
Covenant Living of Florida, Inc.

Financial Report
September 30, 2022

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Independent Auditor's Report

To the Covenant Living Board
Covenant Living of Florida, Inc.

Opinion

We have audited the financial statements of Covenant Living of Florida, Inc. (an affiliate of The Evangelical Covenant Church and Covenant Living Communities and Services (see Note 2)), which comprise the statement of financial position as of September 30, 2022 and 2021 and the related statements of operations, changes in total net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Covenant Living of Florida, Inc. as of September 30, 2022 and 2021 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Covenant Living of Florida, Inc. 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 Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

To the Covenant Living Board
Covenant Living of Florida, Inc.

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 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 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 the Covenant Living of Florida, Inc.'s 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Covenant Living of Florida, Inc.'s 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 19, 2023

Statement of Financial Position

September 30, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 98,201	\$ 181,799
Restricted cash	31,457	23,218
Assets whose use is limited, including interest in investment pool: (Notes 3, 5 and 6)		
Board designated	4,285,868	4,370,283
Restricted under debt agreements	599,347	840,268
Accounts receivable - Net	1,084,591	790,415
Prepaid expenses and other assets	11,732	9,253
Total current assets	6,111,196	6,215,236
Property and Equipment		
Land and improvements	2,934,172	2,951,440
Buildings and improvements	60,044,510	58,175,027
Furniture and equipment	22,365,744	21,519,026
Construction in progress (Note 8)	4,278,593	2,940,797
Total property and equipment - At cost	89,623,019	85,586,290
Less accumulated depreciation	53,271,631	50,728,175
Net property and equipment	36,351,388	34,858,115
Interest in Irrevocable Trusts (Note 12)	561,535	769,019
Assets Whose Use is Limited, Including Interest in Investment Pool (Notes 3, 5 and 6)		
Board designated	9,263,400	8,192,447
Restricted under state and debt agreements	11,644,079	13,501,554
Total assets whose use is limited, including interest in investment pool	20,907,479	21,694,001
Total assets	\$ 63,931,598	\$ 63,536,371

Covenant Living of Florida, Inc.

Statement of Financial Position (Continued)

September 30, 2022 and 2021

	2022	2021
Liabilities and Deficiency in Net Assets		
Current Liabilities		
Accounts payable	\$ 149,829	\$ 64,687
Accrued interest	246,140	253,782
Advance deposits	30,400	17,700
Current maturities of long-term debt (Note 7)	653,137	1,079,319
Deferred revenue subject to refund (Note 2)	6,113,246	5,576,451
Refundable contract liabilities (Note 2)	5,939,206	6,655,804
Other current liabilities	541,334	748,329
	<u>13,673,292</u>	<u>14,396,072</u>
Total current liabilities	13,673,292	14,396,072
Long-term Debt - Less current maturities (Note 7)	17,531,648	18,354,177
Other Long-term Liabilities		
Due to Covenant Living Communities and Services (Note 9)	40,797,291	34,983,979
Deferred revenue from entrance fees (Note 2)	11,078,056	10,940,661
	<u>51,875,347</u>	<u>45,924,640</u>
Total other long-term liabilities	51,875,347	45,924,640
Total liabilities	83,080,287	78,674,889
Deficiency in Net Assets		
Without donor restrictions	(19,474,182)	(15,526,452)
With donor restrictions	325,493	387,934
	<u>(19,148,689)</u>	<u>(15,138,518)</u>
Total deficiency in net assets	(19,148,689)	(15,138,518)
Total liabilities and deficiency in net assets	<u><u>\$ 63,931,598</u></u>	<u><u>\$ 63,536,371</u></u>

Statement of Operations

Years Ended September 30, 2022 and 2021

	2022	2021
Operating Revenue		
Routine resident services	\$ 15,390,883	\$ 14,746,728
Ancillary services	2,122,636	2,118,721
Amortization of deferred entrance fees	2,751,694	2,874,824
Net assets released from restrictions for operations	202,393	94,785
Other (Note 14)	471,013	1,482,898
	20,938,619	21,317,956
Expenses		
Routine nursing services	3,871,815	3,646,472
Ancillary services	1,137,914	1,066,940
Resident benefits	1,318,350	1,196,889
Dietary	3,192,947	2,871,997
Laundry	86,902	74,831
Housekeeping	774,603	723,593
Maintenance	1,451,655	1,518,065
Utilities	968,439	839,433
Administrative and general	3,624,341	3,606,413
Interest (Note 7)	2,409,768	1,883,754
Property taxes	304,551	281,618
Insurance	465,875	468,269
Marketing and promotion	1,277,618	1,184,179
Depreciation	3,787,017	3,730,507
Amortization	12,813	17,446
Other	103,034	98,536
	24,787,642	23,208,942
	(3,849,023)	(1,890,986)
Operating Loss		
Nonoperating (Expense) Revenue		
Gifts and bequests - Net of related expenses (Note 15)	(3,691)	111,382
Gain on extinguishment of debt	-	8,103
Other nonoperating income (expense) - Net	3,000	(22,980)
Interest and dividend income	871,171	714,382
Realized gains on investments - Net	160,230	441,746
Unrealized (losses) gains on investments - Net	(1,129,417)	294,101
	(98,707)	1,546,734
Loss	(3,947,730)	(344,252)
Net Assets Released from Restrictions for Capital Purchases	-	2,915
Decrease in Net Assets without Donor Restrictions	\$ (3,947,730)	\$ (341,337)

Covenant Living of Florida, Inc.

Statement of Changes in Total Net Assets (Deficit)

Years Ended September 30, 2022 and 2021

	2022	2021
Decrease in Net Assets without Donor Restrictions		
Loss	\$ (3,947,730)	\$ (344,252)
Net assets released from restrictions for capital purchases	<u>-</u>	<u>2,915</u>
Decrease in net assets without donor restrictions	(3,947,730)	(341,337)
Net Assets with Donor Restrictions		
Contributions	201,083	104,692
Net assets released from restrictions for operations	(202,393)	(94,785)
Irrevocable trusts - Change in present value discount	(61,131)	52,582
Net assets released from restrictions for capital purchases	<u>-</u>	<u>(2,915)</u>
(Decrease) increase in net assets with donor restrictions	<u>(62,441)</u>	<u>59,574</u>
Decrease in Net Assets	(4,010,171)	(281,763)
Deficiency in Net Assets - Beginning of year	<u>(15,138,518)</u>	<u>(14,856,755)</u>
Deficiency in Net Assets - End of year	<u>\$ (19,148,689)</u>	<u>\$ (15,138,518)</u>

Statement of Cash Flows

Years Ended September 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (4,010,171)	\$ (281,763)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Amortization of deferred entrance fees	(2,751,694)	(2,874,824)
Depreciation	3,787,017	3,730,507
Amortization	12,813	17,446
Gain on extinguishment of debt	-	(8,103)
Bad debt expense	212,181	123,099
Original issue premium accretion	(91,636)	(100,397)
Net realized and unrealized losses (gains) on assets whose use is limited	969,187	(735,847)
Other changes in irrevocable trusts - Net	122,318	66,765
Net withdrawals from (deposits to) irrevocable trusts	85,166	(41,324)
Nonrefundable entrance fees collected	3,619,462	3,172,822
Nonrefundable entrance fees refunded	(193,578)	(212,913)
Changes in operating assets and liabilities:		
Accounts receivable	(506,357)	96,071
Other assets	(2,479)	40,416
Accounts payable	85,142	(103,902)
Other liabilities	(210,176)	(882,970)
Net cash and cash equivalents provided by operating activities	1,127,195	2,005,083
Cash Flows from Investing Activities		
Property and equipment expenditures	(5,280,290)	(5,654,187)
Net change in assets whose use is limited, including interest in investment pool	142,671	(7,599,143)
Net cash and cash equivalents used in investing activities	(5,137,619)	(13,253,330)
Cash Flows from Financing Activities		
Payment of debt	(1,079,319)	(1,035,741)
Proceeds from Series 2020A bonds	-	7,653,431
Early extinguishment of debt	-	(739,922)
Net advances from Covenant Living Communities and Services	5,722,743	5,646,420
Refundable entrance fees collected	-	926,231
Refundable entrance fees refunded	(716,598)	(1,047,537)
Net cash and cash equivalents provided by financing activities	3,926,826	11,402,882
Net (Decrease) Increase in Cash and Cash Equivalents	(83,598)	154,635
Cash and Cash Equivalents - Beginning of year	181,799	27,164
Cash and Cash Equivalents - End of year	\$ 98,201	\$ 181,799
Supplemental Disclosure of Operating, Investing, and Financing Activities -		
Interest paid (including intercompany interest paid of \$1,929,059 and \$1,412,338 for the years ended September 30, 2022 and 2021, respectively)	\$ 2,509,046	\$ 1,908,876
Significant Noncash Transactions - Allocation of Series 2020A debt issuance costs	\$ 90,569	\$ -

September 30, 2022 and 2021

Note 1 - Mission Statement

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statements

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

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

Basis of Presentation

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

The Community recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Community does not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were issued; however, such events may be required to be recognized as disclosures. For these purposes, the Community has evaluated events occurring subsequent to the statement of financial position date through January 19, 2023, which is the date the financial statements were available to be issued. The Community has not evaluated events occurring after January 19, 2023 in these financial statements.

Financial Support from Parent Organization

The Community's parent organization is CLCS, which is committed to the Community's operations in Florida. Although the Community has a deficiency in net assets as of September 30, 2022, CLCS will support the Community through additional funding, as necessary, to ensure that the Community is able to pay its debts as they come due and to continue as a going concern. Such deficiency in net assets does not place the Community in violation of any state or federal laws or regulations, nor is the Community in any violation of any of its contractual agreements.

Note 2 - Summary of Significant Accounting Policies (Continued)

Industry

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Community is in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 33 percent and 32 percent of the Community's combined routine resident and ancillary services revenue for the years ended September 30, 2022 and 2021, respectively.

Use of Estimates

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

Cash and Cash Equivalents

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

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 the Board of Benevolence's institutions. While these funds are held and invested by CMB, the Community retains the benefits of ownership of its proportional interest in the combined investment fund. This ownership interest in the combined investment fund is reported in the accompanying financial statements as assets whose use is limited - board designated, which is an interest in investment pool.

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

The Community's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statement of financial position and the statement of operations.

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable from residents, insurance companies, and governmental agencies are based on the amount that reflects the consideration to which the Community expects to be entitled in exchange for services provided. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Community's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts totaled \$248,625 and \$112,516 at September 30, 2022 and 2021, respectively. The opening balance of accounts receivable as of October 1, 2020 was \$1,009,585.

Overpayments from third-party payors on residents' accounts receivable balances have been included in other current liabilities on the statement of financial position. Total overpayments amounted to \$210,953 and \$198,366 at September 30, 2022 and 2021, respectively.

The Community provides services without collateral to its residents, most of whom are local residents and insured under third-party agreements. The mix of receivables from residents and third-party payors as of September 30, 2022 was 21 percent from private payors, 54 percent from Medicare, and 25 percent from Medicaid. As of September 30, 2021, the mix of receivables from residents and third-party payors was 33 percent from private payors, 54 percent from Medicare, and 13 percent from Medicaid.

Benevolent Care Fund

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

Unamortized Debt Expense

Underwriting fees and expenses related to the procurement of debt are deferred and amortized over the life of the related long-term debt. These costs are recorded as a reduction in the recorded balance of the outstanding long-term debt. The Community incurred \$381,748 of debt expense. During 2022, \$90,569 of debt issuance costs were allocated to the Community related to Series 2020A debt. During 2021, the Community wrote off \$23,238 of debt expense due to the refunding of Series 2015A (see Note 7). Unamortized debt expense is shown net of accumulated amortization of \$146,120 and \$133,307 at September 30, 2022 and 2021, respectively.

Property and Equipment

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

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

Interest costs are capitalized during periods of active construction for qualified expenditures based upon interest rates in place during the construction period until construction is substantially complete. Capitalized interest costs are amortized over the lives consistent with the constructed assets. The Community capitalized interest costs of \$240,558, offset by capitalized interest income of \$84,967 for the year ended September 30, 2022 and capitalized interest costs of \$266,518, offset by capitalized interest income of \$138,474 for the year ended September 30, 2021.

September 30, 2022 and 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

During the years ended September 30, 2022 and 2021, the Community recorded the retirement of certain fully depreciated property and equipment having an original cost of approximately \$1,244,000 and \$448,000, respectively, which were physically disposed.

Long-lived Assets

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

Advance Deposits

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

Paycheck Protection Program Deferred Income Liability

Funding received under the Paycheck Protection Program (PPP) is considered an in-substance government grant under provisions of ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, and is being recognized as the conditions of the PPP agreement are met. See Note 14 for additional information on the terms and conditions of the PPP agreement.

Revenue Recognition

Routine Resident and Ancillary Service Revenue

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

The Community recognizes revenue under these resident agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it. The Community has concluded that the nonlease components of the agreements with respect to its senior living community are the predominant component of the contracts; therefore, the Community recognizes revenue for these resident agreements under Accounting Standards Codification 606.

Entrance Fees

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

Entrance fee 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.

September 30, 2022 and 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

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

The nonrefundable portion of the entrance fee represents a right to the resident to access future services. This right is deemed to be the Community's performance obligation. Nonrefundable entrance fees totaled \$11,078,056 and \$10,940,661 at September 30, 2022 and 2021, respectively; are recorded as deferred revenue; and are amortized into income over the actuarial life of each resident. The opening nonrefundable entrance fees balance at October 1, 2020 was \$11,028,643.

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves the Community within the first 50 or 60 months of residency. Included in current liabilities are \$6,113,246 and \$5,576,451 of deferred entrance fees subject to the above refund provisions at September 30, 2022 and 2021, respectively.

The Community also offers contracts that include a 50, 75, or 90 percent refund of the entrance fee. The refundable portion of the one-time entrance fee is treated as a current liability, with the remainder recorded as noncurrent deferred revenue. The Community recognizes income on the noncurrent deferred portion of the entrance fee ratably, using the actuarial life of each resident. Included in refundable contract liabilities are \$5,939,206 and \$6,655,804 at September 30, 2022 and 2021, respectively, for refundable entrance fees.

Entrance fee refunds under all programs were \$910,176 and \$1,260,450 for the years ended September 30, 2022 and 2021, respectively. Even though the refundable contract liabilities and a portion of deferred revenue are classified as current liabilities, the likelihood of actual payment of these liabilities in full within one year is remote based on the Community's experience.

Obligation to Provide Future Services

Annually, the Community calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities were to exceed the deferred revenue from entrance fees, a liability (obligation to provide future services) would be recorded with a corresponding charge to income. No such obligation was required to be recorded at September 30, 2022 or 2021.

Charity Care

Under the terms of the residents' agreements, the Community is not required to maintain those residents who are unable to pay their entire monthly maintenance charges; however, as a matter of policy, such residents generally have remained in the facility. Normal charges for these services are not recorded as revenue in the statement of operations. Funds to support these residents are derived primarily from contributions, public aid, and earnings from the Benevolent Care Fund (see Note 4).

Contributions

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

September 30, 2022 and 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Government grants are accounted for as conditional contributions, being nonexchange in nature. These grants are reported within other operating revenue on the statement of operations and are recognized as revenue as certain conditions are met, as outlined within the U.S. Department of Health and Human Services' (HHS) published terms and conditions.

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

Classification of Net Assets

Net assets of the Community are classified as net assets without donor restrictions or net assets with donor restrictions, depending on the presence and characteristics of donor-imposed restrictions limiting the Community's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements and donor-imposed restrictions that limit the use of net assets in perpetuity result in net assets with donor restrictions. Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law. Total net assets with donor restrictions of \$325,493 and \$387,934 at September 30, 2022 and 2021, respectively, include irrevocable trusts, which are not available for use until assets are distributed from the trusts, and contributions restricted for a particular purpose.

Loss (Performance Indicator)

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

Tax Status

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

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in Note 15. 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, amortization, interest, and insurance, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 3 - Fair Value Measurements

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

September 30, 2022 and 2021

Note 3 - Fair Value Measurements (Continued)

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

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

Level 1

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

Level 2

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

Level 3

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

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

Fair Value of Financial Instruments Carried at Fair Value

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

The Community's interest in the investment pool is valued on a recurring basis and is a direct interest in the investment pool, valued using Level 3 inputs of the valuation hierarchy for 2022 and 2021. There were net deposits of approximately \$1,239,000 and \$532,000 during 2022 and 2021, respectively. The total allocation of pooled (losses) earnings was approximately \$(252,000) and \$1,137,000 for the years ended September 30, 2022 and 2021, respectively.

Notes to Financial Statements

September 30, 2022 and 2021

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at September 30, 2022				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2022
Assets				
Interest in investment pool - Board designated	\$ -	\$ -	\$ 13,549,268	\$ 13,549,268
Restricted under state and debt agreements:				
Short-term investments	6,930,211	-	-	6,930,211
Fixed-income securities	-	5,313,215	-	5,313,215
Total restricted under state and debt agreements	6,930,211	5,313,215	-	12,243,426
Total assets	\$ 6,930,211	\$ 5,313,215	\$ 13,549,268	\$ 25,792,694
Interest in irrevocable trusts	\$ -	\$ -	\$ 561,535	\$ 561,535

Assets Measured at Fair Value on a Recurring Basis at September 30, 2021				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2021
Assets				
Interest in investment pool - Board designated	\$ -	\$ -	\$ 12,562,730	\$ 12,562,730
Restricted under state and debt agreements:				
Short-term investments	8,145,639	-	-	8,145,639
Fixed-income securities	-	6,196,183	-	6,196,183
Total restricted under state and debt agreements	8,145,639	6,196,183	-	14,341,822
Total assets	\$ 8,145,639	\$ 6,196,183	\$ 12,562,730	\$ 26,904,552
Interest in irrevocable trusts	\$ -	\$ -	\$ 769,019	\$ 769,019

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

September 30, 2022 and 2021

Note 3 - Fair Value Measurements (Continued)

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

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - October 1, 2021	\$ 769,019
Net withdrawals	(85,166)
Unrealized losses	<u>(122,318)</u>
Ending balance - September 30, 2022	<u>\$ 561,535</u>
	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - October 1, 2020	\$ 794,460
Net deposits	41,324
Unrealized losses	<u>(66,765)</u>
Ending balance - September 30, 2021	<u>\$ 769,019</u>

Note 4 - Charity Care and Other Unreimbursed Care

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

Records are maintained to identify and monitor the level of charity care provided. Unreimbursed costs forgone for charity care were \$197,310 and \$210,905 for the years ended September 30, 2022 and 2021, respectively. Charitable gifts received to offset costs were \$402,299 and \$278,240 for the years ended September 30, 2022 and 2021, respectively. The Community uses a cost per resident day amount to determine unreimbursed costs.

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

	2022	2021
Estimated cost of Medicaid services provided	\$ 3,712,557	\$ 3,834,171
Less government reimbursement	<u>(2,104,266)</u>	<u>(2,205,089)</u>
Unreimbursed care - Based on estimated cost	<u>\$ 1,608,291</u>	<u>\$ 1,629,082</u>

Notes to Financial Statements

September 30, 2022 and 2021

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

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

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

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

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

	<u>2022</u>	<u>2021</u>
Interest in investment pool - Board designated:		
Benevolent Care Fund	\$ 7,937,103	\$ 7,160,302
Property replacement fund	1,190,073	901,254
Reserve for refundable contracts	4,285,868	4,370,283
Other	<u>136,224</u>	<u>130,891</u>
Total interest in investment pool	13,549,268	12,562,730
Restricted under state and debt agreements:		
Bond interest and sinking fund	599,347	840,268
Debt service reserve fund	1,221,933	1,272,405
Bond project fund	4,410,315	5,994,050
State-required reserves	<u>6,011,831</u>	<u>6,235,099</u>
Total restricted under state and debt agreements	<u>12,243,426</u>	<u>14,341,822</u>
Total	<u>\$ 25,792,694</u>	<u>\$ 26,904,552</u>

September 30, 2022 and 2021

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

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

	2022	2021
Equity securities - Board designated	\$ 2,151,844	\$ 2,204,973
Fixed-income securities:		
Board designated	4,606,549	4,418,681
Restricted under state and debt agreements	5,313,215	6,196,183
Total fixed-income securities	9,919,764	10,614,864
Alternative investments - Board designated:		
Domestic equity	3,105,777	2,334,386
International equity	1,867,762	2,056,951
Hedge funds	1,246,039	1,031,281
Private equity	409,429	372,050
Puts and calls	75,022	71,868
Mortgages	86,846	72,540
Total alternative investments	6,790,875	5,939,076
Short-term investments - Restricted under state and debt agreements	6,930,211	8,145,639
Total	<u>\$ 25,792,694</u>	<u>\$ 26,904,552</u>

Note 6 - Continuing Care Requirements

At September 30, 2022 and 2021, the Community is required by state regulations to maintain an escrow account for one year of debt service, an operating reserve, and a replacement reserve, as defined by the Florida statutes. Management believes the Community was in compliance with the state regulations at September 30, 2022 and 2021.

Note 7 - Long-term Debt

Long-term debt under Master Trust Indenture bonds at September 30, 2022 and 2021 consisted of the following:

	2022	2021
Colorado Health Facilities Authority revenue refunding bonds, Series 2015A, due in 2036, interest at 1.00 percent - 5.00 percent	\$ 8,934,840	\$ 9,411,236
Colorado Health Facilities Authority revenue refunding bonds, Series 2015B, due in 2025, interest at 5.00 percent	724,871	1,327,794
Colorado Health Facilities Authority revenue bonds, Series 2020A, due in 2051, interest at 4.00 percent	7,231,586	7,231,586
Total long-term debt	16,891,297	17,970,616
Less current maturities	(653,137)	(1,079,319)
Less unamortized debt issuance costs - Net of accumulated amortization	(302,959)	(225,203)
Plus unamortized original issue premium	1,596,447	1,688,083
Total long-term debt - Less current maturities	<u>\$ 17,531,648</u>	<u>\$ 18,354,177</u>

Note 7 - Long-term Debt (Continued)

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

On October 1, 2020, the Covenant Living Communities and Services obligated group issued revenue bonds, Series 2020A and 2020B for \$82,250,000 and \$161,560,000, respectively, to pay the Colorado Health Facilities 2012A, 2012B, 2012C, and 2013A bonds; to pay the California Statewide Communities Development Authority 2013C bonds; to buy back \$6,500,000 of the 2015A bonds; to fund capital project and interest reserve accounts; and to pay the costs of issuance.

As a result of the 2020A and 2020B issuance, \$739,922 of Series 2015A was early extinguished. The Community recognized \$8,103 as a gain on the debt extinguishment in 2021.

The Master Trust Indenture obligations, totaling \$548,730,000 and \$521,100,000 at September 30, 2022 and 2021, respectively, with maturities extending through 2050, 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 debt service coverage ratios, as defined; require the maintenance of debt service reserve funds; and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the obligated group was in compliance with these requirements at September 30, 2022 and 2021.

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

The weighted-average interest rate on all outstanding borrowings was approximately 4.6 percent at September 30, 2022 and 2021.

Maturities of long-term debt, excluding original issue premium and discount and unamortized debt expense, for years subsequent to September 30, 2022 are as follows:

Years Ending September 30	Amount
2023	\$ 653,137
2024	687,772
2025	690,781
2026	426,309
2027 and thereafter	<u>14,433,298</u>
Total	<u>\$ 16,891,297</u>

The tax-exempt bond indentures for the Community's bonds require certain funds to be held in accounts controlled by the bond trustee. The total trustee-held funds, which are included in assets whose use is limited - restricted under state and debt agreements in the accompanying financial statements, at September 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Trustee-held funds - Noncurrent - Debt service reserve fund	\$ 1,221,933	\$ 1,272,405

September 30, 2022 and 2021

Note 8 - Construction in Progress

The construction in progress balance of \$4,278,593 and \$2,940,797 at September 30, 2022 and 2021, respectively, relates to ongoing projects at the Community that will be paid for from operations and reserves. Sufficient funds to complete all projects are available from bond project funds and board-designated reserves. The Community entered into construction commitments with total contract prices of \$3,684,863, with a balance to finish of \$3,094,736 at September 30, 2022.

Note 9 - Related Party Transactions

Included in administrative and general expense are management fees charged by the central office of Covenant Living Communities and Services. These fees aggregated to \$1,082,649 and \$1,326,757 for the years ended September 30, 2022 and 2021, respectively.

Notes and advances from Covenant Living Communities and Services bear interest at 3.75 percent for the year ended September 30, 2022 and 3 percent for the year ended September 30, 2021 and generally have no fixed repayment terms. These advances are classified as long term, as the Community has the intent and ability to postpone repayment of the balance for at least one year. Amounts due to Covenant Living Communities and Services were \$40,797,291 and \$34,983,979 at September 30, 2022 and 2021, respectively.

Net interest charges from Covenant Living Communities and Services were \$1,411,702 and \$987,577 for the years ended September 30, 2022 and 2021, respectively.

Each facility within Covenant Living Communities and Services is assessed a percentage of reoccupancy entrance fees to support the national marketing expenses of Covenant Living Communities and Services. The Community's marketing assessment totaled \$111,380 and \$94,063 for the years ended September 30, 2022 and 2021, respectively.

Note 10 - Pension Plan

Certain full-time employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning on January 1, 2013, the Community began to match contributions to a defined contribution plan, based on certain eligibility requirements, made by employees, up to 3 percent of each employee's salary. The Community recorded expense of \$135,308 and \$121,236 for the match during the years ended September 30, 2022 and 2021, respectively.

Pension expense, representing the Community's required contribution to the Plan, was \$74,442 and \$91,881 for the years ended September 30, 2022 and 2021, respectively. The contributions made by the Community represented less than 5 percent of the total contributions made to the Plan for the years ended September 30, 2022 and 2021. To the extent the Plan is underfunded, future contributions to the Plan may increase.

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

September 30, 2022 and 2021

Note 10 - Pension Plan (Continued)

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

Pension Fund	FEIN	Total Contributions to the Plan for the Year Ended December 31, 2021
The Evangelical Covenant Church Retirement Plan	36-2167730	\$1,166,853

As of December 31, 2021, the fair value of the assets of the Plan was \$324,626,217, and the actuarial present value of accumulated plan benefits was \$275,429,720. As of December 31, 2020, the fair value of the assets of the Plan was \$297,829,850, and the actuarial present value of accumulated plan benefits was \$278,705,679.

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

Note 11 - Employee Medical Benefit Plan

The Community participates in a medical benefit plan, which is sponsored by CLCS and available to full-time and eligible part-time employees and their dependents. The plan includes a \$250,000 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. The medical benefit expense was \$977,311 and \$846,721 for the years ended September 30, 2022 and 2021, respectively.

Note 12 - Beneficial Interest in Gift Instruments

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

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

Amounts related to irrevocable trusts for which the Community is named beneficiary but 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 statement of financial position.

Note 13 - Revenue Recognition

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

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

Note 13 - Revenue Recognition (Continued)

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

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

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

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

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

September 30, 2022 and 2021

Note 13 - Revenue Recognition (Continued)

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

	<u>2022</u>	<u>2021</u>
Payors:		
Private	\$ 11,792,069	\$ 11,545,714
Medicare	3,617,184	3,114,646
Medicaid	<u>2,104,266</u>	<u>2,205,089</u>
Total	<u>\$ 17,513,519</u>	<u>\$ 16,865,449</u>
Level of care:		
Residential living	\$ 8,017,377	\$ 7,482,765
Assisted living	2,672,456	2,660,245
Skilled nursing	<u>6,823,686</u>	<u>6,722,439</u>
Total	<u>\$ 17,513,519</u>	<u>\$ 16,865,449</u>

Note 14 - COVID-19 Impact

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

The CARES Act was enacted on March 27, 2020 and authorized \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19. There was also an additional \$8.5 billion in funds appropriated under the American Rescue Plan (ARP) Act of 2021, which were distributed in December 2021 to eligible health care providers.

Note 14 - COVID-19 Impact (Continued)

Provider Relief Funds and ARP Rural Payments

During the year ended September 30, 2022, the Community received payments of approximately \$48,000 as part of general and targeted distributions of the CARES Act Provider Relief Fund and ARP Rural payments under the American Rescue Plan Act of 2021. As of September 30, 2021, the Community had received a total of \$711,000 of payments as part of general and targeted distributions of the CARES Act Provider Relief Fund, which were distributed between April 2020 and September 30, 2021. These payments are not subject to repayment, provided the Community is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and ARP Rural payments and the impact of the pandemic on the Community's operating results through September 30, 2022, the Community believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of September 30, 2022 and 2021. Therefore, the Community has recognized approximately \$237,000 and \$34,000 in other operating revenue in the accompanying statement of operations for the years ended September 30, 2022 and 2021, respectively. During 2022, the Community transferred approximately \$70,000 of targeted distributions to CLCS.

The Community had the remaining amount of approximately \$259,000 recorded within other current liabilities on the statement of financial position as of September 30, 2021, as the Community had asserted it had not yet met all of the terms and conditions and restrictions for the CARES Act relative to these funds.

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

Paycheck Protection Program

During the year ended September 30, 2020, the Community received a PPP loan through a financial institution of \$1,250,000 under the CARES Act. The loan structure required the Community's officials to certify certain statements that permitted the Community to qualify for the loan and provides loan forgiveness for a portion or all of the borrowed amount if the Community uses the loan proceeds for the permitted loan purpose described in the note agreement. While the legal form of the PPP agreement is a loan, the Community concluded the loan represents, in substance, a grant that was expected to be forgiven and, therefore, had accounted for the agreement as a conditional contribution.

Accounting principles generally accepted in the United States of America (U.S. GAAP) provides that government grants, including certain forgivable government loans, are recognized as income in the period in which the Community has substantially overcome all measurable performance-related barriers necessary to be entitled to keep the grant funds, based on the notification received from the Small Business Administration of full forgiveness. As of September 30, 2021, the Community has assessed that all requirements for forgiveness were achieved and, therefore, has recorded contribution revenue for the full balance of the PPP loan within other operating revenue, consistent with generally accepted accounting principles.

September 30, 2022 and 2021

Note 15 - Functional Expenses

The Community provides various services to its residents. Expenses related to providing these services for the years ended September 30, 2022 and 2021 are as follows:

	2022	2021
Program services:		
Salaries and benefits	\$ 9,076,457	\$ 8,106,094
Purchased services	1,582,581	1,532,954
Equipment and supplies	2,142,094	1,996,115
Depreciation and amortization	3,440,511	3,393,396
Interest	2,181,895	1,705,551
Insurance	421,821	423,971
Other	2,045,279	1,951,191
Total program services	20,890,638	19,109,272
Support services:		
Salaries and benefits	906,945	807,876
Purchased services	1,380,131	1,602,899
Equipment and supplies	73,967	94,637
Depreciation and amortization	359,319	354,557
Interest	227,873	178,203
Insurance	44,054	44,298
Other	892,342	1,005,755
Total support services	3,884,631	4,088,225
Fundraising:		
Salaries and benefits	80,457	21,831
Equipment and supplies	701	146
Other	20,592	38,863
Total fundraising	101,750	60,840
Total	\$ 24,877,019	\$ 23,258,337

The expenses above include \$89,377 and \$49,395 of gifts and bequests expenses during 2022 and 2021, respectively, which are netted on the accompanying statement of operations within gifts and bequests - net of related expenses.

Note 16 - Liquidity

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

	2022	2021
Cash and cash equivalents	\$ 98,201	\$ 181,799
Accounts receivable - Net	1,084,591	790,415
Total	\$ 1,182,792	\$ 972,214

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

Note 16 - Liquidity (Continued)

The Community has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Community also has certain board-designated assets limited as to use, which, as noted in Note 5, have been designated by the board of directors for future capital improvement and may, at its discretion, be made available for general expenditure within the next year.