortization	38,774
Other	147,478

Total expenses (Note 14) 18,624,432

Operating Loss**(2,325,398)****Nonoperating (Expense) Revenue**

Gifts and bequests - Net of related expenses (Note 14)	(110,374)
Net assets released from restrictions - Distributions from trusts	20,901
Unrealized gains on investments - Net	136,482
Realized gains on investments - Net	171,430
Interest and dividend income	293,574
Other nonoperating income - Net	6,080

Total nonoperating revenue 518,093

Decrease in Net Assets Without Donor Restrictions - Loss**\$ (1,807,305)**

Covenant Living of the Great Lakes

Statement of Changes in Total Net Assets (Deficit)

Year Ended September 30, 2020

Decrease in Net Assets without Donor Restrictions - Loss	\$ (1,807,305)
Net Assets with Donor Restrictions	
Contributions	133,557
Net assets released from restrictions for operations	(93,205)
Net assets released from restrictions - Distributions from trusts - Net	(20,901)
Irrevocable trusts - Change in present value discount	<u>(487)</u>
Increase in net assets with donor restrictions	<u>18,964</u>
Decrease in Net Assets	(1,788,341)
Deficiency in Net Assets - Beginning of year	<u>(34,316,320)</u>
Deficiency in Net Assets - End of year	<u><u>\$ (36,104,661)</u></u>

Statement of Cash Flows

Year Ended September 30, 2020

Cash Flows from Operating Activities

Change in net assets	\$ (1,788,341)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:	
Amortization of deferred entrance fees	(2,583,217)
Depreciation	2,415,431
Amortization	38,774
Provision for bad debts	44,114
Original issue premium accretion - Net of original issue discount amortization and unamortized debt expense	(65,365)
Net realized and unrealized gains on assets whose use is limited	(307,912)
Other changes in irrevocable trusts - Net	19,727
Nonrefundable entrance fees collected	3,401,792
Nonrefundable entrance fees refunded	(780,982)
Changes in operating assets and liabilities:	
Accounts receivable	111,427
Other assets	(11,586)
Paycheck Protection Program loans (other current liabilities)	949,000
Accounts payable	(51,292)
Accrued salaries and wages	(28,250)
Accrued interest	(12,263)
Other liabilities	553,194
Net cash and cash equivalents provided by operating activities	<u>1,904,251</u>

Cash Flows from Investing Activities

Property and equipment expenditures	(2,791,334)
Net change in assets whose use is limited, including beneficial interest in investment pool	(249,348)
Net cash and cash equivalents used in investing activities	<u>(3,040,682)</u>

Cash Flows from Financing Activities

Payment of debt	(597,505)
Net advances from Covenant Living Communities and Services	(257,539)
Refundable entrance fees collected	2,574,870
Refundable entrance fees refunded	(585,062)
Net cash and cash equivalents provided by financing activities	<u>1,134,764</u>

Net Decrease in Cash and Cash Equivalents

(1,667)

Cash and Cash Equivalents - Beginning of year

7,487

Cash and Cash Equivalents - End of year

\$ 5,820

Supplemental Disclosure of Operating, Investing, and Financing Activities - Interest paid (including intercompany interest paid of \$430,885)

\$ 2,533,083

September 30, 2020

Note 1 - Mission Statement

As a ministry of The Evangelical Covenant Church, Covenant Living of the Great Lakes celebrates God's gift of life in a 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 generally are 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 (ASC).

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 the 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 the financial statements were issued; however, such events may be required to be recognized as disclosures. For these purposes, the Community has evaluated events occurring subsequent to the statement of financial position date through January 21, 2021, which is the date the financial statements were available to be issued. The Community has not evaluated events occurring after January 21, 2021 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, 2020, 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.

September 30, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 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 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 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 year ended September 30, 2020.

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

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.

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 statement of financial position and the statement of operations.

September 30, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

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 \$67,281 at September 30, 2020.

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 \$33,563 at September 30, 2020.

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, 2020 was 34 percent from private payors, 44 percent from Medicare, and 22 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, which are as follows:

	Years
Land improvements	8 - 20
Buildings and improvements	10 - 40
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. The Community did not capitalize interest costs in 2020, as the costs were not significant.

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.

September 30, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

Advance Deposits

Advance deposits 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.

Paycheck Protection Program Deferred Income Liability

Funding received under the Paycheck Protection Program (PPP) is considered an in-substance government grant under provisions of ASC 958-605, *Not for Profit Entities - Revenue Recognition*, and is being recognized as the conditions of the PPP agreement are met. See Note 13 for additional information on the terms and conditions of the PPP agreement.

Revenue Recognition

Routine Resident and Ancillary Service Revenue

Service revenue consists of monthly rental and routine board and care service income as earned under resident contracts. Resident care service revenue is reported at the amount that reflects the consideration to which the Community expects to be entitled in exchange for services provided. The majority of the Community's health care 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 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 totaled \$10,253,688 at September 30, 2020, are recorded as deferred revenue, and are amortized into income over the actuarial life of each resident.

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, 2020 is \$8,038,071 of deferred entrance fees subject to the above refund provisions.

September 30, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

The Community also offers contracts that include a 50, 75, or 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 \$8,872,290 at September 30, 2020 for refundable entrance fees.

Entrance fee refunds under all programs were \$1,366,044 in 2020. 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.

Other Considerations

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. The Community has concluded that the nonlease components of the agreements with respect to its senior living community are the predominant component of the contracts; therefore, the Community recognizes revenue for these resident agreements under ASC 606.

Under ASC 606, the Community does, in certain instances, enter into payment arrangements with residents that allow payments in excess of one year. For those cases, the financing component is deemed not 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, 2020.

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).

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 statement of operations and changes in net assets without donor restrictions and are recognized as revenue as certain conditions are met, as outlined within the U.S. Department of Health and Human Services (HHS) published terms and conditions.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2020 of \$69,957 include irrevocable trusts, which are not available for use until assets are distributed from the trusts, and contributions restricted for a particular purpose.

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 14. 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 the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

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.

Note 3 - Fair Value Measurements (Continued)

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.

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 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 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 in 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 during the year ended September 30, 2020 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 2020. There were net deposits during 2020 of approximately \$151,000. The total allocation of pooled earnings was approximately \$345,000 for 2020.

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2020			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2020
Assets				
Beneficial interest in investment pool - Board designated	\$ -	\$ -	\$ 6,042,861	\$ 6,042,861
Restricted under state and debt agreements:				
Short-term investments	3,385,101	-	-	3,385,101
Fixed-income securities	-	1,334,050	-	1,334,050
Total assets	\$ 3,385,101	\$ 1,334,050	\$ 6,042,861	\$ 10,762,012
Interest in irrevocable trusts	\$ -	\$ -	\$ 19,016	\$ 19,016

September 30, 2020

Note 3 - Fair Value Measurements (Continued)

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

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended September 30, 2020 are as follows:

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - October 1, 2019	\$ 38,743
Net deposits and withdrawals	(19,434)
Unrealized loss	(293)
Ending balance - September 30, 2020	<u>\$ 19,016</u>

Note 4 - Charity Care and Other Unreimbursed Care

Pursuant to its mission statement, as described in Note 1, the Community provides free health care 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 \$90,062 in 2020. Charitable gifts received to offset costs were \$131,822 in 2020. 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 in 2020 as follows:

Estimated cost of Medicaid services provided	\$ 1,912,371
Less government reimbursement	<u>(1,333,218)</u>
Unreimbursed care - Based on estimated cost	<u>\$ 579,153</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 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 Trust Indenture agreement, various bond trust indentures, and state laws for debt service reserves, certain construction projects, and operating expense escrow accounts.

September 30, 2020

**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, 2020 consisted of the following:

Beneficial interest in investment pool - Board designated:	
Benevolent care fund	\$ 269,577
Property replacement fund	452,900
Reserve for refundable contracts	<u>5,320,384</u>
Total beneficial interest in investment pool	6,042,861
Restricted under state and debt agreements:	
Bond interest and sinking fund	574,094
Debt service reserve fund	4,125,600
State-required reserves	<u>19,457</u>
Total restricted under state and debt agreements	<u>4,719,151</u>
Total	<u><u>\$ 10,762,012</u></u>

The components of assets whose use is limited, including interest in investment pool, at September 30, 2020 consisted of the following:

Equity securities - Board designated	\$ 1,075,133
Fixed-income securities:	
Board designated	2,062,393
Restricted under state and debt agreements	<u>1,334,050</u>
Total fixed-income securities	3,396,443
Alternative investments - Board designated:	
Domestic equity	934,470
International equity	1,192,034
Hedge funds	475,213
Private equity	223,618
Puts and calls	34,914
Mortgages	<u>45,086</u>
Total alternative investments	2,905,335
Short-term investments - Restricted under state and debt agreements	<u>3,385,101</u>
Total	<u><u>\$ 10,762,012</u></u>

Note 6 - Long-term Debt

Long-term debt under Master Trust Indenture bonds at September 30, 2020 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	563,729
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, 2020	<u>6,754,365</u>
Total long-term debt	42,061,599
Less current maturities	(625,206)
Less unamortized debt issuance costs - Net of accumulated amortization	(394,577)
Plus unamortized original issue discount - Net of unamortized original issue premium	<u>1,028,588</u>
Total long-term debt - Less current maturities	<u>\$ 42,070,404</u>

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 Trust Indenture. As a member, the Community is jointly and severally liable for repayment of the Master Trust 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 Trust Indenture obligations, totaling \$471,495,000 at September 30, 2020, with maturities extending through 2049, 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 Trust 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, 2020.

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, 2020.

Maturities of long-term debt, excluding original issue premium and discount and unamortized debt expense, for years subsequent to September 30, 2020 are as follows:

Years Ending September 30	Amount
2021	\$ 625,206
2022	655,328
2023	686,256
2024	829,327
2025 and thereafter	<u>39,265,482</u>
Total	<u>\$ 42,061,599</u>

September 30, 2020

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, 2020 are as follows:

Trustee-held funds - Noncurrent - Debt service reserve fund	\$ 4,125,600
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Subsequent Event

On October 29, 2020, the obligated group issued \$82,250,000 of tax-exempt revenue bonds (Series 2020A) and \$161,560,000 of taxable revenue bonds (Series 2020B) through the Colorado Health Facilities Authority. Proceeds of the 2020A and 2020B bonds were used to pay for the following: (1) to pay the Colorado Health Facilities 2012A, 2012B, 2012C, and 2013A bonds; (2) to pay the California Statewide Communities Development Authority 2013C bonds; (3) to buy back \$6,500,000 of the 2015A bonds; (4) to fund capital project and interest reserve accounts; and (5) to pay the costs of issuance.

Note 7 - Construction in Progress

The construction in progress balance of \$1,371,729 at September 30, 2020 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 \$759,724 in 2020.

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 \$11,411,395 at September 30, 2020.

Net interest charges from Covenant Living Communities and Services were \$320,968 in 2020.

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 \$108,408 in 2020.

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. During 2020, the Community recorded expense of \$55,889 for the match.

Pension expense, representing the Community's required contribution to the Plan, during 2020 was \$31,460. The contributions made by the Community represented less than 5 percent of the total contributions made to the Plan in 2020. 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.

September 30, 2020

Note 9 - Pension Plan (Continued)

Contributions from all employers to the Plan for the year ended December 31, 2019 are as follows:

Pension Fund	FEIN	Total Contributions to the Plan for the Year Ended December 31, 2019
The Evangelical Covenant Church Retirement Plan	36-2167730	\$17,861,889

As of December 31, 2019, the fair value of the assets of the Plan was \$310,747,102, and the actuarial present value of accumulated plan benefits was \$309,713,138.

Note 10 - Beneficial Interest in 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, 2020 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 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 \$506,490 for the year ended September 30, 2020.

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 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 by level of care for the year ended September 30, 2020 is as follows:

Payors:	
Private	\$ 10,561,641
Medicare	1,060,215
Medicaid	<u>1,333,218</u>
Total	<u>\$ 12,955,074</u>
Level of care:	
Residential living	\$ 4,627,974
Assisted living	3,975,356
Skilled nursing/memory care	<u>4,351,744</u>
Total	<u>\$ 12,955,074</u>

September 30, 2020

Note 13 - COVID-19 Impact

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted health care business operations. During fiscal year 2020, the Community's operations were significantly impacted, as shelter-in-place orders and government mandates to suspend elective procedures reduced volume during the period. The Community has moved to mitigate the impact by reducing discretionary spending, delaying capital expenditures, and actively managing cash disbursements.

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

On April 10, 2020, the U.S. Department of Health and Human Services began making payments to health care providers from the \$100 billion appropriation. These are payments to health care providers that will not need to be repaid as long as the Community complies with certain terms and conditions outlined by HHS. The Community received approximately \$280,000 of payments as part of general distribution of the CARES Act Provider Relief Fund. The Community relied on reporting requirements for the CARES Act Provider Relief Fund issued by HHS subsequent to September 30, 2020 to determine the amount of grant revenue eligible for recognition as of September 30, 2020. The requirements first require the recipient to identify health care-related expenses attributable to the coronavirus pandemic that another source has not reimbursed. If those expenses do not exceed the funding received, the recipient will need to demonstrate the remaining funding was applied toward lost revenue, defined as the difference between calendar years 2019 and 2020 actual routine resident service revenue, with an additional six months to use through June 2021. The amount of funds recognized as grant revenue at September 30, 2020 was based first on identified health care-related expenses, then lost revenue experienced through September 30, 2020, considering the potential lost revenue impact of the last quarter of calendar year 2020. As of September 30, 2020, the Community has recognized approximately \$85,000 in grant revenue, which is included within other operating revenue in the accompanying statement of changes in total net assets (deficit), as the Community has asserted that it has met the conditions and restrictions outlined within the November 2, 2020 HHS guidance and published terms and conditions for the CARES Act. The CARES Act allows for the Community to use these funds to cover lost revenue and COVID-19-related expenses; however, HHS' requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification and, therefore, may result in changes in the amounts recognized as grant income during the year ended September 30, 2020.

September 30, 2020

Note 13 - COVID-19 Impact (Continued)

In addition, the Community received a PPP loan through a financial institution of \$949,000 under the Coronavirus, Aid, Relief, and Economic Security (CARES) Act. The loan structure required the Community's officials to certify certain statements that permitted the Community to qualify for the loan and provides loan forgiveness for a portion or all of the borrowed amount if the Community uses the loan proceeds for the permitted loan purpose described in the note agreement; the portion not forgiven will be required to be paid back by the Community in full in May 2022 under monthly principal payments beginning in May 2021, with interest at 1.00 percent. The Community has the right to prepay any amount outstanding at any time without penalty. The loan will continue to help the Community fund payroll, benefits, and building utility costs for a period of up to 24 weeks, as elected by the Community. While the legal form of the PPP agreement is a loan, the Community concluded the loan represents, in substance, a grant that is expected to be forgiven and, therefore, has accounted for the agreement as a conditional contribution. The following measurable barriers must be substantially overcome before the contribution can be considered unconditional and recorded as revenue:

- Incur eligible expense
- Maintain full-time equivalent counts and salary levels through the eligibility period
- Not exceed reduction in compensation limitations
- SBA review and approval of the forgiveness

As of September 30, 2020, the Community has not met all measurable barriers and, therefore, has determined the full amount of \$949,000 to be a refundable advance, which is recorded in other current liabilities on the statement of financial position.

The funds mentioned above will provide support for both short-term liquidity needs and to address the economic uncertainties of the pandemic going forward.

September 30, 2020

Note 14 - Functional Expenses

The Community provides various services to its residents. Expenses related to providing these services for the year ended September 30, 2020 are as follows:

Program services:	
Salaries and benefits	\$ 6,384,850
Purchased services	1,377,984
Equipment and supplies	1,408,294
Depreciation and amortization	2,291,246
Interest	2,292,413
Insurance	279,947
Other	<u>1,673,107</u>
Total program services	15,707,841
Support services:	
Salaries and benefits	540,448
Purchased services	969,297
Equipment and supplies	96,927
Depreciation and amortization	162,959
Interest	163,042
Insurance	19,911
Other	<u>950,772</u>
Total support services	2,903,356
Fundraising:	
Salaries and benefits	108,917
Purchased services	95
Equipment and supplies	2,096
Other	<u>14,162</u>
Total fundraising	<u>125,270</u>
Total	<u><u>\$ 18,736,467</u></u>

The expenses above include \$112,035 of gifts and bequests expenses, which are netted on the accompanying statement of operations within gifts and bequests - net of related expenses.

Note 15 - Liquidity

The Community's financial assets available within one year of September 30, 2020 for general expenditure are as follows:

Cash and cash equivalents	\$ 5,820
Accounts receivable - Net	<u>433,786</u>
Total	<u><u>\$ 439,606</u></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 statement of financial position date.

The Community has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. 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 expenditure within the next year.