
Covenant Living Communities and Services

**Consolidated Financial Report
with Additional Consolidating Information
September 30, 2024**

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Independent Auditor's Report

To the Covenant Living Board
Covenant Living Communities and Services

Opinion

We have audited the consolidated financial statements of Covenant Living Communities and Services (an affiliate of The Evangelical Covenant Church (see Note 2)), which comprise the consolidated statement of financial position as of September 30, 2024 and 2023 and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Covenant Living Communities and Services as of September 30, 2024 and 2023 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

To the Covenant Living Board
Covenant Living Communities and Services

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Covenant Living Communities and Services' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Covenant Living Communities and Services' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moran, PLLC

January 16, 2025

Covenant Living Communities and Services

Consolidated Statement of Financial Position

September 30, 2024 and 2023
(in thousands)

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 48,386	\$ 67,830
Restricted cash	6,462	6,262
Assets whose use is limited, including interest in investment pool: (Notes 3, 5, 8 and 10)		
Board designated	97,060	95,011
Restricted under debt agreements	12,936	12,584
Accounts receivable - Net	28,850	23,471
Prepaid expenses and other assets	8,438	6,788
Total current assets	202,132	211,946
Property and Equipment - Net (Notes 7, 10 and 12)	885,581	777,593
Other Assets (Notes 6 and 13)	42,214	39,539
Interest in Irrevocable Trusts (Notes 3 and 16)	7,140	3,560
Goodwill - Net (Note 2)	83,392	66,477
Assets Whose Use is Limited, including Interest in Investment Pool (Notes 3, 5, 8 and 10)		
Board designated	314,671	254,470
Restricted under state and debt agreements	86,779	103,803
Endowment	9,958	8,619
Total assets whose use is limited, including interest in investment pool	411,408	366,892
Total assets	\$ 1,631,867	\$ 1,466,007

Covenant Living Communities and Services

Consolidated Statement of Financial Position (Continued)

September 30, 2024 and 2023
(in thousands)

	2024	2023
Liabilities and Net Assets		
Current Liabilities		
Accounts payable - Trade	\$ 18,630	\$ 19,211
Accounts payable - Contractors (Note 12)	3,853	1,786
Accrued salaries and wages	17,764	15,603
Accrued interest	6,925	6,890
Advanced deposits	5,157	3,670
Current maturities of long-term debt (Note 10)	15,965	14,995
Deferred revenue subject to refund (Note 2)	144,208	130,774
Refundable contract liabilities (Note 2)	196,511	188,042
Other current liabilities (Notes 2, 10 and 15)	42,835	44,025
	<u>451,848</u>	<u>424,996</u>
Total current liabilities	451,848	424,996
Long-term Debt - Less current maturities (Note 10)	585,102	556,271
Other Liabilities (Notes 2, 10 and 11)	108,308	71,756
Deferred Revenue from Entrance Fees (Note 2)	310,808	280,620
	<u>1,456,066</u>	<u>1,333,643</u>
Total liabilities	1,456,066	1,333,643
Net Assets		
Without donor restrictions	151,587	111,317
With donor restrictions	24,214	21,047
	<u>175,801</u>	<u>132,364</u>
Total net assets	175,801	132,364
	<u>\$ 1,631,867</u>	<u>\$ 1,466,007</u>
Total liabilities and net assets	\$ 1,631,867	\$ 1,466,007

Covenant Living Communities and Services

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

Years Ended September 30, 2024 and 2023

(in thousands)

	2024	2023
Operating Revenue		
Routine resident services	\$ 323,123	\$ 304,398
Ancillary services	49,891	47,419
Amortization of deferred entrance fees	58,770	58,797
Net assets released from restrictions for operations	6,243	3,910
Other	11,093	14,214
Total operating revenue	449,120	428,738
Expenses		
Routine nursing services	101,502	96,279
Ancillary services	20,298	19,573
Resident benefits	19,875	18,581
Dietary	57,957	53,164
Laundry	2,162	2,429
Housekeeping	13,474	12,505
Maintenance	26,406	23,975
Utilities	18,029	17,117
Administrative and general	77,081	69,279
Interest (Note 10)	23,245	19,842
Property taxes	5,534	5,435
Insurance	11,533	7,364
Marketing and promotion	19,858	17,435
Depreciation	70,013	64,633
Amortization	580	455
Other	661	1,690
Total expenses (Note 19)	468,208	429,756
Operating Loss	(19,088)	(1,018)
Nonoperating Revenue (Expense)		
Gifts and bequests - Net of related expenses (Note 19)	1,281	(840)
Net assets released from restrictions - Distributions from trusts	40	-
Gain on extinguishment of debt	920	701
Other nonoperating expense - Net	(13,718)	(2,978)
Interest and dividend income	10,858	7,706
Realized gains on fixed-income and equity securities - Net	1,769	3,693
Unrealized gains on fixed-income and equity securities - Net	18,937	4,620
Alternative investment income - Including net unrealized and realized gains	38,974	24,815
Unrealized (losses) gains on derivative instruments (Note 11)	(1,078)	125
Interest income on interest rate swaps (Notes 11 and 19)	787	517
Total nonoperating revenue	58,770	38,359
Income	39,682	37,341
Net Assets Released from Restrictions for Capital Purchases	588	249
Increase in Net Assets without Donor Restrictions	\$ 40,270	\$ 37,590

Covenant Living Communities and Services

Consolidated Statement of Changes in Net Assets

Years Ended September 30, 2024 and 2023

(in thousands)

	<u>2024</u>	<u>2023</u>
Net Assets without Donor Restrictions		
Income	\$ 39,682	\$ 37,341
Net assets released from restrictions for capital purchases	<u>588</u>	<u>249</u>
Increase in net assets without donor restrictions	40,270	37,590
Net Assets with Donor Restrictions		
Contributions	8,117	4,911
Net assets released from restrictions for capital purchases	(588)	(249)
Net assets released from restrictions for operations	(6,243)	(3,910)
Net additions - Present value of new trusts received (Note 16)	311	130
Net assets released from restrictions - Distributions from trusts - Net	(40)	-
Change in present value discount	249	124
Net gain on perpetual trusts	<u>1,361</u>	<u>522</u>
Increase in net assets with donor restrictions	<u>3,167</u>	<u>1,528</u>
Increase in Net Assets	43,437	39,118
Net Assets - Beginning of year	<u>132,364</u>	<u>93,246</u>
Net Assets - End of year	<u><u>\$ 175,801</u></u>	<u><u>\$ 132,364</u></u>

Covenant Living Communities and Services

Consolidated Statement of Cash Flows

Years Ended September 30, 2024 and 2023

(in thousands)

	2024	2023
Cash Flows from Operating Activities		
Increase in net assets	\$ 43,437	\$ 39,118
Adjustments to reconcile increase in net assets to net cash, cash equivalents, and restricted cash from operating activities:		
Amortization of deferred entrance fees	(58,770)	(58,797)
Depreciation	70,013	64,633
Amortization	580	455
Credit loss expense	2,584	2,031
Amortization of goodwill	10,820	10,081
Original issue discount amortization	(712)	(730)
Gain on extinguishment of debt	(920)	(701)
Unrealized losses (gains) on derivative instruments	1,078	(125)
Loss on disposal of property and equipment	2,191	214
Net realized and unrealized gains on assets whose use is limited	(59,681)	(33,128)
Other changes in irrevocable trusts - Net	812	(1,250)
Net withdrawals from irrevocable trusts	(4,392)	571
Nonrefundable entrance fees collected	89,776	88,055
Nonrefundable entrance fees refunded	(8,391)	(7,949)
Change in future service obligation	76	(7,537)
Changes in operating assets and liabilities that provided (used) cash, cash equivalents, and restricted cash:		
Accounts receivable	99	(3,115)
Other assets	(4,945)	(3,396)
Accounts payable	(1,787)	(2,236)
Accrued and other current liabilities	5,733	3,860
Other liabilities	1,977	660
Net cash, cash equivalents, and restricted cash provided by operating activities	89,578	90,714
Cash Flows from Investing Activities		
Property and equipment expenditures	(98,391)	(70,384)
Net cash paid for the business combination - Shannondale	(50,570)	-
Net change in assets whose use is limited, including interest in investment pool	12,765	23,285
Net change in related party balances	242	(109)
Net cash, cash equivalents, and restricted cash used in investing activities	(135,954)	(47,208)
Cash Flows from Financing Activities		
Proceeds from borrowings	53,575	-
Payment of financing costs	(756)	-
Payment of debt	(15,466)	(14,992)
Refundable entrance fees collected	29,164	25,849
Refundable entrance fees refunded	(32,150)	(29,884)
Early buyback of Three Crowns Park bonds	(7,490)	(9,100)
Net payments on line of credit	-	(4,000)
Net cash, cash equivalents, and restricted cash provided by (used in) financing activities	26,877	(32,127)
Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(19,499)	11,379
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	72,190	60,811
Cash, Cash Equivalents, and Restricted Cash - End of year	\$ 52,691	\$ 72,190
Classification of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 48,386	\$ 67,830
Restricted cash (excluding entrance fees held in escrow and grant funds)	4,305	4,360
Total cash, cash equivalents, and restricted cash	\$ 52,691	\$ 72,190
Supplemental Cash Flow Information - Interest paid, including net interest received on derivatives	\$ 24,605	\$ 25,224

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 1 - Mission Statement

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidation

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

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

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

Effective June 25, 2024, Covenant Living Services and Covenant Living Communities and Services entered into an affiliation agreement with Presbyterian Homes of Tennessee, Inc. (Presbyterian TN), which made Covenant Living Services the sole corporate member of Presbyterian TN and changed the name of Presbyterian TN to Covenant Living at Shannondale. As described further in Note 21, the affiliation agreement transaction was accounted for as a business combination by Covenant Living Services.

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

Basis of Presentation

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

In the consolidated financial statements, the Communities recognize the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing consolidated financial statements. The Communities do not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position and arose after the consolidated statement of financial position date but before consolidated financial statements are issued; however, such events may be required to be recognized as a disclosure. For these purposes, the Communities have evaluated events occurring subsequent to the consolidated statement of financial position date through January 17, 2025, the date the consolidated financial statements were issued. The Communities have not evaluated events occurring after January 17, 2025 in the consolidated financial statements.

Industry

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation and regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Communities are in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 26 and 29 percent of the Communities' combined routine resident and ancillary services revenue for the years ended September 30, 2024 and 2023, respectively.

The Communities are at times subject to pending or threatened legal actions, which arise in the normal course of its activities. The Communities are insured against professional and general liability when a claim is made against the Communities. The Communities are not aware of any claims, either asserted or unasserted, that would exceed the policy limits. The cost of this insurance policy represents the Communities' cost for such claims for the year and it has been charged to operations as a current expense.

Use of Estimates

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

Cash and Cash Equivalents

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

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

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Restricted Cash

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

Assets Whose Use is Limited, Including Interest in Investment Pool

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

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

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

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

Accounts Receivable

Accounts receivable from residents, insurance companies, and governmental agencies are based on the amount that reflects the consideration to which the Communities expect to be entitled in exchange for services provided. An allowance for credit losses is established on an aggregate basis by using historical and future-looking factors. Loss rate factors are based on historical loss experience and adjusted for economic conditions, forecasted losses, and other trends affecting the Communities' ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. The allowance for credit losses totaled \$3,528 and \$1,968 at September 30, 2024 and 2023, respectively. The opening accounts receivable balance at October 1, 2022 was \$22,089.

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

The Communities provide services without collateral to their residents, most of whom are local residents and are insured under third-party agreements. The mix of receivables from residents and third-party payors as of September 30, 2024 was 39 percent from private payors, 48 percent from Medicare, and 13 percent from Medicaid. The mix of receivables from residents and third-party payors as of September 30, 2023 was 29 percent from private payors, 48 percent from Medicare, and 23 percent from Medicaid.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Derivative Instruments

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

Benevolent Care Fund

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

Unamortized Debt Expense

Underwriting fees and expenses related to the procurement of debt are deferred and amortized straight-line over the life of the related long-term debt. These costs are recorded as a reduction in the recorded balance of outstanding long-term debt. In years prior to October 1, 2023 and in conjunction with the issuance of long-term debt (see Note 10), the Communities incurred \$7,949 of debt issuance costs. During the year ended September 30, 2024, the Communities incurred \$756 of debt issuance costs. Unamortized debt expense is shown net of accumulated amortization of \$2,322 and \$1,868 at September 30, 2024 and 2023, respectively.

Property and Equipment

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

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

Long-lived Assets

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

Advance Deposits

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Routine Resident and Ancillary Service Revenue

Service revenue consists of monthly rental and routine board and care service income as earned under resident contracts. Resident care service revenue is reported at the amount that reflects the consideration to which the Communities expect to be entitled in exchange for services provided. The majority of the Communities' health care services represent a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered. The Communities have concluded that each day that a resident receives services represents a separate contract and performance obligation based on the fact that residents have unilateral rights to terminate the contract after each day with no penalty or compensation due. The Communities also provide certain ancillary services that are not included in the bundle of services and, as such, are treated as separate performance obligations satisfied over time as the services are rendered. The Communities determine the transaction price based on contractually agreed-upon amounts or rates.

The Communities recognize revenue under these resident agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it. The nonlease component consists of the stand-ready obligation to provide care, daily meals, and daily health services. The Communities have concluded that the nonlease components of the contracts with respect to their senior living communities are the predominant component of the agreements; therefore, the Communities recognize revenue for these resident agreements under Accounting Standards Codification (ASC) 606.

Entrance Fees

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

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

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

The nonrefundable portion of the entrance fee represents a right to the resident to access future services. This right is deemed to be the Communities' performance obligation. Nonrefundable entrance fees totaled \$310,808 and \$280,620 at September 30, 2024 and 2023, respectively; are recorded as deferred revenue; and are amortized into income over the actuarial life of each resident. The opening nonrefundable entrance fees balance at October 1, 2022 was \$272,029.

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves a community within the first 50 or 60 months of residency. Deferred entrance fees subject to the above refund provisions totaled \$144,208 and \$130,774 at September 30, 2024 and 2023, respectively.

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Included in refundable contract liabilities, other current liabilities, and other long-term liabilities on the consolidated statement of financial position are \$289,324 and \$253,011 of refundable entrance fees at September 30, 2024 and 2023, respectively.

Entrance fee refunds under all programs were \$40,541 and \$37,833 for the years ended September 30, 2024 and 2023, respectively. Although a portion of refundable contract liabilities and deferred revenue is classified as current liabilities, the likelihood of actual payment of these total liabilities within one year is remote based on the Communities' experience.

Obligation to Provide Future Services

Annually, the Communities actuarially calculate the present value of the net cost of future services and use of facilities to be provided to current residents and compare that amount to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities were to exceed the deferred revenue from entrance fees, a liability (obligation to provide future services) would be recorded with the corresponding charge to income. At September 30, 2024 and 2023, the present value of the net cost of future services and the use of facilities was greater than deferred revenue from nonrefundable entrance fees, and, accordingly, a future services obligation of \$4,182 and \$4,106 for the years ended September 30, 2024 and 2023, respectively, has been recognized in the accompanying consolidated statement of financial position within other liabilities. The obligation was discounted at 5 percent.

Charity Care

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

Contributions

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

Government grants are accounted for as conditional contributions, being nonexchange in nature. These grants are reported within other operating revenue on the consolidated statement of operations and changes in net assets without donor restrictions and are recognized as revenue as certain conditions are met.

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

Classification of Net Assets

Net assets of the Communities are classified based on the presence or absence of donor-imposed restrictions.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Communities.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Communities or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

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, 2024 and 2023 of \$24,214 and \$21,047, respectively, include \$7,140 and \$3,560, respectively, of irrevocable trusts, which are not available for use until assets are distributed from the trusts; \$7,116 and \$8,868, respectively, of contributions restricted for a particular purpose; and \$9,958 and \$8,619, respectively, of endowment net assets that have been restricted by donors to be maintained in perpetuity.

Income (Performance Indicator)

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

Tax Status

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

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

Functional Allocation of Expenses

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

Goodwill

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

The Communities have elected to apply the private company accounting alternative for goodwill developed by the Private Company Council. Under the accounting alternative, goodwill is amortized on a straight-line basis over a 10-year period. Two reporting units, Tulsa Hills Community, Inc. dba Covenant Living at Inverness and Three Crowns Park, had goodwill at September 30, 2023 and Covenant Living at Shannondale's business combination resulted in goodwill totaling \$27,735 during the year ended September 30, 2024 (see Note 21). The allocated goodwill to Covenant Living at Shannondale is reported net of accumulated amortization of \$740 at September 30, 2024. The allocated goodwill to Covenant Living at Inverness at September 30, 2024 and 2023 is \$66,559, reported net of accumulated amortization of \$33,279 and \$26,623, respectively. The allocated goodwill to Three Crowns Park at September 30, 2024 and 2023 is \$34,247, reported net of accumulated amortization of \$11,130 and \$7,706, respectively. Amortization expense for all reporting units' goodwill for the years ended September 30, 2024 and 2023 is \$10,820 and \$10,081, respectively, reported within other nonoperating expense.

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

New Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Communities' accounts receivable, by requiring the Communities to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the previous practice where an allowance is not recognized until the losses are considered probable. The new guidance became effective for the Communities' year ended September 30, 2024. The ASU was applied using a modified retrospective transition method as of October 1, 2023 and did not have a significant impact on the financial statements.

Note 3 - Fair Value Measurements

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

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Communities. Unobservable inputs are inputs that reflect the Communities' assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

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

Level 1

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 3 - Fair Value Measurements (Continued)

Level 2

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

Level 3

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

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

Fair Value of Financial Instruments Carried at Fair Value

The following are categories of assets measured at fair value on a recurring basis during the years ended September 30, 2024 and 2023 using unadjusted quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

The Communities' interest in the investment pool is valued on a recurring basis and is a direct interest in the investment pool, valued using Level 3 inputs of the valuation hierarchy. Management's estimate of the value of their interest in the investment pool held and invested by Covenant Ministries of Benevolence is based on information provided by CMB, which is based on the Community's allocation of ownership in the pool and the value of the underlying investments included in the pool. For the year ended September 30, 2024, there were no deposits and total allocated pooled earnings of \$63,462. For the year ended September 30, 2023, there were no deposits and total allocated pooled earnings of \$10,477.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 3 - Fair Value Measurements (Continued)

The following tables present information about the Communities's assets and liabilities measured at fair value on a recurring basis at September 30, 2024 and 2023 and the valuation techniques used by the Communities to determine those fair values:

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2024			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2024
Assets				
Interest in investment pool	\$ -	\$ -	\$ 410,132	\$ 410,132
Other - Short-term investments	8,383	-	-	8,383
Covenant trust endowment - Equity investment funds (Note 16)	-	3,174	-	3,174
Restricted under state and debt agreements:				
Short-term investments	22,735	-	-	22,735
Fixed-income securities	-	76,980	-	76,980
Total restricted under state and debt agreements	22,735	76,980	-	99,715
Other investments:				
Short-term investments	144	-	-	144
Equity securities	2,046	-	-	2,046
Fixed-income securities	-	2,947	-	2,947
Assets held in perpetual trusts	-	-	550	550
Total other investments (Note 6)	2,190	2,947	550	5,687
Total	\$ 33,308	\$ 83,101	\$ 410,682	\$ 527,091
Investments held for insurance obligations:				
International equity	\$ -	\$ 4,731	\$ -	\$ 4,731
Fixed-income securities	-	18,465	-	18,465
Total (Note 6)	\$ -	\$ 23,196	\$ -	\$ 23,196
Interest in irrevocable trusts	\$ -	\$ -	\$ 7,140	\$ 7,140
Derivatives - Interest rate swaps (Note 11)	\$ -	\$ 199	\$ -	\$ 199
Liabilities - Derivatives - Interest rate swaps (Note 11)	\$ -	\$ 676	\$ -	\$ 676

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 3 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2023
Assets				
Interest in investment pool	\$ -	\$ -	\$ 346,670	\$ 346,670
Other - Short-term investments	8,903	-	-	8,903
Covenant trust endowment - Equity investment funds (Note 16)	-	2,527	-	2,527
Restricted under state and debt agreements:				
Short-term investments	44,520	-	-	44,520
Fixed-income securities	-	71,867	-	71,867
Total restricted under state and debt agreements	44,520	71,867	-	116,387
Other investments:				
Short-term investments	80	-	-	80
Equity securities	1,655	-	-	1,655
Fixed-income securities	-	2,624	-	2,624
Assets held in perpetual trusts	-	-	468	468
Total other investments (Note 6)	1,735	2,624	468	4,827
Total	\$ 55,158	\$ 77,018	\$ 347,138	\$ 479,314
Investments held for insurance obligations:				
International equity	\$ -	\$ 4,164	\$ -	\$ 4,164
Fixed-income securities	-	16,454	-	16,454
Total (Note 6)	\$ -	\$ 20,618	\$ -	\$ 20,618
Interest in irrevocable trusts	\$ -	\$ -	\$ 3,560	\$ 3,560
Derivatives - Interest rate swap (Note 11)	\$ -	\$ 969	\$ -	\$ 969
Liabilities - Derivatives - Interest rate swaps (Note 11)	\$ -	\$ 356	\$ -	\$ 356

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 3 - Fair Value Measurements (Continued)

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

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

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended September 30, 2024 and 2023 are as follows:

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)	
	Interest in Irrevocable Trusts	Assets Held in Perpetual Trusts
Beginning balance - October 1, 2023	\$ 3,560	\$ 468
Net deposits	3,100	13
Unrealized gains	480	69
Ending balance - September 30, 2024	<u>\$ 7,140</u>	<u>\$ 550</u>
	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)	
	Interest in Irrevocable Trusts	Assets Held in Perpetual Trusts
Beginning balance - October 1, 2022	\$ 2,881	\$ 432
Net (withdrawals) deposits	(571)	11
Unrealized gains	1,250	25
Ending balance - September 30, 2023	<u>\$ 3,560</u>	<u>\$ 468</u>

Note 4 - Charity Care and Other Unreimbursed Care

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

Records are maintained to identify and monitor the level of charity care provided. For the years ended September 30, 2024 and 2023, unreimbursed costs forgone for charity care were \$5,009 and \$4,650, respectively, and charitable gifts received to offset costs totaled \$7,783 and \$5,070, respectively. The Communities use a cost per resident day amount to determine unreimbursed costs.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

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

In addition to charity care, the Communities provide care to residents under governmental programs that reimburse the Communities at rates less than their cost. The Communities provided partially reimbursed care for the years ended September 30, 2024 and 2023 as follows:

	2024	2023
Estimated cost of Medicaid services provided	\$ 48,686	\$ 58,779
Less government reimbursement	<u>(29,966)</u>	<u>(35,739)</u>
Unreimbursed care - Based on estimated cost	<u>\$ 18,720</u>	<u>\$ 23,040</u>

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

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

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

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

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

The uses of assets whose use is limited, including interest in investment pool, at September 30, 2024 and 2023 consisted of the following:

	2024	2023
Interest in investment pool:		
Board designated:		
Benevolent care fund	\$ 110,742	\$ 90,964
Capital reserve fund	42,277	18,950
Property replacement fund	115,187	103,887
Reserve for refundable contracts	105,621	101,520
Other	<u>29,520</u>	<u>25,257</u>
Total board designated	403,347	340,578
Endowment - Brandel Fund	<u>6,784</u>	<u>6,092</u>
Total interest in investment pool	410,131	346,670
Endowment - Covenant trust	3,174	2,527
Board-designated investments - Other	8,384	8,903
Restricted under state and debt agreements:		
Bond interest, sinking, and expense fund	12,936	12,584
Bond project fund	53,187	70,888
Debt service reserve fund	20,381	20,261
State-required reserves	<u>13,211</u>	<u>12,654</u>
Total restricted under state and debt agreements	<u>99,715</u>	<u>116,387</u>
Total	<u>\$ 521,404</u>	<u>\$ 474,487</u>

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

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

The components of assets whose use is limited, including the underlying assets within the interest in investment pool held by the Communities, at September 30, 2024 and 2023 consisted of the following:

	2024	2023
Equity securities:		
Board designated	\$ 74,196	\$ 53,091
Brandel endowment	1,232	935
Covenant trust endowment	3,174	2,527
Total equity securities	78,602	56,553
Fixed-income securities:		
Board designated	124,143	122,867
Restricted under state and debt agreements	76,986	71,867
Endowment	2,080	2,190
Total fixed-income securities	203,209	196,924
Alternative investments:		
Board designated:		
International equity	62,728	53,329
Hedge funds	36,087	32,915
Private equity	7,533	8,258
Mortgages	2,191	1,990
Domestic equity	95,246	67,264
Puts and calls	2,627	2,108
Endowment:		
International equity	1,055	954
Hedge funds	607	589
Private equity	127	148
Mortgages	37	36
Domestic equity	1,602	1,203
Puts and calls	44	37
Total alternative investments	209,884	168,831
Short-term investments:		
Board designated	6,980	7,659
Restricted under state and debt agreements	22,729	44,520
Total short-term investments	29,709	52,179
Total	\$ 521,404	\$ 474,487

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 6 - Other Assets

Other assets at September 30, 2024 and 2023 consisted of the following:

	2024	2023
Investment in real estate - Net	\$ 8,851	\$ 8,636
Investment held for insurance obligation by CIIC (Note 3)	23,196	20,618
Other	3,384	4,120
Due from Covenant Ministries of Benevolence (Note 13)	1,096	1,338
Other investments held by Three Crowns Foundation and Three Crowns Park (Note 3)	5,687	4,827
Total	<u>\$ 42,214</u>	<u>\$ 39,539</u>

Included in other assets is \$23,196 and \$20,618 of investments held by CIIC primarily for the purpose of funding insurance obligations as of September 30, 2024 and 2023, respectively (see Note 2).

Note 7 - Property and Equipment

Property and equipment at September 30, 2024 and 2023 consisted of the following:

	2024	2023
Land and land improvements	\$ 80,778	\$ 72,878
Buildings and improvements	1,158,572	1,062,558
Furniture and equipment	312,765	301,704
Construction in progress	76,372	43,498
Property and equipment - At cost	1,628,487	1,480,638
Less accumulated depreciation	742,906	703,045
Property and equipment - Net	<u>\$ 885,581</u>	<u>\$ 777,593</u>

Note 8 - Continuing Care Requirements

Under the provisions of various state regulations, the Communities are required to maintain escrow accounts to cover defined portions of debt service and annual operating expenses. Management believes the Communities were in compliance with all such state regulations at September 30, 2024 and 2023.

Note 9 - Line of Credit

Covenant Living Communities and Services has a secured bank line of credit with a maximum draw of \$9,500 and has an interest rate of the Bloomberg Short-Term Bank Yield Index (BSBY) rate plus 1.05 percent. The line of credit is reduced by certain outstanding letters of credit, which totaled \$6,479 and \$3,996 at September 30, 2024 and 2023, respectively. The line has no compensating balance arrangement but requires a commitment fee equal to a rate of 0.15 percent per annum on the actual daily unused portion, payable quarterly. There were no draws on the line as of and for the years ended September 30, 2024 and 2023. The line of credit matures on June 1, 2025.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 10 - Long-term Debt and Other Obligations

Long-term debt at September 30, 2024 and 2023 consisted of the following:

	2024	2023
Master Trust Indenture obligations of Covenant Living Communities and Services Obligated Group:		
Colorado Health Facilities Authority revenue refunding bonds, Series 2015A, due in 2036, interest at 1.0 percent - 5.0 percent	\$ 70,910	\$ 74,775
Colorado Health Facilities Authority revenue refunding bonds, Series 2015B, due in 2025, interest adjusted weekly, 5.02 percent and 5.10 percent at September 30, 2024 and 2023, respectively	1,265	2,535
Illinois Finance Authority revenue refunding direct placement bonds, Series 2017, due in 2029, interest rate adjusted weekly, 5.12 percent and 5.19 percent at September 30, 2024 and 2023, respectively	25,150	30,125
Colorado Health Facilities Authority revenue bonds, Series 2018A, due in 2048, interest at 5.0 percent	59,780	59,780
State of Connecticut Health and Educational Facilities Authority revenue bonds, Series 2018B, due in 2040, interest at 5.0 percent	41,160	42,470
Colorado Health Facilities Authority revenue bonds, Series 2020A, due in 2050, interest at 4.00 percent	82,250	82,250
Colorado Health Facilities Authority revenue bonds, Series 2020B, due in 2040, interest at 2.80 percent - 4.48 percent	157,500	159,140
2019 term loan, due in 2024, interest at 2.45 percent	42,580	43,805
2022 term loan, due in 2027, interest at 2.50 percent	40,000	40,000
2024 term loan, due in 2029, interest adjusted periodically, 4.96 percent at September 30, 2024	53,575	-
Master Trust Indenture obligations of Three Crowns Park:		
Three Crowns Park - Illinois Finance Authority revenue bonds Series 2013, due in 2040, interest at 5.25 percent	3,035	3,035
Three Crowns Park - Illinois Finance Authority revenue refunding bonds, Series 2017, due in 2047, interest at 3.25 percent - 5.25 percent	13,440	21,640
	<u>590,645</u>	<u>559,555</u>
Total long-term debt		
Less current maturities	(15,965)	(14,995)
Less unamortized debt issuance costs - Net of accumulated amortization	(6,382)	(6,081)
Plus unamortized original issue premium	16,804	17,792
	<u>\$ 585,102</u>	<u>\$ 556,271</u>
Total long-term debt - Less current maturities		

Master Trust Indenture Obligations

The Communities, excluding Covenant Living Services and its affiliates, are members of the obligated group, as defined (the "Obligated Group") under the Master Trust Indenture. As members, each community is jointly and severally liable for the repayment of the Master Trust Indenture bonds. The Master Trust Indenture obligations, totaling \$574,170 at September 30, 2024, are secured by mortgages on substantially all real estate, personal property (equipment and fixtures), and accounts receivable of the Obligated Group. Members of the Obligated Group make monthly interest and principal deposits into bond interest and sinking funds controlled by the bond trustee. The Master Trust Indenture and related agreements require the maintenance of minimum debt service coverage and days cash on hand ratios, as defined; require the maintenance of minimum debt service reserve funds; and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the Obligated Group was in compliance with these requirements at September 30, 2024.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

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

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

On October 31, 2019, Tulsa Hills Community, Inc., an entity of Covenant Living Services, acquired Inverness Village, a senior living community located in Tulsa, Oklahoma, through bankruptcy proceedings. Pursuant to the terms and conditions of an asset purchase agreement dated July 22, 2019 between Inverness Village and Tulsa Hills, the assets and liabilities were acquired for a purchase price of \$41,000, funded through a \$45,000 taxable term loan (the "2019 Term Loan"). The 2019 Term Loan was refunded on October 1, 2024 with a bank term loan (the "2025 Term Loan") in the amount of \$42,580, which is held by Covenant Living Communities and Services. Payments on the 2025 Term Loan begin on October 1, 2025 and matures on October 1, 2031. The 2025 Term Loan has a variable interest rate of SOFR plus 1.15 percent, adjusting weekly.

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

The weighted-average interest rate on all outstanding borrowings was approximately 4.2 percent and 4.3 percent at September 30, 2024 and 2023, respectively.

On July 1, 2021, Covenant Living Services, an entity of Covenant Living Communities and Services, entered into an affiliation agreement with Three Crowns Foundation and Three Crowns Park, a senior living community located in Evanston, Illinois, whereby Covenant Living Services became the sole corporate member of Three Crowns Foundation. Three Crowns Park continues to own and operate the community after the effective date of the affiliation agreement. Three Crowns Foundation remains the sole corporate member of Three Crowns Park, and Three Crowns Park remains the only member of the Three Crowns Park Obligated Group created under the Master Trust Indenture.

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

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

Under the terms of the bond agreement, Three Crowns Park is required to maintain certain financial covenants. At September 30, 2024, Three Crowns Park was in compliance with these financial covenants, as defined.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

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

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

On November 17, 2023, Three Crowns Park executed a bond buyback purchase for \$7,490 of the par amount of the previously issued and outstanding tax-exempt bonds designated as Illinois Finance Authority revenue refunding bonds, Series 2017. After the bond buyback, \$14,150 of the Series 2017 bonds remain outstanding. As a result of the bond buyback, Three Crowns Park recognized \$920 as a gain on the debt extinguishment, which includes write-off of unamortized premium and fair value adjustment of \$276 for the year ended September 30, 2024.

On July 25, 2024, Covenant Living Services entered into an affiliation agreement whereby Covenant Living Services became the sole corporate member of Covenant Living at Shannondale (see Note 21). Pursuant to the terms of the affiliation agreement, the assets and liabilities were acquired for a purchase price of \$52,792, funded through a \$53,750 term loan (the "2024 Term Loan"). Covenant Living at Shannondale is not a member of the Obligated Group described above.

Total Long-term Debt

Contractual maturities of long-term debt, adjusted for terms of the 2025 Term Loan, which refunded the 2019 Term Loan and excluding original issue premium, for years subsequent to September 30, 2024 are as follows:

Years Ending September 30	Amount
2025	\$ 15,965
2026	17,227
2027	54,716
2028	17,363
2029	67,448
Thereafter	417,926
Total	<u>\$ 590,645</u>

The tax-exempt revenue bond indentures require certain funds to be held in accounts controlled by the bond trustees. The funds are primarily invested in fixed-income securities and cash and short-term investments. The total trustee-held funds, which are included in assets whose use is limited, including interest in investment pool as restricted under state and debt agreements at September 30, 2024 and 2023 are as follows:

	2024	2023
Fund:		
Bond interest, sinking, and expense fund	\$ 12,936	\$ 12,584
Debt service reserve fund	20,381	20,261
Bond project fund	53,187	70,888
Subtotal	86,504	103,733
Less amounts classified as current	(12,936)	(12,584)
Trustee-held funds - Noncurrent	<u>\$ 73,568</u>	<u>\$ 91,149</u>

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

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

Other Obligations

Covenant Living of Geneva (Geneva) and Covenant Living of Bixby (Bixby) had a loan with the Huntington National Bank (Huntington) in the amount of \$21,100 with an interest rate of the one-month Secured Overnight Financing Rate (SOFR) plus 175 basis points (the "Huntington Loan"). Monthly principal and interest payments were due beginning on March 1, 2020, with a final payment of all outstanding principal and accrued interest due on January 31, 2025. A swap was also entered into in connection with the Huntington Loan in order to fix net interest expense at a rate of 3.28 percent (see Note 11). Covenant Living Communities and Services fully guaranteed the loan and the swap. At September 30, 2024 and 2023, the balance was \$19,069 and \$19,540, respectively, and is recorded within other current liabilities and other liabilities within the accompanying consolidated statement of financial position.

On December 10, 2024, Geneva and Bixby entered into an Amended and Restated Term Note with a principal amount of \$20,950 that amends the original Huntington Loan, extending the maturity date to December 10, 2031 and amending the interest rate to SOFR plus 115 basis points. A swap was also entered into in connection with the Amended and Restated Term Note, and Covenant Living Communities and Services fully guaranteed the loan and the swap.

Current maturities of other long-term debt obligations, adjusted for the Amended and Restated Term Note, for years subsequent to September 30, 2024 are as follows:

Years Ending September 30	Geneva and Bixby
2025	\$ 410
2026	430
2027	450
2028	470
2029	495
Thereafter	<u>16,814</u>
Total	<u>\$ 19,069</u>

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 11 - Derivative Instruments

The Communities entered into interest rate swap agreements to manage their debt structure and lessen interest rate risk. At September 30, 2024, the fair values aggregate to an asset of \$199 and a liability of \$676 and are recorded in other assets and other liabilities. At September 30, 2023, the fair values aggregate to an asset of \$969 and a liability of \$356 and are recorded in other assets and other liabilities. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable-rate debt. The swap agreements are contracts to exchange variable-rate payments for fixed-rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. During the years ended September 30, 2024 and 2023, the Communities had the following interest rate swaps in effect:

Counterparty	Maturity Date	Rate Paid	Rate Received	Notional Amount	Market Value at September 30, 2024	Market Value at September 30, 2023
Wells Fargo Bank, N.A.	12/1/2034	3.59%	67% of 1M SOFR	\$ 2,750	\$ (15)	\$ (353)
Wells Fargo Bank, N.A.	12/1/2025	3.49%	67% of 1M SOFR	10,105	(661)	(3)
The Huntington National Bank	1/31/2025	1.53%	100% of 1M SOFR	19,069	199	969

The Wells Fargo Bank, N.A. and the Huntington National Bank International Swaps and Dealers Association, Inc. (ISDA) contain an additional termination event. If the long-term unsecured, unenhanced senior debt rating falls below certain thresholds, it triggers an additional termination event. The Communities have three remedies available in lieu of termination, including collateral posting. No collateral was required to be posted at September 30, 2024 or 2023.

The net amount received from Wells Fargo Bank, N.A. and Huntington National Bank under the interest rate swap agreements during the year ended September 30, 2024 totaled \$787. The income is recorded as interest income on interest rate swaps. The net amount paid to Wells Fargo Bank, N.A. and Huntington National Bank under the interest rate swap agreements during the year ended September 30, 2023 totaled \$(517). The expense is recorded as interest expense on interest rate swaps.

The change in the fair market value of the swaps of a (loss) gain of \$(1,078) and \$125 is recorded as a component of nonoperating revenue (expense) in the consolidated statement of operations and changes in net assets without donor restrictions for the years ended September 30, 2024 and 2023, respectively.

Note 12 - Construction in Progress

The construction in progress balance of \$76,372 and \$43,498 at September 30, 2024 and 2023, respectively, relates to various projects across the Communities. All of the projects are for the purpose of improving or expanding resident facilities and are in accordance with Covenant Living Communities and Services' not-for-profit tax status. Sufficient funds to complete all projects are available from bond project funds and board-designated reserves. The Communities entered into construction commitments with a total contract price of \$61,976, with a balance to finish of \$43,177, which includes retainage at September 30, 2024.

Note 13 - Related Party Transactions

Included in assets whose use is limited, including interest in investment pool, classified as noncurrent at September 30, 2024 and 2023 is \$1,300 and \$1,268, respectively, of National Covenant Properties certificates of deposit. During the years ended September 30, 2024 and 2023, interest income earned on the National Covenant Properties certificates of deposit totaled \$38 and \$36, respectively.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 13 - Related Party Transactions (Continued)

On July 31, 2014, CMB sold its ownership in Emanuel Medical Center (EMC) to a third-party provider. On August 1, 2014, ownership of Brandel Manor-Cypress, a 145-bed skilled nursing facility, and Cypress, a 29-bed assisted living facility, transferred to CMB. While ownership of the facilities belongs to CMB, Covenant Living Communities and Services signed a lease agreement to lease the operations and management for both facilities. The initial lease term was 10 years with two optional 5-year extension periods and a \$300 annual base rent. The lease expired in July 2024 and was not renewed. Operations of Brandel Manor-Cypress and Cypress ceased prior to expiration of the lease.

Included in other assets at September 30, 2024 and 2023 is \$1,096 and \$1,338, respectively, of amounts due from Covenant Ministries of Benevolence.

Included in administrative and general expense are management fees paid to Covenant Ministries of Benevolence of \$484 and \$565 for the years ended September 30, 2024 and 2023, respectively.

Certain costs, which relate to trust contributions are incurred by the Communities in connection with Covenant Estate Planning and Services of The Evangelical Covenant Church, which assists certain residents and nonresidents in managing assets, establishing trusts, and other related activities. There were no amounts paid for Covenant Estate Planning Services during the years ended September 30, 2024 and 2023.

Note 14 - Pension Plan

Certain full-time employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning on January 1, 2013, the Communities began to match contributions to a defined contribution plan, based on eligibility, made by employees up to 3 percent of each employee's salary. The Communities recorded expense of \$2,246 and \$2,561 for the match for the years ended September 30, 2024 and 2023, respectively.

Pension expense, representing the Communities' required contribution to the Plan, was \$1,000 and \$500 for the years ended September 30, 2024 and 2023, respectively. The contributions made by the Communities represented more than 5 percent of the total contributions made to the Plan. To the extent the Plan is underfunded, future contributions to the Plan may increase.

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

Information regarding significant multiemployer pension benefit plans in which the Communities participate and total contributions made to all multiemployer plans is shown in the following table:

Pension Fund	FEIN	Total Contributions to the Plan for the Year Ended December 31, 2023	Total Contributions to the Plan for the Year Ended December 31, 2022
The Evangelical Covenant Church Retirement Plan	36-2167730	\$ 511	\$ 1,459

As of December 31, 2023, the fair value of the assets of the Plan was \$268,302, and the actuarial present value of accumulated plan benefits was \$264,872. As of December 31, 2022, the fair value of the assets was \$254,781, and the actuarial present value of the accumulated plan benefits was \$270,179.

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 14 - Pension Plan (Continued)

On December 6, 2024, the Board of Benevolence voted to terminate the Plan, which will require a termination settlement payment of approximately \$20,400 that the Communities will pay and expense during the year ended September 30, 2025.

Note 15 - Employee Medical Benefit Plan

The Communities sponsor a medical benefit plan available to full-time and eligible part-time employees and their dependents. The plan includes a \$250 deductible per plan participant. The medical benefit expense is based on actual medical, dental, and prescription claims paid; administration fees; and the provision for unpaid and unreported claims at year end. At September 30, 2024 and 2023, the liability recorded for unpaid and unreported claims was \$3,446 and \$3,414, respectively, and is reported in other current liabilities. For the years ended September 30, 2024 and 2023, the medical benefit expense totaled \$14,621 and \$15,201, respectively.

Note 16 - Beneficial Interest in Gift Instruments

A source of funds to the Communities is in the form of bequests from The Evangelical Covenant Church members, residents of the Communities, and other parties. The Office of Covenant Estate Planning Services (CEPS) of The Evangelical Covenant Church maintains information as to the estimated values of certain of the Communities' share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal values (where available) for real property, and other reasonable estimates made by the trustees for specific assets. The Communities have recorded their interest in irrevocable trusts as of September 30, 2024 and 2023 at fair value.

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

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

The Communities have recorded their interest in three endowment accounts funded by distributions from irrevocable trusts. The endowment accounts are managed by CEPS and are to be held in perpetuity. Income on the endowment funds is paid to the Communities quarterly and increases net assets with donor restrictions until the funds are spent for the designated purpose. The value of the endowment accounts at September 30, 2024 and 2023 totaled \$3,174 and \$2,527, respectively, and is recorded in assets whose use is limited and net assets with donor restrictions in the consolidated statement of financial position.

Note 17 - Revenue Recognition

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

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 17 - Revenue Recognition (Continued)

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations may result in significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

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

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

The Communities have elected the practical expedient allowed under FASB ASC 606-10-32-18 and do not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Communities' expectation that the period between the time the resident services are provided to a resident and the time that the resident or a third-party payor pays for that service will be one year or less. The Communities do, in certain instances, enter into payment arrangements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 17 - Revenue Recognition (Continued)

The composition of routine resident and ancillary services by primary payor and by level of care for the years ended September 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Payors:		
Private/Contract/Other	\$ 276,413	\$ 250,863
Medicare	65,682	63,533
Medicaid	30,919	37,421
Total	<u>\$ 373,014</u>	<u>\$ 351,817</u>
Level of care:		
Residential living	\$ 156,122	\$ 142,235
Assisted living	65,280	59,877
Skilled nursing	132,618	132,615
Home health	18,994	17,090
Total	<u>\$ 373,014</u>	<u>\$ 351,817</u>

Note 18 - Grant Revenue

Employee Retention Credit

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

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

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 19 - Functional Expenses

The Communities provide various services to their residents. Expenses related to providing these services for the years ended September 30, 2024 and 2023 are as follows:

	2024	2023
Program services:		
Salaries and benefits	\$ 201,944	\$ 180,938
Purchased services	38,802	41,961
Equipment and supplies	32,232	30,757
Depreciation and amortization	61,868	58,261
Interest	20,291	17,761
Insurance	10,067	6,592
Other	32,950	31,897
Total program services	398,154	368,167
Support services:		
Salaries and benefits	28,116	24,668
Purchased services	12,219	8,394
Equipment and supplies	1,960	1,993
Depreciation and amortization	8,725	6,827
Interest	2,954	2,081
Insurance	1,466	772
Other	14,433	16,590
Total support services	69,873	61,325
Fundraising:		
Salaries and benefits	2,387	2,276
Purchased services	58	23
Equipment and supplies	33	42
Other	1,348	1,353
Total fundraising	3,826	3,694
Total	<u>\$ 471,853</u>	<u>\$ 433,186</u>

The expenses above include \$3,645 and \$3,430 of gifts and bequests expenses, which are netted on the accompanying consolidated statement of operations and changes in net assets without donor restrictions within gifts and bequests - net of related expenses for the years ended September 30, 2024 and 2023, respectively.

Note 20 - Liquidity

The Communities' financial assets available within one year of September 30, 2024 and 2023 for general expenditure are as follows:

	2024	2023
Cash and cash equivalents	\$ 48,386	\$ 67,830
Accounts receivable - Net	28,850	23,471
Total	<u>\$ 77,236</u>	<u>\$ 91,301</u>

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

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 20 - Liquidity (Continued)

The Communities have a policy to structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Communities also have certain board-designated assets limited as to use, which, as described in Note 5, have been designated by the board of directors for future capital improvement and may, at its discretion, be made available for general expenditures within the next year. Additionally, the Communities maintain a \$9,500 line of credit, as disclosed in Note 9, which could be drawn upon if necessary.

The Communities also realize there could be unanticipated liquidity needs.

Note 21 - Business Combinations

Shannondale

Effective June 25, 2024, Covenant Living Services and Covenant Living Communities and Services entered into an affiliation agreement with Presbyterian Homes of Tennessee, Inc., which made Covenant Living Services the sole corporate member of Presbyterian TN and changed the name of Presbyterian TN to Covenant Living at Shannondale. The affiliation agreement provides the addition of two communities to Covenant Living Services, one in Knoxville, Tennessee and one in Maryville, Tennessee (the "Shannondale Communities"). In aggregate, the Shannondale Communities consist of 337 independent living units, 84 assisted living units, and 44 skilled nursing beds on 94 acres of land. The primary reason for the acquisition was to expand services into Tennessee and to ultimately provide for greater efficiency and growth potential for the Shannondale Communities.

The total fair value of the assets at the date of the acquisition was \$88,747, of which \$81,800 was allocated to the property and equipment. The aggregate fair value of the assets acquired and liabilities assumed exceeded the fair value of the consideration transferred. As a result of the transaction, Covenant Living Services recognized goodwill of \$27,735.

The amount of Covenant Living at Shannondale's revenue and decrease in net assets without donor restrictions included in the accompanying consolidated statement of operations and changes in net assets without donor restrictions for the year ended September 30, 2024 totaled \$4,650 and \$4,311, respectively.

On the acquisition date, Covenant Living Services used \$52,792 of the proceeds from the 2024 Term Loan disclosed in Note 10 as cash consideration transferred to Presbyterian TN to pay in full the outstanding debt obligation of Presbyterian TN.

Covenant Living Communities and Services

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(in thousands)

Note 21 - Business Combinations (Continued)

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

Assets:	
Property and equipment	\$ 81,800
Accounts receivable, prepaids, and other assets	4,725
Cash	<u>2,222</u>
Total assets	88,747
Liabilities assumed:	
Refundable resident deposits and refundable and nonrefundable entrance fees	(55,079)
Accounts payable and accrued liabilities	<u>(8,611)</u>
Total liabilities assumed	<u>(63,690)</u>
Total identifiable net assets	<u>25,057</u>
Goodwill	<u>\$ 27,735</u>

Acquisition-related costs, which include legal, accounting, and valuation fees, were \$4,150 and expensed in the accompanying consolidated statement of operations and changes in net assets without donor restrictions.

Additional Consolidating Information



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Independent Auditor's Report on Additional Consolidating Information

To the Covenant Living Board
Covenant Living Communities and Services

We have audited the consolidated financial statements of Covenant Living Communities and Services as of and for the year ended September 30, 2024 and have issued our report thereon dated January 16, 2025, which contained an unmodified opinion on the consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional consolidating information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

January 16, 2025

Consolidating Statement of Financial Position Information

September 30, 2024
(In thousands)

	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and Services	All Communities
Assets								
Current Assets								
Cash and cash equivalents	\$ 48,386	\$ -	\$ -	\$ 11,494	\$ 36,892	\$ -	\$ 36,354	\$ 538
Restricted cash	6,462	-	-	583	5,879	-	4,237	1,642
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	97,060	-	-	-	97,060	-	5,600	91,460
Restricted under debt agreements	12,936	-	-	782	12,154	-	71	12,083
Accounts receivable - Net	28,850	1	-	10,142	18,707	-	574	18,133
Prepaid expenses and other assets	8,438	-	-	372	8,066	-	6,971	1,095
Total current assets	202,132	1	-	23,373	178,758	-	53,807	124,951
Property and Equipment - Net	885,581	-	-	260,769	624,812	-	17,563	607,249
Other Assets	42,214	(171,020)	-	6,484	206,750	-	199,014	7,736
Interest in Irrevocable Trusts	7,140	-	-	-	7,140	-	11	7,129
Goodwill - Net	83,392	-	-	83,392	-	-	-	-
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool								
Board designated	314,671	-	515	1,442	312,714	-	107,196	205,518
Restricted under state and debt agreements	86,779	-	-	4,582	82,197	-	3	82,194
Endowment	9,958	-	-	266	9,692	-	6,786	2,906
Total assets whose use is limited, including beneficial interest in investment pool	411,408	-	515	6,290	404,603	-	113,985	290,618
Total Assets	\$ 1,631,867	\$ (171,019)	\$ 515	\$ 380,308	\$ 1,422,063	\$ -	\$ 384,380	\$ 1,037,683

Consolidating Statement of Financial Position Information (Continued)

September 30, 2024
(In thousands)

	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and Services	All Communities
Liabilities and Net Assets (Deficits)								
Current Liabilities								
Accounts payable - Trade	\$ 18,630	\$ -	\$ -	\$ 416	\$ 18,214	\$ (1)	\$ 14,603	\$ 3,612
Accounts payable - Contractors	3,853	-	-	-	3,853	-	-	3,853
Accrued salaries and wages	17,764	-	-	(24)	17,788	-	17,788	-
Accrued interest	6,925	-	-	233	6,692	-	489	6,203
Advanced deposits	5,157	-	-	2,493	2,664	-	-	2,664
Current maturities of long-term debt	15,965	-	-	740	15,225	-	1,783	13,442
Deferred revenue subject to refund	144,208	-	-	23,307	120,901	-	-	120,901
Refundable contract liabilities	196,511	-	-	71,395	125,116	-	-	125,116
Other current liabilities	42,835	-	-	15,319	27,516	-	17,200	10,316
Total current liabilities	451,848	-	-	113,879	337,969	(1)	51,863	286,107
Long-term Debt - Less current maturities	585,102	-	-	16,075	569,027	-	136,464	432,563
Payable to (from) Covenant Institutions								
Covenant Living Communities and Services - Notes and advances	-	(171,020)	1	171,055	(36)	3	70,797	(70,836)
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	-	(171,020)	1	171,055	(36)	3	70,797	(70,836)
Other Liabilities	108,308	-	-	80,867	27,441	(12)	6,372	21,081
Deferred Revenue from Entrance Fees	310,808	-	-	50,004	260,804	-	-	260,804
Total liabilities	1,456,066	(171,020)	1	431,880	1,195,205	(10)	265,496	929,719
Net Assets (Deficits)								
Without donor restrictions	151,587	1	514	(53,655)	204,727	10	110,425	94,292
With donor restrictions	24,214	-	-	2,083	22,131	-	8,459	13,672
Total net assets (deficits)	175,801	1	514	(51,572)	226,858	10	118,884	107,964
Total liabilities and net assets	\$ 1,631,867	\$ (171,019)	\$ 515	\$ 380,308	\$ 1,422,063	\$ -	\$ 384,380	\$ 1,037,683

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

Year Ended September 30, 2024
(In thousands)

	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and Services	All Communities
Operating Revenue								
Routine resident services	\$ 323,123	\$ -	\$ -	\$ 55,317	\$ 267,806	\$ -	\$ -	\$ 267,806
Ancillary services	49,891	-	-	21,861	28,030	-	-	28,030
Amortization of deferred entrance fees	58,770	-	-	7,460	51,310	-	-	51,310
Net assets released from restrictions for operations	6,243	-	-	791	5,452	-	399	5,053
Other	11,093	(3,578)	-	5,497	9,174	-	2,271	6,903
Total operating revenue	449,120	(3,578)	-	90,926	361,772	-	2,670	359,102
Expenses								
Routine nursing services	101,502	-	-	23,457	78,045	-	1	78,044
Ancillary services	20,298	-	-	3,443	16,855	-	-	16,855
Resident benefits	19,875	-	-	3,373	16,502	-	-	16,502
Dietary	57,957	-	-	10,686	47,271	-	-	47,271
Laundry	2,162	-	-	125	2,037	-	-	2,037
Housekeeping	13,474	-	-	2,219	11,255	-	-	11,255
Maintenance	26,406	-	-	5,324	21,082	-	271	20,811
Utilities	18,029	-	-	3,099	14,930	-	108	14,822
Administrative and general	77,081	(1,880)	-	17,937	61,024	(7)	1,817	59,214
Interest	23,245	(3,932)	-	6,210	20,967	(7,973)	4,666	24,274
Property taxes	5,534	-	-	1,513	4,021	-	237	3,784
Insurance	11,533	-	-	1,501	10,032	-	1,780	8,252
Marketing and promotion	19,858	(1,698)	-	5,620	15,936	-	1,087	14,849
Depreciation	70,013	-	-	12,647	57,366	-	1,210	56,156
Amortization	580	-	-	161	419	-	237	182
Other	661	-	-	290	371	10	(1,126)	1,487
Total expenses	468,208	(7,510)	-	97,605	378,113	(7,970)	10,288	375,795
Operating (Loss) Income	\$ (19,088)	\$ 3,932	\$ -	\$ (6,679)	\$ (16,341)	\$ 7,970	\$ (7,618)	\$ (16,693)

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

Year Ended September 30, 2024
(In thousands)

	Consolidated	Eliminations	Covenant Housing Corporation	Covenant Living Services	Obligated Group	Eliminations	Covenant Living Communities and Services	All Communities
Operating Income (Loss)	\$ (19,088)	\$ 3,932	\$ -	\$ (6,679)	\$ (16,341)	\$ 7,970	\$ (7,618)	\$ (16,693)
Nonoperating Revenue (Expense)								
Gifts and bequests — net of related expenses	1,281	-	-	(198)	1,479	-	(1,502)	2,981
Net assets released from restriction — Distributions from trusts	40	-	-	-	40	-	-	40
Gain on extinguishment of debt	920	-	-	920	-	-	-	-
Other nonoperating (expenses) revenue	(13,718)	-	-	(11,538)	(2,180)	-	(211)	(1,969)
Interest and dividend income	10,858	(3,932)	9	194	14,587	(7,973)	3,980	18,580
Realized gains (losses) on fixed income and equity securities — Net	1,769	-	5	(18)	1,782	-	(2,586)	4,368
Unrealized gains (losses) on fixed income and equity securities — Net	18,937	-	66	996	17,875	-	2,452	15,423
Alternative investment income (loss) - Including net realized gains	38,974	-	-	-	38,974	-	38,974	-
Unrealized gains (losses) on derivative instruments	(1,078)	-	-	(744)	(334)	(15)	(319)	-
Interest expense on interest rate swaps	787	-	-	771	16	-	16	-
Total nonoperating revenue (expense)	58,770	(3,932)	80	(9,617)	72,239	(7,988)	40,804	39,423
Income (Loss)	39,682	-	80	(16,296)	55,898	(18)	33,186	22,730
Net Assets Released from Restrictions for Capital Purchases	588	-	-	15	573	-	-	573
Net Asset Transfer from (to) Related Organization	-	-	-	300	(300)	-	(18,131)	17,831
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 40,270	\$ -	\$ 80	\$ (15,981)	\$ 56,171	\$ (18)	\$ 15,055	\$ 41,134

Community Consolidating Statement of Financial Position Information

September 30, 2024

(In thousands)

	Total All Communities	Covenant Living of Colorado	Covenant Home of Chicago	Covenant Living of Florida	Covenant Living of Golden Valley	Covenant Living of the Great Lakes	Covenant Living of Cromwell	Brandel Manor- Cypress
Assets								
Current Assets								
Cash and cash equivalents	\$ 538	\$ 11	\$ 104	\$ 196	\$ 4	\$ 6	\$ 146	\$ 3
Restricted cash	1,642	514	16	5	188	565	289	-
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	91,460	14,659	-	3,700	5,519	6,365	3,650	-
Restricted under debt agreements	12,083	507	-	606	687	1,107	1,855	-
Accounts receivable - Net	18,133	1,417	171	1,226	2,392	774	1,124	32
Prepaid expenses and other assets	1,095	10	24	23	131	121	451	-
Total current assets	124,951	17,118	315	5,756	8,921	8,938	7,515	35
Property and Equipment - Net	607,249	43,017	4,448	42,052	27,599	37,578	73,689	-
Other Assets	7,736	466	-	-	63	200	1,336	-
Interest in Irrevocable Trusts	7,129	147	186	436	877	62	677	-
Goodwill - Net								
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool								
Board designated	205,518	2,416	4,734	9,930	6,461	1,252	9,915	-
Restricted under state and debt agreements	82,194	3,077	-	8,042	93	1,374	4,614	-
Endowment	2,906	-	-	-	-	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	290,618	5,493	4,734	17,972	6,554	2,626	14,529	-
Total Assets	\$ 1,037,683	\$ 66,241	\$ 9,683	\$ 66,216	\$ 44,014	\$ 49,404	\$ 97,746	\$ 35

Community Consolidating Statement of Financial Position Information (Continued)

September 30, 2024
(In thousands)

	Total All Communities	Covenant Living of Colorado	Covenant Home of Chicago	Covenant Living of Florida	Covenant Living of Golden Valley	Covenant Living of the Great Lakes	Covenant Living of Cromwell	Brandel Manor- Cypress
Liabilities and Net Assets (Deficits)								
Current Liabilities								
Accounts payable - Trade	\$ 3,612	\$ 180	\$ 7	\$ 181	\$ 221	\$ 132	\$ 309	\$ 149
Accounts payable - Contractors	3,853	-	-	13	-	-	-	-
Accrued salaries and wages	-	-	-	-	-	-	-	-
Accrued interest	6,203	248	-	229	434	494	686	-
Advanced deposits	2,664	166	-	17	93	456	112	-
Current maturities of long-term debt	13,442	2,890	-	691	295	1,570	1,375	-
Deferred revenue subject to refund	120,901	12,380	-	7,390	6,747	10,811	10,282	-
Refundable contract liabilities	125,116	21,019	-	4,668	6,861	8,680	4,667	-
Other current liabilities	10,316	1,306	353	730	971	93	449	159
Total current liabilities	286,107	38,189	360	13,919	15,622	22,236	17,880	308
Long-term Debt - Less current maturities	432,563	22,947	-	15,855	31,102	35,406	42,347	-
Payable to (from) Covenant Institutions								
Covenant Living Communities and Services - Notes and advances	(70,836)	2,148	6,414	48,617	39,012	26,910	30,088	(1)
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	(70,836)	2,148	6,414	48,617	39,012	26,910	30,088	(1)
Other Liabilities	21,081	-	-	-	4	-	-	-
Deferred Revenue from Entrance Fees	260,804	18,076	-	11,047	8,604	11,422	16,793	-
Total liabilities	929,719	81,360	6,774	89,438	94,344	95,974	107,108	307
Net Assets (Deficits)								
Without donor restrictions	94,292	(15,346)	2,756	(23,629)	(50,567)	(47,337)	(9,523)	(272)
With donor restrictions	13,672	227	153	407	237	767	161	-
Total net assets (deficits)	107,964	(15,119)	2,909	(23,222)	(50,330)	(46,570)	(9,362)	(272)
Total liabilities and net assets	\$ 1,037,683	\$ 66,241	\$ 9,683	\$ 66,216	\$ 44,014	\$ 49,404	\$ 97,746	\$ 35

Community Consolidating Statement of Financial Position Information (Continued)

September 30, 2024
(In thousands)

	Covenant Living at the Holmstad	Covenant Living at Mount Miguel	Covenant Living of Northbrook	Covenant Living at the Samarkand	Covenant Living at the Shores	Covenant Living of Turlock	Covenant Living at Windsor Park
Assets							
Current Assets							
Cash and cash equivalents	\$ 7	\$ 29	\$ 7	\$ 6	\$ 5	\$ 9	\$ 5
Restricted cash	32	-	26	2	1	-	4
Assets whose use is limited, including beneficial interest in investment pool:							
Board designated	9,216	5,907	14,743	9,147	16,409	2,145	-
Restricted under debt agreements	2,264	456	2,063	72	434	1,083	949
Accounts receivable - Net	1,835	1,581	1,915	1,137	748	1,379	2,402
Prepaid expenses and other assets	7	43	6	55	149	65	10
Total current assets	13,361	8,016	18,760	10,419	17,746	4,681	3,370
Property and Equipment - Net	47,228	38,628	94,364	50,669	38,754	29,799	79,424
Other Assets	416	1,321	2,440	757	-	228	509
Interest in Irrevocable Trusts	189	1,302	35	2,422	167	552	77
Goodwill - Net							
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool							
Board designated	17,272	12,517	54,903	44,533	6,113	11,647	23,825
Restricted under state and debt agreements	3,843	403	56,021	224	-	2,713	1,790
Endowment	827	50	-	-	-	-	2,029
Total assets whose use is limited, including beneficial interest in investment pool	21,942	12,970	110,924	44,757	6,113	14,360	27,644
Total Assets	\$ 83,136	\$ 62,237	\$ 226,523	\$ 109,024	\$ 62,780	\$ 49,620	\$ 111,024

Community Consolidating Statement of Financial Position Information (Continued)

September 30, 2024
(In thousands)

	Covenant Living at the Holmstad	Covenant Living at Mount Miguel	Covenant Living of Northbrook	Covenant Living at the Samarkand	Covenant Living at the Shores	Covenant Living of Turlock	Covenant Living at Windsor Park
Liabilities and Net Assets (Deficits)							
Current Liabilities							
Accounts payable - Trade	\$ 477	\$ 375	\$ 524	\$ 323	\$ 204	\$ 221	\$ 309
Accounts payable - Contractors	-	-	3,840	-	-	-	-
Accrued salaries and wages	-	-	-	-	-	-	-
Accrued interest	901	286	1,508	67	257	324	769
Advanced deposits	216	80	667	421	342	27	67
Current maturities of long-term debt	1,799	466	815	351	410	1,102	1,678
Deferred revenue subject to refund	14,992	8,671	15,192	14,531	12,967	6,938	-
Refundable contract liabilities	12,286	8,431	20,792	11,509	23,101	3,102	-
Other current liabilities	1,195	435	971	530	560	455	2,109
Total current liabilities	31,866	18,744	44,309	27,732	37,841	12,169	4,932
Long-term Debt - Less current maturities	59,758	19,827	109,047	4,173	18,012	19,925	54,164
Payable to (from) Covenant Institutions							
Covenant Living Communities and Services - Notes and advances	(14,416)	(45,503)	(46,508)	(66,904)	(37,041)	(6,240)	(7,412)
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	(14,416)	(45,503)	(46,508)	(66,904)	(37,041)	(6,240)	(7,412)
Other Liabilities	-	-	-	-	-	-	21,077
Deferred Revenue from Entrance Fees	21,773	20,934	32,003	28,274	23,379	12,236	56,263
Total liabilities	98,981	14,002	138,851	(6,725)	42,191	38,090	129,024
Net Assets (Deficits)							
Without donor restrictions	(17,119)	48,045	86,972	110,489	20,312	11,119	(21,608)
With donor restrictions	1,274	190	700	5,260	277	411	3,608
Total net assets (deficits)	(15,845)	48,235	87,672	115,749	20,589	11,530	(18,000)
Total liabilities and net assets	\$ 83,136	\$ 62,237	\$ 226,523	\$ 109,024	\$ 62,780	\$ 49,620	\$ 111,024

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

Year Ended September 30, 2024
(In thousands)

	Total All Communities	Covenant Living of Colorado	Covenant Home of Chicago	Covenant Living of Florida	Covenant Living of Golden Valley	Covenant Living of the Great Lakes	Covenant Living of Cromwell	Brandel Manor- Cypress
Operating Revenue								
Routine resident services	\$ 267,806	\$ 18,583	\$ 2,893	\$ 18,121	\$ 20,628	\$ 13,499	\$ 21,473	\$ 5,034
Ancillary services	28,030	1,274	23	2,696	2,425	1,477	1,496	373
Amortization of deferred entrance fees	51,310	4,086	-	2,545	2,505	3,264	3,538	-
Net assets released from restrictions for operations	5,053	298	2	319	309	179	399	1
Other	6,903	306	14	281	612	772	1,392	1
Total operating revenue	359,102	24,547	2,932	23,962	26,479	19,191	28,298	5,409
Expenses								
Routine nursing services	78,044	5,041	876	4,516	7,330	3,792	5,056	4,479
Ancillary services	16,855	913	20	1,588	1,573	790	934	354
Resident benefits	16,502	1,138	252	1,285	1,240	919	1,364	482
Dietary	47,271	3,183	647	3,482	3,744	2,872	4,072	1,070
Laundry	2,037	130	15	82	196	36	126	188
Housekeeping	11,255	485	85	806	927	435	1,020	353
Maintenance	20,811	1,273	251	1,669	1,465	805	1,952	428
Utilities	14,822	857	146	1,017	1,143	707	1,668	148
Administrative and general	59,214	3,819	648	4,190	4,385	3,806	4,676	2,628
Interest	24,274	1,392	238	2,450	2,811	2,641	3,067	300
Property taxes	3,784	-	-	295	401	433	1,662	-
Insurance	8,252	426	67	554	511	559	650	411
Marketing and promotion	14,849	1,185	61	1,418	1,075	1,093	1,105	198
Depreciation	56,156	4,347	303	4,118	3,280	3,177	5,346	174
Amortization	182	24	-	17	6	19	20	-
Other	1,487	71	9	77	123	121	121	49
Total expenses	375,795	24,284	3,618	27,564	30,210	22,205	32,839	11,262
Operating (Loss) Income	\$ (16,693)	\$ 263	\$ (686)	\$ (3,602)	\$ (3,731)	\$ (3,014)	\$ (4,541)	\$ (5,853)

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

Year Ended September 30, 2024
(In thousands)

	Total All Communities	Covenant Living of Colorado	Covenant Home of Chicago	Covenant Living of Florida	Covenant Living of Golden Valley	Covenant Living of the Great Lakes	Covenant Living of Cromwell	Brandel Manor- Cypress
Operating (Loss) Income	\$ (16,693)	\$ 263	\$ (686)	\$ (3,602)	\$ (3,731)	\$ (3,014)	\$ (4,541)	\$ (5,853)
Nonoperating Revenue (Expense)								
Gifts and bequests — Net of related expenses	2,981	(24)	(48)	(121)	602	(74)	483	-
Other nonoperating expense	(1,969)	7	(17)	(2)	(82)	(1)	(49)	(1,731)
Interest and dividend income	18,580	413	109	787	300	259	481	-
Realized gains on fixed income and equity securities — Net	4,368	189	63	224	181	92	198	-
Unrealized gains on fixed income and equity securities — Net	15,423	2,229	-	676	737	893	668	-
Total nonoperating revenue (expense)	39,423	2,854	107	1,564	1,738	1,169	1,781	(1,731)
Income (Loss)	22,730	3,117	(579)	(2,038)	(1,993)	(1,845)	(2,760)	(7,584)
Net Assets Released from Restrictions for Capital Purchases	573	-	-	-	32	-	-	211
Net asset transfer from (to) related organization	17,831	-	-	-	-	-	-	15,597
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 41,134	\$ 3,117	\$ (579)	\$ (2,038)	\$ (1,961)	\$ (1,845)	\$ (2,760)	\$ 8,224

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

 Year Ended September 30, 2024
 (In thousands)

	Covenant Living at the Holmstad	Covenant Living at Mount Miguel	Covenant Living of Northbrook	Covenant Living at the Samarkand	Covenant Living at the Shores	Covenant Living of Turlock	Covenant Living at Windsor Park
Operating Revenue							
Routine resident services	\$ 27,746	\$ 22,275	\$ 25,722	\$ 26,960	\$ 18,617	\$ 17,327	\$ 28,928
Ancillary services	2,746	2,401	2,274	3,233	2,049	1,216	4,347
Amortization of deferred entrance fees	5,265	3,812	6,483	5,755	4,220	2,660	7,177
Net assets released from restrictions for operations	389	470	574	684	474	292	663
Other	330	260	527	489	1,329	160	430
Total operating revenue	36,476	29,218	35,580	37,121	26,689	21,655	41,545
Expenses							
Routine nursing services	7,616	7,415	7,236	7,028	5,769	4,549	7,341
Ancillary services	1,576	1,579	1,079	1,963	1,164	813	2,509
Resident benefits	1,774	1,257	1,376	1,562	1,252	986	1,615
Dietary	4,267	3,811	4,528	4,259	3,280	3,397	4,659
Laundry	155	168	191	249	131	182	188
Housekeeping	1,268	1,008	948	1,285	820	860	955
Maintenance	1,998	1,785	1,785	2,188	1,624	1,354	2,234
Utilities	1,263	1,832	1,294	1,688	998	834	1,227
Administrative and general	5,664	5,081	5,101	5,112	4,579	3,919	5,606
Interest	2,655	899	3,107	252	816	929	2,717
Property taxes	261	-	-	-	434	15	283
Insurance	672	714	756	807	800	526	799
Marketing and promotion	1,455	1,156	1,275	1,107	962	1,061	1,698
Depreciation	4,507	4,098	6,666	5,661	3,936	3,046	7,497
Amortization	32	7	14	4	7	18	14
Other	146	116	209	123	93	84	145
Total expenses	35,309	30,926	35,565	33,288	26,665	22,573	39,487
Operating (Loss) Income	\$ 1,167	\$ (1,708)	\$ 15	\$ 3,833	\$ 24	\$ (918)	\$ 2,058

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

Year Ended September 30, 2024
(In thousands)

	Covenant Living at the Holmstad	Covenant Living at Mount Miguel	Covenant Living of Northbrook	Covenant Living at the Samarkand	Covenant Living at the Shores	Covenant Living of Turlock	Covenant Living at Windsor Park
Operating (Loss) Income	\$ 1,167	\$ (1,708)	\$ 15	\$ 3,833	\$ 24	\$ (918)	\$ 2,058
Nonoperating Revenue (Expense)							
Gifts and bequests — Net of related expenses	(137)	933	(122)	1,747	(135)	(56)	(67)
Other nonoperating expense - Net	10	(28)	(77)	(17)	(4)	31	(9)
Interest and dividend income	1,256	2,226	5,785	3,778	1,825	597	764
Realized gains on fixed-income and equity securities — Net	378	289	1,164	752	292	226	320
Unrealized gains (losses) on fixed-income and equity securities — Net	1,369	870	2,148	1,185	2,255	384	2,009
Total nonoperating revenue (expense)	2,876	4,290	8,898	7,445	4,233	1,182	3,017
Income (Loss)	4,043	2,582	8,913	11,278	4,257	264	5,075
Net Assets Released from Restrictions for Capital Purchases	15	-	-	315	-	-	-
Net asset transfer from (to) related organization	-	-	-	-	-	2,234	-
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 4,058	\$ 2,582	\$ 8,913	\$ 11,593	\$ 4,257	\$ 2,498	\$ 5,075

Consolidating Statement of Financial Position - Covenant Living Services

September 30, 2024
(In thousands)

	Consolidated Covenant Living Services	Eliminations	Total Covenant Living Services	Covenant Holdings One, LLC	Covenant Living of Geneva	Covenant Living Bixby
Assets						
Current Assets						
Cash and cash equivalents	\$ 11,494	\$ -	\$ 11,494	\$ 1,113	\$ 100	\$ 536
Restricted cash	583	-	583	-	-	70
Assets whose use is limited, including beneficial interest in investment pool:						
Board designated	-	-	-	-	-	-
Restricted under debt agreements	782	-	782	-	-	-
Accounts receivable - Net	10,142	(28)	10,170	-	(4)	(9)
Prepaid expenses and other assets	372	-	372	-	2	16
Total current assets	23,373	(28)	23,401	1,113	98	613
Property and Equipment - Net	260,769	-	260,769	2,877	5,630	12,519
Other Assets	6,484	(1,815)	8,299	(103)	(990)	(3,853)
Goodwill - Net	83,392	-	83,392	-	-	-
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool						
Board designated	1,442	-	1,442	-	-	-
Restricted under state and debt agreements	4,582	-	4,582	-	-	-
Endowment	266	-	266	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	6,290	-	6,290	-	-	-
Total Assets	\$ 380,308	\$ (1,843)	\$ 382,151	\$ 3,887	\$ 4,738	\$ 9,279

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

September 30, 2024
(In thousands)

	Consolidated Covenant Living Services	Eliminations	Total Covenant Living Services	Covenant Holdings One, LLC	Covenant Living of Geneva	Covenant Living Bixby
Liabilities and Net Assets (Deficits)						
Current Liabilities:						
Accounts payable - Trade	\$ 416	\$ (28)	\$ 444	\$ -	\$ 9	\$ 13
Accrued salaries and wages	(24)	-	(24)	-	-	-
Accrued interest	233	-	233	25	24	81
Advance deposits	2,493	-	2,493	-	-	-
Current maturities of long-term debt	740	-	740	-	-	-
Deferred revenue subject to refund	23,307	-	23,307	-	-	-
Refundable contract liabilities	71,395	-	71,395	-	-	-
Other current liabilities	15,319	-	15,319	51	133	297
Total current liabilities	113,879	(28)	113,907	76	166	391
Long-term Debt - Less current maturities	16,075	-	16,075	-	(3)	(9)
Payable to (from) Covenant Institutions						
Covenant Living Communities and Services - Notes and advances	171,055	(1,815)	172,870	3,878	1,470	(4,706)
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-
Total payable to (from) Covenant institutions	171,055	(1,815)	172,870	3,878	1,470	(4,706)
Other Liabilities	80,867	-	80,867	-	4,354	14,596
Deferred Revenue from Entrance Fees	50,004	-	50,004	-	-	-
Total liabilities	431,880	(1,843)	433,723	3,954	5,987	10,272
Net Assets (Deficits)						
Without donor restrictions	(53,655)	-	(53,655)	(67)	(1,249)	(1,006)
With donor restrictions	2,083	-	2,083	-	-	13
Total net assets (deficits)	(51,572)	-	(51,572)	(67)	(1,249)	(993)
TOTAL	\$ 380,308	\$ (1,843)	\$ 382,151	\$ 3,887	\$ 4,738	\$ 9,279

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

September 30, 2024
(In thousands)

	Covenant Living of Inverness	Three Crowns Foundation	Three Crowns Park	Covenant Living of Keene	Shannondale of Knoxville	Shannondale of Maryville	Covenant Care	Covenant Living Services
Assets								
Current Assets								
Cash and cash equivalents	\$ 4	\$ -	\$ 5,997	\$ 220	\$ 2,937	\$ 341	\$ 91	\$ 155
Restricted cash	11	-	1	-	-	-	501	-
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	-	-	-	-	-	-	-	-
Restricted under debt agreements	-	-	782	-	-	-	-	-
Accounts receivable - Net	2,193	-	31	226	2,920	944	3,457	412
Prepaid expenses and other assets	29	-	37	6	192	49	31	10
Total current assets	2,237	-	6,848	452	6,049	1,334	4,080	577
Property and Equipment - Net	46,303	-	47,677	64,986	45,398	35,252	127	-
Other Assets	-	488	7,034	-	-	-	2,683	3,040
Goodwill - Net	33,279	-	23,117	-	9,074	17,922	-	-
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool								
Board designated	-	-	-	1,442	-	-	-	-
Restricted under state and debt agreements	-	-	1,582	3,000	-	-	-	-
Endowment	-	-	-	-	266	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	-	-	1,582	4,442	266	-	-	-
Total Assets	\$ 81,819	\$ 488	\$ 86,258	\$ 69,880	\$ 60,787	\$ 54,508	\$ 6,890	\$ 3,617

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

September 30, 2024
(In thousands)

	Covenant Living of Inverness	Three Crowns Foundation	Three Crowns Park	Covenant Living of Keene	Shannondale of Knoxville	Shannondale of Maryville	Covenant Care	Covenant Living Services
Liabilities and Net Assets (Deficits)								
Current Liabilities:								
Accounts payable - Trade	\$ 179	\$ -	\$ 45	\$ 69	\$ 1	\$ 50	\$ 72	\$ 6
Accrued salaries and wages	-	-	-	-	5	(29)	-	-
Accrued interest	-	-	103	-	-	-	-	-
Advance deposits	16	-	116	275	1,443	643	-	-
Current maturities of long-term debt	-	-	740	-	-	-	-	-
Deferred revenue subject to refund	13,805	-	2,625	6,877	-	-	-	-
Refundable contract liabilities	13,285	-	30,340	27,770	-	-	-	-
Other current liabilities	7,187	-	2,290	939	2,444	519	1,249	210
Total current liabilities	34,472	-	36,259	35,930	3,893	1,183	1,321	216
Long-term Debt - Less current maturities	-	-	16,087	-	-	-	-	-
Payable to (from) Covenant Institutions								
Covenant Living Communities and Services - Notes and advances	58,677	1,535	16,718	27,201	28,170	29,607	9,273	1,047
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	58,677	1,535	16,718	27,201	28,170	29,607	9,273	1,047
Other Liabilities	18,580	-	7	-	24,681	18,649	-	-
Deferred Revenue from Entrance Fees	7,784	-	11,784	13,098	10,073	7,265	-	-
Total liabilities	119,513	1,535	80,855	76,229	66,817	56,704	10,594	1,263
Net Assets (Deficits)								
Without donor restrictions	(38,214)	(1,323)	4,850	(6,592)	(6,296)	(2,196)	(3,916)	2,354
With donor restrictions	520	276	553	243	266	-	212	-
Total net assets (deficits)	(37,694)	(1,047)	5,403	(6,349)	(6,030)	(2,196)	(3,704)	2,354
TOTAL	\$ 81,819	\$ 488	\$ 86,258	\$ 69,880	\$ 60,787	\$ 54,508	\$ 6,890	\$ 3,617

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

	Year Ended September 30, 2024 (In thousands)					
	Consolidated Covenant Living Services	Eliminations	Total Covenant Living Services	Covenant Holdings One, LLC	Covenant Living of Geneva	Covenant Living Bixby
Operating Revenue						
Routine resident services	\$ 55,317	\$ -	\$ 55,317	\$ -	\$ 1,588	\$ 3,870
Ancillary services	21,861	-	21,861	-	-	19
Amortization of deferred entrance fees	7,460	-	7,460	-	-	-
Net assets released from restrictions for operations	791	-	791	-	-	4
Other	5,497	-	5,497	639	12	120
	<u>90,926</u>	<u>-</u>	<u>90,926</u>	<u>639</u>	<u>1,600</u>	<u>4,013</u>
Total operating revenue	90,926	-	90,926	639	1,600	4,013
Expenses						
Routine nursing services	23,457	-	23,457	-	-	547
Ancillary services	3,443	-	3,443	-	-	18
Resident benefits	3,373	-	3,373	-	20	93
Dietary	10,686	-	10,686	-	24	623
Laundry	125	-	125	-	-	-
Housekeeping	2,219	-	2,219	-	62	82
Maintenance	5,324	-	5,324	222	104	259
Utilities	3,099	-	3,099	-	99	153
Administrative and general	17,937	-	17,937	41	209	610
Interest	6,210	-	6,210	-	346	1,162
Property taxes	1,513	-	1,513	110	141	170
Insurance	1,501	-	1,501	15	41	88
Marketing and promotion	5,620	-	5,620	-	5	84
Depreciation	12,647	-	12,647	123	265	501
Amortization	161	-	161	17	8	27
Other	290	-	290	-	-	11
	<u>97,605</u>	<u>-</u>	<u>97,605</u>	<u>528</u>	<u>1,324</u>	<u>4,428</u>
Total expenses	97,605	-	97,605	528	1,324	4,428
Operating Income (Loss)	<u>\$ (6,679)</u>	<u>\$ -</u>	<u>\$ (6,679)</u>	<u>\$ 111</u>	<u>\$ 276</u>	<u>\$ (415)</u>

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

	Year Ended September 30, 2024 (In thousands)					
	Consolidated Covenant Living Services	Eliminations	Total Covenant Living Services	Covenant Holdings One, LLC	Covenant Living of Geneva	Covenant Living Bixby
Operating Income (Loss)	\$ (6,679)	\$ -	\$ (6,679)	\$ 111	\$ 276	\$ (415)
Nonoperating (Expense) Revenue						
Gifts and bequests — Net of related expenses	(198)	-	(198)	-	1	-
Net assets released from restriction — Distributions from trusts	-	-	-	-	-	-
Loss on extinguishment of debt	920	-	920	-	-	-
Other nonoperating expense - Net	(11,538)	-	(11,538)	-	-	(2)
Interest and dividend income	194	-	194	-	(1)	-
Realized gains (losses) on fixed income and equity securities — Net	(18)	-	(18)	-	-	-
Unrealized losses on fixed-income and equity securities — Net	996	-	996	-	-	-
Unrealized gains on derivative instruments	(744)	-	(744)	-	(171)	(573)
Interest expense on interest rate swaps	771	-	771	-	177	594
Total nonoperating (expense) revenue	(9,617)	-	(9,617)	-	6	19
(Loss) Income	(16,296)	-	(16,296)	111	282	(396)
Transfers	-	-	-	-	-	-
Net Assets Released from Restrictions for Capital Purchases	15	-	-	-	-	-
Net Asset Transfer from (to) Related Organization	300	-	300	-	-	-
(Decrease) Increase in Net Assets Without Donor Restrictions	\$ (15,981)	\$ -	\$ (15,996)	\$ 111	\$ 282	\$ (396)

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

	Year Ended September 30, 2024 (In thousands)							
	Covenant Living of Inverness	Three Crowns Foundation	Three Crowns Park	Covenant Living of Keene	Shannondale of Knoxville	Shannondale of Maryville	Covenant Care	Covenant Living Services
Operating Revenue								
Routine resident services	\$ 18,468	\$ -	\$ 13,126	\$ 14,408	\$ 1,344	\$ 2,513	\$ -	\$ -
Ancillary services	1,802	-	101	653	1	293	18,992	-
Amortization of deferred entrance fees	2,672	-	2,259	2,096	251	182	-	-
Net assets released from restrictions for operations	255	6	184	81	-	-	261	-
Other	289	-	119	132	61	5	9	4,111
Total operating revenue	23,486	6	15,789	17,370	1,657	2,993	19,262	4,111
Expenses								
Routine nursing services	3,691	-	4,254	3,817	425	1,210	9,513	-
Ancillary services	981	-	68	529	4	150	1,693	-
Resident benefits	950	-	800	653	66	134	657	-
Dietary	3,372	-	2,766	2,629	545	727	-	-
Laundry	24	-	61	39	-	1	-	-
Housekeeping	717	-	684	505	54	115	-	-
Maintenance	1,832	-	1,389	989	206	323	-	-
Utilities	1,094	-	594	809	174	148	28	-
Administrative and general	3,543	1	2,538	3,114	662	660	5,536	1,023
Interest	2,160	-	1,397	1,145	-	-	-	-
Property taxes	221	-	60	668	50	91	2	-
Insurance	420	-	305	312	48	100	147	25
Marketing and promotion	1,640	-	561	756	166	189	464	1,755
Depreciation	3,435	-	2,689	3,642	1,110	840	42	-
Amortization	-	-	-	-	-	-	109	-
Other	78	-	71	61	2	5	62	-
Total expenses	24,158	1	18,237	19,668	3,512	4,693	18,253	2,803
Operating Income (Loss)	\$ (672)	\$ 5	\$ (2,448)	\$ (2,298)	\$ (1,855)	\$ (1,700)	\$ 1,009	\$ 1,308

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

	Year Ended September 30, 2024 (In thousands)							
	Covenant Living of Inverness	Three Crowns Foundation	Three Crowns Park	Covenant Living of Keene	Shannondale of Knoxville	Shannondale of Maryville	Covenant Care	Covenant Living Services
Operating Income (Loss)	\$ (672)	\$ 5	\$ (2,448)	\$ (2,298)	\$ (1,855)	\$ (1,700)	\$ 1,009	\$ 1,308
Nonoperating (Expense) Revenue								
Gifts and bequests — Net of related expenses	(131)	(6)	(57)	(7)	-	-	2	-
Net assets released from restriction — Distributions from trusts	-						-	-
Loss on extinguishment of debt	-		920				-	-
Other nonoperating expense - Net	(6,636)	-	679	3	(4,437)	(495)	-	(650)
Interest and dividend income	(24)	12	195	23	(5)	(2)	-	(4)
Realized gains (losses) on fixed income and equity securities — Net	-	5	(47)	24	-	-	-	-
Unrealized losses on fixed-income and equity securities — Net	-	56	723	217	-	-	-	-
Total nonoperating (expense) revenue	(6,791)	67	2,413	260	(4,442)	(497)	2	(654)
(Loss) Income	(7,463)	72	(35)	(2,038)	(6,297)	(2,197)	1,011	654
Net Asset Transfer from (to) Related Organization	-	6	294	-	-	-	-	-
(Decrease) Increase in Net Assets Without Donor Restriction:	\$ (7,448)	\$ 78	\$ 259	\$ (2,038)	\$ (6,297)	\$ (2,197)	\$ 1,011	\$ 654

Covenant Living Communities and Services

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

As of and For the Year Ended September 30, 2024

1. Basis of Reporting

In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position and consolidating statement of operations and changes in net assets without donor restrictions information as of and for the year ended September 30, 2024 for the Obligated Group exclude the effects of consolidating entities controlled by members of the Obligated Group but which themselves are not members of the Obligated Group. Those entities which are not members of the Obligated Group are Covenant Housing Corporation and those entities included in Covenant Living Services. The balances for Covenant Living Communities and the Obligated Group do not include interests in controlled entities.