
Covenant Village of Florida, Inc.

Financial Report
January 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Village of Florida, Inc.

We have audited the accompanying financial statements of Covenant Village of Florida, Inc. (an affiliate of The Evangelical Covenant Church and Covenant Retirement Communities, Inc. (see Note 2), which comprise the statement of financial position as of January 31, 2019 and 2018 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant Village of Florida, Inc. as of January 31, 2019 and 2018 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Village of Florida, Inc.

Emphasis of Matter

As described in Note 2 to the financial statements, Covenant Village of Florida, Inc. adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, as of February 1, 2018 and ASC Topic 958: *Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended January 31, 2019. Our opinion is not modified with respect to these matters.

Plante & Moran, PLLC

May 24, 2019

Statement of Financial Position

January 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,168,403	\$ 366,086
Restricted cash (Note 5)	22,754	765,638
Assets whose use is limited, including beneficial interest in investment pool: (Notes 3, 6 and 7)		
Board designated	2,827,281	2,270,914
Restricted under debt agreements	88,954	856,306
Accounts receivable - Net	959,811	2,360,457
Prepaid and other assets	40,449	41,776
Total current assets	5,107,652	6,661,177
Property and Equipment		
Land and improvements	2,708,722	2,717,170
Buildings and improvements	55,066,726	54,958,149
Furniture and equipment	16,331,145	14,995,172
Construction in progress (Note 9)	1,738,603	522,416
Total property and equipment - At cost	75,845,196	73,192,907
Less accumulated depreciation	42,560,142	39,485,413
Net property and equipment	33,285,054	33,707,494
Other Assets	-	825
Interest in Irrevocable Trusts (Note 12)	438,995	498,018
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool (Notes 3, 6 and 7)		
Board designated	6,966,013	6,939,728
Restricted under state and debt agreements	7,118,372	7,400,458
Total assets whose use is limited, including beneficial interest in investment pool	14,084,385	14,340,186
Total assets	\$ 52,916,086	\$ 55,207,700

Covenant Village of Florida, Inc.

Statement of Financial Position (Continued)

January 31, 2019 and 2018

	2019	2018
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable	\$ 266,200	\$ 382,364
Accrued interest	95,305	124,646
Advance deposits	5,750	19,050
Current maturities of long-term debt (Note 8)	565,851	4,941,827
Deferred revenue subject to refund (Note 2)	8,753,991	7,606,997
Refundable contract liabilities (Note 2)	5,305,874	4,531,708
Other current liabilities	182,171	175,432
Total current liabilities	15,175,142	17,782,024
Long-term Debt - Less current maturities (Note 8)	13,818,043	14,422,534
Other Long-term Liabilities		
Due to Covenant Retirement Communities, Inc. (Note 10)	28,113,782	26,617,000
Deferred revenue from entrance fees (Note 2)	10,958,334	10,409,798
Total other long-term liabilities	39,072,116	37,026,798
Total liabilities	68,065,301	69,231,356
Net Assets (Deficit)		
Net deficit without donor restrictions	(15,463,479)	(14,342,290)
Net assets with donor restrictions	314,264	318,634
Total net assets (deficit)	(15,149,215)	(14,023,656)
Total liabilities and net assets (deficit)	\$ 52,916,086	\$ 55,207,700

Statement of Operations

Years Ended January 31, 2019 and 2018

	2019	2018
Operating Revenue		
Routine resident services	\$ 14,089,296	\$ 13,395,323
Ancillary services	2,502,589	2,471,004
Amortization of deferred entrance fees	2,968,995	2,716,664
Net assets released from restrictions used for operations	51,468	54,581
Other	243,153	189,291
Total operating revenue	19,855,501	18,826,863
Expenses (Note 15)		
Routine nursing services	3,287,986	2,998,698
Ancillary services	1,374,128	1,365,627
Resident benefits	904,033	870,372
Dining services	2,566,444	2,580,658
Laundry	79,288	67,362
Housekeeping	566,199	495,524
Maintenance	1,279,689	1,356,670
Utilities	830,463	893,481
Administration and general	3,555,904	3,753,478
Interest	1,986,001	1,929,999
Property taxes	346,156	325,786
Insurance	410,189	335,623
Marketing and promotion	1,000,613	1,246,365
Depreciation	3,391,160	3,301,212
Amortization	22,344	22,380
Other	57,354	60,732
Total expenses (Note 15)	21,657,951	21,603,967
Operating Loss	(1,802,450)	(2,777,104)
Nonoperating (Expense) Revenue		
Gifts and bequests - Net of related expenses (Note 15)	(134,297)	236,763
Net assets released from restrictions - Distributions from trusts	-	99,264
Unrealized (losses) gains on investments - Net	(24,104)	192,562
Realized gains on investments - Net	134,156	162,569
Interest and dividend income	705,506	618,407
Other nonoperating revenue - Net	-	6,132
Total nonoperating revenue	681,261	1,315,697
Loss	(1,121,189)	(1,461,407)
Increase in Net Deficit without Donor Restrictions	\$ (1,121,189)	\$ (1,461,407)

Covenant Village of Florida, Inc.

Statement of Changes in Total Net Assets (Deficit)

Years Ended January 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Deficit without Donor Restrictions - Loss	\$ (1,121,189)	\$ (1,461,407)
Net Assets (Deficit) with Donor Restrictions		
Contributions	75,221	53,499
Net assets released from restriction for operations	(51,468)	(54,581)
Irrevocable trusts - Change in present value discount	(28,123)	22,021
Net assets released from restrictions - Distributions from trusts	<u>-</u>	<u>(99,264)</u>
Decrease in net assets (deficit) with donor restrictions	<u>(4,370)</u>	<u>(78,325)</u>
Increase in Net Deficit	(1,125,559)	(1,539,732)
Net Assets (Deficit) - Beginning of year	<u>(14,023,656)</u>	<u>(12,483,924)</u>
Net Assets (Deficit) - End of year	<u>\$ (15,149,215)</u>	<u>\$ (14,023,656)</u>

Covenant Village of Florida, Inc.

Statement of Cash Flows

Years Ended January 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets (deficit)	\$ (1,125,559)	\$ (1,539,732)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Amortization of deferred entrance fees	(2,968,995)	(2,716,664)
Depreciation	3,391,160	3,301,212
Amortization	22,344	22,380
Provision for bad debts	85,394	166,477
Original issue premium accretion - Net of original issue discount amortization and unamortized debt expense	(38,640)	(37,674)
Net realized and unrealized gains on assets whose use is limited	(110,052)	(355,131)
Other changes in irrevocable trusts - Net	46,213	(250,763)
Contributions received	12,810	189,892
Nonrefundable entrance fees collected	4,984,259	4,385,168
Nonrefundable entrance fees refunded	(319,733)	(951,080)
Changes in operating assets and liabilities:		
Accounts receivable	1,315,252	(134,351)
Other assets	(20,192)	(5,638)
Accounts payable	(116,165)	301,615
Accrued salaries and wages	-	(597,451)
Accrued interest	(29,341)	1,998
Other liabilities	(6,561)	(234,771)
Net cash provided by operating activities	5,122,194	1,545,487
Cash Flows from Investing Activities		
Property and equipment expenditures	(2,968,720)	(3,145,209)
Net change in assets whose use is limited, including beneficial interest in investment pool and restricted cash	1,319,722	(1,761,182)
Net cash used in investing activities	(1,648,998)	(4,906,391)
Cash Flows from Financing Activities		
Payment of debt	(4,941,827)	(508,292)
Net advances from Covenant Retirement Communities, Inc.	1,496,782	3,162,880
Refundable entrance fees collected	1,283,031	1,187,761
Refundable entrance fees refunded	(508,865)	(344,412)
Net cash (used in) provided by financing activities	(2,670,879)	3,497,937
Net Increase in Cash and Cash Equivalents	802,317	137,033
Cash and Cash Equivalents - Beginning of year	366,086	229,053
Cash and Cash Equivalents - End of year	\$ 1,168,403	\$ 366,086
Supplemental Disclosure of Operating, Investing, and Financing Activities - Interest paid (including intercompany interest paid of \$1,198,011 and \$1,064,518 in 2019 and 2018, respectively)	\$ 2,075,498	\$ 1,965,675

January 31, 2019 and 2018

Note 1 - Mission Statement

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statements

Covenant Village of Florida, Inc. (the "Retirement Community") operates a retirement, assisted living, and skilled care facility for the aged and is owned by Covenant Retirement Communities, Inc. (CRC), 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 CRC support the Retirement Community's operations.

The property, plant, and equipment required for residential care operations are generally financed by residents' entrance fees and contributions and supplemented, where required, by long-term debt or funds from CRC. Except for donor-restricted contributions, the CRC 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.

The Retirement Community recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements. The Retirement Community does not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before financial statements are issued; however, such events may be required to be recognized as a disclosure. For these purposes, the Retirement Community has evaluated events occurring subsequent to the statement of financial position date through May 24, 2019, which is the date the financial statements were issued. The Retirement Community has not evaluated events occurring after May 24, 2019 in these financial statements.

Financial Support from Parent Organization

The Retirement Community's parent organization is CRC, which is committed to the Retirement Community's operations in Florida. Although the Retirement Community has a deficit in net assets as of January 31, 2019, CRC will support the Retirement Community through additional funding, as necessary, to ensure that the Retirement Community is able to pay its debts as they come due and to continue as a going concern. Such deficit in net assets does not place the Retirement Community in violation of any state or federal laws or regulations, nor is the Retirement Community in any violation of any of its contractual agreements.

January 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Industry

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations of regulations by healthcare providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Retirement Community is in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 35 percent and 33 percent of the Retirement Community's combined routine resident and ancillary services revenue for the years ended January 31, 2019 and 2018, 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 consist principally of bank money market demand deposits with maturities at date of purchase of three months or less.

Assets Whose Use is Limited, Including Interest in Investment Pool

Assets whose use is limited are classified as trading and are recorded at fair value. See Note 3 for more information regarding the methods used to estimate fair value. See Note 6 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 institutions. While these funds are held and invested by CMB, the Retirement Community retains the benefits of ownership of its proportional interest in the Combined Investment Fund. This ownership interest in the Combined Investment Fund is reported as assets whose use is limited - board designated, which is an interest in investment pool, in the accompanying financial statements.

The Retirement 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 Retirement 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 Retirement 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 Retirement 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 \$99,876 and \$53,016 at January 31, 2019 and 2018, respectively.

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 \$94,642 and \$31,567 at January 31, 2019 and 2018, respectively.

The Retirement 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 for the year ended January 31, 2019 was 30 percent from private payors, 49 percent from Medicare, and 21 percent from Medicaid. The mix of receivables from residents and third-party payors for the year ended January 31, 2018 was 31 percent from private payors, 55 percent from Medicare, and 14 percent from Medicaid.

Benevolent Care Fund

Covenant Retirement Communities, Inc. 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 6).

Unamortized Debt Expense

Underwriting fees and expenses related to the procurement of debt are deferred and amortized on the bonds outstanding method. These costs are recorded as a reduction in the recorded balance of the outstanding long-term debt. Unamortized debt expense is shown net of accumulated amortization of \$85,305 and \$63,789 at January 31, 2019 and 2018, respectively (see Note 8).

Property and Equipment

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

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

Certain apartment refurbishing costs are expensed as incurred, whereas significant renewals and betterments are capitalized. Maintenance expense includes refurbishing costs of \$9,090 and \$95,024 in 2019 and 2018, respectively.

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 Retirement Community did not capitalize interest costs in 2019 and 2018, as the costs were not significant.

Note 2 - Summary of Significant Accounting Policies (Continued)

During the years ended January 31, 2019 and 2018, the Retirement Community recorded the retirement of certain fully depreciated property and equipment having an original cost of approximately \$316,000 and \$3,000, 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

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

Routine Resident and Ancillary Service Revenue

Service revenue consists of monthly rental and routine board and care service income as earned under resident contracts. Resident care service revenue is reported at the amount that reflects the consideration to which the Retirement Community expects to be entitled in exchange for services provided. The majority of the Retirement Community's healthcare services represents a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered. The Retirement 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 Retirement 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 Retirement Community determines the transaction price based on contractually agreed-upon amounts or rates.

Entrance Fees

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

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

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

The nonrefundable portion of the entrance fee represents a right to the resident to access to future services. This right is deemed to be the Retirement Community's performance obligation. Nonrefundable entrance fees totaling \$10,958,334 and \$10,409,798 at January 31, 2019 and 2018, respectively, are recorded as deferred revenue and are amortized into income over the actuarial life of each resident.

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves the Retirement Community within the first 50 or 60 months of residency. Included in current liabilities at January 31, 2019 and 2018 are \$8,753,991 and \$7,606,997, respectively, of deferred entrance fees subject to the above refund provisions.

Note 2 - Summary of Significant Accounting Policies (Continued)

The Retirement Community also offers contracts that include a 50, 75, and 90 percent refund of the entrance fee. The refundable portion of the one-time entrance fee is treated as a current liability, with the remainder recorded as noncurrent deferred revenue. The Retirement 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 \$5,305,874 and \$4,531,708 at January 31, 2019 and 2018, respectively, for refundable entrance fees.

Entrance fee refunds under all programs were \$828,598 and \$1,295,492 in 2019 and 2018, respectively. Although the refundable contract liabilities and a portion of deferred revenue are classified as current liabilities, the likelihood of actual payment of these liabilities in full within one year is remote, based on the Retirement Community's experience.

Under Accounting Standards Codification (ASC) 606, the Retirement Community does, in certain instances, enter into payment arrangement with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Obligation to Provide Future Services

Annually, the Retirement 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 January 31, 2019 and 2018.

Charity Care

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

Classification of Net Assets

Net assets of the Retirement 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 Retirement Community's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements and donor-imposed restrictions that limit the use of net assets in perpetuity result in net assets with donor restrictions. Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law. Total net assets with donor restrictions at January 31, 2019 and 2018 of \$314,264 and \$318,634, 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 Retirement 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 (deficit) without donor restrictions, which are excluded from loss, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods (net asset transfer to support benevolent care) and services and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purpose of acquiring such assets).

January 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Tax Status

The Retirement 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.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Retirement Community adopted ASC 606 effective February 1, 2018 using the modified retrospective transition method. There was no cumulative effect on the opening balance of net assets (deficit) as a result of adopting the standard as of February 1, 2018. Results for reporting periods beginning after February 1, 2018 are presented under ASC 606, while comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

As of January 31, 2019, the Retirement Community adopted ASU No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Retirement Community, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended January 31, 2018 has been restated, as follows: management and general expenses have increased \$112,961, program expenses has decreased \$112,961, and fundraising expenses are now disclosed for \$84,953 from the amounts previously reported, as disclosed in Note 15. Additionally, net assets of \$318,634 previously reported as temporarily restricted net assets are now net assets with donor restrictions.

Note 3 - Fair Value Measurements

In determining fair value, the Retirement 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 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 developed based on market data obtained from sources independent of the Retirement Community. Unobservable inputs are inputs that reflect the Retirement Community's assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available under the circumstances.

Note 3 - Fair Value Measurements (Continued)

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

Level 1 - Valuations are based on quoted prices in active markets for identical assets that the Retirement 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 whereby the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Retirement Community assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

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

Fair Value of Financial Instruments Carried at Fair Value

The following are categories of assets measured at fair value on a recurring basis during the years ended January 31, 2019 and 2018 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 Retirement 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 both 2019 and 2018. There were total deposits and allocated pooled earnings of approximately \$583,000 in 2019. There were total withdrawals and allocated pooled earnings of approximately \$1,548,000 in 2018.

Assets Measured at Fair Value on a Recurring Basis at
January 31, 2019

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at January 31, 2019
Assets				
Beneficial interest in investment pool - Board designated	\$ -	\$ -	\$ 9,793,294	\$ 9,793,294
Restricted under state and debt agreements:				
Cash and money market securities	173,546	-	-	173,546
Fixed-income securities	-	7,033,780	-	7,033,780
Total assets	\$ 173,546	\$ 7,033,780	\$ 9,793,294	\$ 17,000,620
Interest in irrevocable trusts	\$ -	\$ -	\$ 438,995	\$ 438,995

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at January 31, 2018				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at January 31, 2018
Assets				
Beneficial interest in investment pool - Board designated	\$ -	\$ -	\$ 9,210,642	\$ 9,210,642
Restricted under state and debt agreements:				
Cash and money market securities	1,761,812	-	-	1,761,812
Fixed-income securities	-	6,494,952	-	6,494,952
Total assets	<u>\$ 1,761,812</u>	<u>\$ 6,494,952</u>	<u>\$ 9,210,642</u>	<u>\$ 17,467,406</u>
Interest in irrevocable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 498,018</u>	<u>\$ 498,018</u>

See Note 6 for details regarding the composition of assets whose use is limited, including interest in investment pool.

A reconciliation of the beginning and ending balances for the other assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended January 31, 2019 and 2018 is as follows:

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - February 1, 2018	\$ 498,018
Net deposits and withdrawals	29,961
Unrealized losses	<u>(88,984)</u>
Ending balance - January 31, 2019	<u>\$ 438,995</u>
	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)- Interest in Irrevocable Trusts
Beginning balance - February 1, 2017	\$ 437,147
Net deposits and withdrawals	121,354
Unrealized losses	<u>(60,483)</u>
Ending balance - January 31, 2018	<u>\$ 498,018</u>

Note 4 - Charity Care and Other Unreimbursed Care

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

Records are maintained to identify and monitor the level of charity care provided. Unreimbursed costs foregone for charity care were \$228,478 and \$343,146 in 2019 and 2018, respectively. Charitable gifts received to offset costs were \$64,286 and \$249,957 in 2019 and 2018, respectively. The Retirement Community uses a cost per resident day amount to determine unreimbursed costs.

In addition to charity care, the Retirement Community provides care to residents under governmental programs that reimburse the Retirement Community at rates less than its cost. The Retirement Community provided partially reimbursed care in 2019 and 2018 as follows:

	2019	2018
Estimated cost of Medicaid services provided	\$ 3,316,621	\$ 2,937,517
Less government reimbursement	(2,273,478)	(1,951,655)
Unreimbursed care - Based on estimated cost	\$ 1,043,143	\$ 985,862

Note 5 - Restricted Cash

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

Note 6 - 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 use subsequently 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.

The Retirement Community invests a significant portion of its total investments in a Combined Investment Fund, which aggregates the investments of all the Board of Benevolence institutions in order to maximize return on investment and promote portfolio diversity. Investment income, realized and unrealized gains (losses), and expenses are allocated to the Retirement Community based upon the number of units owned as compared to the total number of units in the Combined Investment Fund. Certain funds invested in the Combined Investment Fund have minimum returns guaranteed by Covenant Retirement Communities, Inc. that are fixed annually. Such returns totaled \$280,499 and \$270,469 in the years ended January 31, 2019 and 2018, respectively.

January 31, 2019 and 2018

**Note 6 - Assets Whose Use is Limited, Including Interest in Investment Pool
(Continued)**

Assets whose use is limited, including interest in investment pool, at January 31, 2019 and 2018 consisted of the following:

	2019	2018
Beneficial interest in investment pool - Board designated:		
Benevolent care fund	\$ 6,622,013	\$ 6,609,194
Property replacement fund	226,331	217,471
Reserve for refundable contracts	2,827,281	2,270,914
Other	117,669	113,063
Total beneficial interest in investment pool	9,793,294	9,210,642
Restricted under state and debt agreements:		
Bond interest and sinking fund	88,954	856,306
Debt service reserve fund	1,255,371	1,657,983
State-required reserves	5,863,001	5,742,475
Total restricted under state and debt agreements	7,207,326	8,256,764
Total	\$ 17,000,620	\$ 17,467,406
Equity securities - Board designated	\$ 2,451,164	\$ 2,645,082
Fixed-income securities:		
Board designated	3,222,878	2,745,117
Restricted under state and debt agreements	7,033,780	6,494,952
Total fixed-income securities	10,256,658	9,240,069
Alternative investments - Board designated:		
Domestic equity	1,099,126	1,051,348
International equity	1,546,444	1,470,970
Hedge funds	1,053,197	696,367
Private equity	336,104	312,492
Puts and calls	37,380	78,247
High-yield bonds	-	186,806
Mortgages	47,001	18,283
Total alternative investments	4,119,252	3,814,513
Cash and short-term investments:		
Board designated	-	5,930
Restricted under state and debt agreements	173,546	1,761,812
Total	\$ 17,000,620	\$ 17,467,406

Note 7 - Continuing Care Requirements

At January 31, 2019, the Retirement Community is required by state regulations to maintain an escrow account for one year of debt service, an operating reserve, and replacement reserve, as defined by the Florida statutes. Management believes the Retirement Community was in compliance with the state regulations at January 31, 2019.

Note 8 - Long-term Debt

Long-term debt under Master Indenture bonds at January 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Colorado Health Facilities Authority revenue refunding bonds, Series 2015A, due in 2031, interest at 1.00 percent - 5.00 percent	\$ 10,623,000	\$ 15,038,000
Colorado Health Facilities Authority revenue refunding bonds, Series 2015B, due in 2025, interest at 5.00 percent	<u>2,457,544</u>	<u>2,984,371</u>
Total long-term debt	13,080,544	18,022,371
Less current maturities	(565,851)	(4,941,827)
Less unamortized debt expense	(296,444)	(317,960)
Plus unamortized original issue discount - Net of unamortized original issue premium	<u>1,599,794</u>	<u>1,659,950</u>
Total long-term debt - Less current maturities	<u>\$ 13,818,043</u>	<u>\$ 14,422,534</u>

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

The Master Indenture obligations, totaling \$439,875,000 and \$352,975,000 at January 31, 2019 and 2018, respectively, with maturities extending through 2036, are secured by mortgages on substantially all real estate, personal property (equipment and fixtures), and accounts receivable of the obligated group. Members of the obligated group make monthly interest and principal deposits into bond interest and sinking funds controlled by the bond trustees. The Master Indenture and related agreements require the maintenance of debt service coverage ratios, as defined, require the maintenance of debt service reserve funds, and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the obligated group was in compliance with these requirements at January 31, 2019.

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

The weighted-average interest rate on all outstanding borrowings was approximately 4.57 percent at January 31, 2019.

Note 8 - Long-term Debt (Continued)

Maturities of long-term debt, excluding original issue premium and discount and unamortized debt expense, for years subsequent to January 31, 2019 are as follows:

Years Ending January 31	Amount
2020	\$ 565,851
2021	563,899
2022	602,923
2023	230,243
2024 and thereafter	<u>11,117,628</u>
Total	<u>\$ 13,080,544</u>

The tax-exempt bond indentures for the Retirement 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 January 31, 2019 and 2018 are as follows:

	2019	2018
Trustee-held funds - Noncurrent - Debt service reserve fund	\$ 1,255,371	\$ 1,657,983

Note 9 - Construction in Progress

The construction in progress balance of \$1,738,603 at January 31, 2019 relates to ongoing projects at the campus that will be paid for from operations and reserves. Sufficient funds to complete all projects are available from board-designated reserves.

Note 10 - Related Party Transactions

Included in administrative and general expense are management fees charged by the central office of Covenant Retirement Communities, Inc. These fees aggregated \$971,481 in 2019 and \$906,420 in 2018.

Notes and advances from Covenant Retirement Communities, Inc. bear interest at 3 percent and generally have no fixed repayment terms. These advances are classified as long term, as the Retirement Community has the intent and ability to postpone repayment of the balance for at least one year. Amounts due to Covenant Retirement Communities, Inc. were \$28,113,782 and \$26,617,000 at January 31, 2019 and 2018, respectively.

Net interest charges from Covenant Retirement Communities, Inc. were \$837,162 and \$724,785 in 2019 and 2018, respectively.

Certain costs, which relate to trust contributions, are incurred by Covenant Retirement Communities, Inc. in connection with the Covenant Estate Planning Services of The Evangelical Covenant Church, which assists residents and nonresidents in managing assets, establishing trusts, and other related activities. Such costs are allocated to the Retirement Community by Covenant Retirement Communities, Inc. Amounts paid to Covenant Estate Planning Services were \$4,273 and \$65,762 in 2019 and 2018, respectively.

Each facility within Covenant Retirement Communities, Inc. is assessed a percentage of reoccupancy entrance fees to support the national marketing expenses of Covenant Retirement Communities, Inc. The Retirement Community's marketing assessment totaled \$117,542 in 2019 and \$113,880 in 2018.

Note 11 - 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 Retirement 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 Retirement Community recorded expense of \$103,992 and \$93,836 for the match in 2019 and 2018, respectively.

Pension expense, representing the Retirement Community’s required contribution to the Plan, was \$88,777 and \$88,771 in 2019 and 2018, respectively. The contributions made by the Retirement Community represented less than 5 percent of the total contributions made to the Plan in 2018 and 2017. To the extent the Plan is underfunded, future contributions to the Plan may increase.

The Evangelical Covenant Church Retirement Plan is not an ERISA plan and is not required to file Form 5500. The Plan’s fiscal year is from January 1 to December 31.

Contributions from all employers to the Plan for December 31, 2018 and 2017 are as follows:

Name of Plan	FEIN	Total Contributions to the Plan for the Year Ended December 31	
		2018	2017
The Evangelical Covenant Church Retirement Plan	36-2167730	\$ 1,776,430	\$ 10,816,706

As of December 31, 2017, net assets of the Plan were \$361,301,680, and the actuarial present value of accumulated plan benefits was \$373,458,170. The information is not yet available for the year ended December 31, 2018.

The fair value of plan assets as of December 31, 2018 and 2017 was \$267,063,238 and \$361,859,386, respectively.

Note 12 - Beneficial Interest of Gift Instruments

A source of funds to the Retirement Community is in the form of bequests from The Evangelical Covenant Church members, residents of the Retirement 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 Retirement 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 Retirement Community has recorded its interest in irrevocable trusts as of 2019 and 2018 at fair value.

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

Amounts related to irrevocable trusts for which the Retirement Community is named beneficiary, but which allow the beneficiary to be changed to a different Evangelical Covenant Church-related entity 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.

January 31, 2019 and 2018

Note 13 - Employee Medical Benefit Plan

The Retirement Community participates in a medical benefit plan, which is sponsored by CRC and available to full-time and eligible part-time employees and their dependents. The medical benefit expense is based on actual medical, dental, and prescription claims paid, administration fees, and the provision for unpaid and unreported claims at year end. The medical benefit expense was \$671,638 and \$610,491 for the years ended January 31, 2019 and 2018, respectively.

Note 14 - Revenue Recognition

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

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

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

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

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

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

The Retirement 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 represent bad debt expense.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Retirement 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 Retirement 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 Retirement 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 Retirement Community does, in certain instances, enter into payment arrangements with residents for entrance fees that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

January 31, 2019 and 2018

Note 14 - Revenue Recognition (Continued)

The composition of routine resident and ancillary services by primary payor and level of care for the years ended January 31, 2019 and 2018 is as follows:

	2019	2018
Payors:		
Private	\$ 10,724,941	\$ 10,585,459
Medicare	3,593,466	3,329,213
Medicaid	2,273,478	1,951,655
Total	<u>\$ 16,591,885</u>	<u>\$ 15,866,327</u>
Level of care:		
Residential living	\$ 7,002,395	\$ 6,702,609
Assisted living	2,489,912	2,316,522
Skilled nursing	7,099,578	6,847,196
Total	<u>\$ 16,591,885</u>	<u>\$ 15,866,327</u>

Note 15 - Functional Expenses

The Retirement Community provides various services to its residents. Expenses related to providing these services are as follows as of January 31:

	2019	2018
Program services:		
Salaries and benefits	\$ 7,069,667	\$ 7,019,784
Purchased services	2,470,707	2,296,057
Equipment and supplies	1,796,805	1,816,393
Depreciation and amortization	3,090,585	3,009,180
Interest	1,798,125	1,747,422
Insurance	371,385	303,874
Other	1,381,326	1,448,039
Total program services	17,978,600	17,640,749
Support services:		
Salaries and benefits	605,739	621,804
Purchased services	1,353,194	1,739,512
Equipment and supplies	99,571	86,167
Depreciation and amortization	322,918	314,412
Interest	187,876	182,578
Insurance	38,804	31,750
Other	1,066,219	986,995
Total support services	3,674,321	3,963,218
Fundraising		
Salaries and benefits	44,084	845
Supplies	989	-
Other	103,819	84,108
Fundraising	148,892	84,953
Total	<u>\$ 21,801,813</u>	<u>\$ 21,688,920</u>

Notes to Financial Statements

January 31, 2019 and 2018

Note 15 - Functional Expenses (Continued)

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

Note 16 - Liquidity

The Retirement Community's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,168,403	\$ 366,086
Accounts receivable - Net	<u>959,811</u>	<u>2,360,457</u>
Total	<u>\$ 2,128,214</u>	<u>\$ 2,726,543</u>

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

The Retirement Community operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures over the next 12 months. To help manage unanticipated liquidity needs, the Retirement Community also has certain board-designated assets limited as to use, which, as noted in Note 6, 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.