Covenant Living of the Great Lakes

Financial Report

September 30, 2024

Contents

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Independent Auditor's Report

To the Covenant Living Board
Covenant Living of the Great Lakes

Opinion

We have audited the financial statements of Covenant Living of the Great Lakes (an affiliate of The Evangelical Covenant Church and Covenant Living Communities and Services (see Note 2), the "Community"), which comprise the statement of financial position as of September 30, 2024 and 2023 and the related statements of operations, changes in total deficiency in net assets, 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 the Great Lakes as of September 30, 2024 and 2023 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 Covenant Living of the Great Lakes' 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 Covenant Living of the Great Lakes' ability to continue as a going concern for a reasonable period of time.

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

Plante & Moran, PLLC

January 16, 2025

Statement of Financial Position

September 30, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	$ 6,193	$ 34,244
Restricted cash	564,914	162,582
Assets whose use is limited, including interest in investment pool: (Notes 3 and 5)		
Board designated	6,365,225	6,401,655
Restricted under debt agreements	1,106,629	1,094,666
Accounts receivable - Net	773,362	1,324,246
Prepaid expenses and other assets	120,649	97,742
Total current assets	8,936,972	9,115,135
Property and Equipment		
Land and improvements	1,811,093	1,772,281
Buildings and improvements	53,450,237	51,514,259
Furniture and equipment	13,857,463	13,074,783
Construction in progress (Note 7)	1,113,170	1,942,296
Total property and equipment - At cost	70,231,963	68,303,619
Less accumulated depreciation	32,653,952	30,579,935
Net property and equipment	37,578,011	37,723,684
Other Assets	200,000	200,000
Interest in Irrevocable Trusts (Note 11)	61,530	29,775
Assets Whose Use is Limited, Including Interest in Investment Pool (Notes 3 and 5)		
Board designated	1,251,674	1,170,472
Restricted under debt agreements	1,374,318	1,315,407
Total assets whose use is limited, including interest in investment pool	2,625,992	2,485,879
Total assets	**$ 49,402,505**	**$ 49,554,473**

Statement of Financial Position (Continued)

September 30, 2024 and 2023

	2024	2023
Liabilities and Deficiency in Net Assets		
Current Liabilities		
Accounts payable	$ 131,677	$ 125,559
Accrued interest	494,077	509,665
Advance deposits	455,550	22,250
Current maturities of long-term debt (Note 6)	1,570,365	1,515,502
Deferred revenue subject to refund (Note 2)	10,810,973	10,264,618
Refundable contract liabilities (Note 2)	8,679,845	9,054,820
Other current liabilities	93,133	89,520
Total current liabilities	22,235,620	21,581,934
Long-term Debt - Less current maturities (Note 6)	35,405,925	37,003,657
Other Long-term Liabilities		
Due to Covenant Living Communities and Services (Note 8)	26,909,816	24,679,866
Deferred revenue from entrance fees (Note 2)	11,421,789	11,237,742
Total other long-term liabilities	38,331,605	35,917,608
Total liabilities	95,973,150	94,503,199
Deficiency in Net Assets		
Without donor restrictions	(47,338,071)	(45,493,641)
With donor restrictions	767,426	544,915
Total deficiency in net assets	(46,570,645)	(44,948,726)
Total liabilities and deficiency in net assets	**$ 49,402,505**	**$ 49,554,473**

Statement of Operations

Years Ended September 30, 2024 and 2023

	2024	2023
Operating Revenue		
Routine resident services	$ 13,498,684	$ 12,429,128
Ancillary services	1,476,975	1,654,520
Amortization of deferred entrance fees	3,264,319	2,730,127
Net assets released from restrictions for operations	179,241	45,229
Other	772,170	1,093,453
Total operating revenue	19,191,389	17,952,457
Expenses		
Routine nursing services	3,792,476	4,166,614
Ancillary services	789,575	846,868
Resident benefits	918,837	864,949
Dietary	2,871,639	2,725,525
Laundry	36,242	43,112
Housekeeping	434,880	417,358
Maintenance	805,033	826,605
Utilities	707,168	682,553
Administrative and general	3,805,964	3,671,423
Interest (Notes 6 and 8)	2,641,182	2,712,863
Property taxes	433,393	405,976
Insurance	558,745	511,858
Marketing and promotion	1,093,116	959,994
Depreciation	3,176,627	2,980,665
Amortization	19,051	19,043
Other	121,280	95,923
Total expenses (Note 13)	22,205,208	21,931,329
Operating Loss	(3,013,819)	(3,978,872)
Nonoperating (Expense) Revenue		
Gifts and bequests - Net of related expenses (Note 13)	(74,249)	(58,393)
Realized gains on investments - Net	92,427	134,851
Interest and dividend income	258,767	389,088
Unrealized gains on investments - Net	893,226	485,937
Other nonoperating (expense) revenue - Net (Note 6)	(782)	179,720
Total nonoperating revenue	1,169,389	1,131,203
Increase in Deficiency in Net Assets without Donor Restrictions - Loss	**$ (1,844,430)**	**$ (2,847,669)**

See notes to financial statements.

Statement of Changes in Total Deficiency in Net Assets

Years Ended September 30, 2024 and 2023

	2024	2023
Increase in Deficiency in Net Assets without Donor Restrictions	$ (1,844,430)	$ (2,847,669)
Net Assets with Donor Restrictions		
Contributions	400,412	148,584
Net assets released from restrictions for operations	(179,241)	(45,229)
Irrevocable trusts - Change in present value discount	1,340	2,668
Increase in net assets with donor restrictions	222,511	106,023
Increase in Deficiency in Net Assets	(1,621,919)	(2,741,646)
Deficiency in Net Assets - Beginning of year	(44,948,726)	(42,207,080)
Deficiency in Net Assets - End of year	**$ (46,570,645)**	**$ (44,948,726)**

Statement of Cash Flows

Years Ended September 30, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Change in deficiency in net assets	$ (1,621,919)	$ (2,741,646)
Adjustments to reconcile change in deficiency in net assets to net cash and cash equivalents from operating activities:		
Amortization of deferred entrance fees	(3,264,319)	(2,730,127)
Depreciation	3,176,627	2,980,665
Amortization	19,051	19,043
Loss on disposal of property and equipment	66	190
Credit loss expense	367,948	167,592
Original issue premium accretion	(47,344)	(48,272)
Net realized and unrealized gains on assets whose use is limited	(985,653)	(620,788)
Other changes in irrevocable trusts - Net	(2,074)	(19,337)
Net deposits to irrevocable trusts	(29,681)	(356)
Nonrefundable entrance fees collected	3,943,096	4,464,933
Nonrefundable entrance fees refunded	(349,280)	(348,182)
Changes in operating assets and liabilities:		
Accounts receivable	182,936	(798,854)
Other assets	(22,907)	15,763
Accounts payable	6,118	6,705
Accrued interest	(15,588)	(2,946)
Other liabilities	435,486	(36,880)
Net cash and cash equivalents provided by operating activities	1,792,563	307,503
Cash Flows from Investing Activities		
Property and equipment expenditures	(3,031,020)	(4,177,510)
Net change in assets whose use is limited, including interest in investment pool	870,007	288,279
Net cash and cash equivalents used in investing activities	(2,161,013)	(3,889,231)
Cash Flows from Financing Activities		
Payment of debt	(1,514,576)	(1,477,304)
Net advances from Covenant Living Communities and Services	2,229,950	4,917,361
Refundable entrance fees collected	435,600	168,700
Refundable entrance fees refunded	(810,575)	-
Net cash and cash equivalents provided by financing activities	340,399	3,608,757
Net (Decrease) Increase in Cash and Cash Equivalents	(28,051)	27,029
Cash and Cash Equivalents - Beginning of year	34,244	7,215
Cash and Cash Equivalents - End of year	**$ 6,193**	**$ 34,244**
Supplemental Disclosure of Operating, Investing, and Financing Activities - Interest paid (including intercompany interest paid of $1,005,246 and $1,008,430 for the years ended September 30, 2024 and 2023, respectively)	$ 2,704,114	$ 2,764,081

See notes to financial statements.

Note 1 - Mission Statement

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statements

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

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

Basis of Presentation

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

The Community recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Community does not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were issued; however, such events may be required to be recognized as disclosures. For these purposes, the Community has evaluated events occurring subsequent to the statement of financial position date through January 16, 2025, which is the date the financial statements were available to be issued. The Community has not evaluated events occurring after January 16, 2025 in these financial statements.

Financial Support from Parent Organization

The Community's parent organization is CLCS, which is committed to the Community's operations in Michigan. Although the Community has a deficiency in net assets as of September 30, 2024, 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 24 percent and 22 percent of the Community’s combined routine resident and ancillary services revenue for the years ended September 30, 2024 and 2023, respectively.

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

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 credit losses is established on an aggregate basis by using historical and future-looking rate factors, which are based on historical loss experience, and adjusted for economic conditions, forecasted losses, and other trends affecting the Community's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. The allowance for credit losses totaled $359,572 and $100,597 at September 30, 2024 and 2023, respectively. The opening balance of accounts receivable - net as of October 1, 2022 was $692,984.

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 $69,705 and $66,473 at September 30, 2024 and 2023, 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, 2024 was 33 percent from private payors, 53 percent from Medicare, and 14 percent from Medicaid. As of September 30, 2023, the mix of receivables from residents and third-party payors was 22 percent from private payors, 60 percent from Medicare, and 18 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. In years prior to September 1, 2022, and in conjunction with the issuance of long-term debt (see Note 6), the Community incurred $546,275 of debt expense. Unamortized debt expense is shown net of accumulated amortization of $156,111 and $137,060 at September 30, 2024 and 2023, 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 did not capitalize interest costs in 2024 or 2023.

During the years ended September 30, 2024 and 2023, the Community recorded the retirement of certain fully depreciated property and equipment having an original cost of approximately $1,100,000 and $195,000, respectively, which were physically disposed.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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 nonlease component consists of the stand-ready obligation to provide care, daily meals, and daily health services. 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.

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 $11,421,789 and $11,237,742 at September 30, 2024 and 2023, respectively; are recorded as deferred revenue; and are amortized into income over the actuarial life of each resident. The opening nonrefundable entrance fees balance at October 1, 2022 was $10,556,235.

Note 2 - Summary of Significant Accounting Policies (Continued)

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves the Community within the first 50 or 60 months of residency. Included in current liabilities at September 30, 2024 and 2023 is $10,810,973 and $10,264,618, respectively, of deferred entrance fees subject to the above refund provisions.

The Community also offers contracts that include a zero, 50, 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 $8,679,845 and $9,054,820 at September 30, 2024 and 2023, respectively, for refundable entrance fees.

Entrance fee refunds under all programs were $1,159,855 and $348,182 for the years ended September 30, 2024 and 2023, 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, 2024 or 2023.

Charity Care

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

Contributions

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

Government grants are accounted for as conditional contributions, being nonexchange in nature. These grants are reported within other operating revenue on the statement of operations and are recognized as revenue as certain conditions are met.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

Net assets of the Community are classified as net assets without donor restrictions or net assets with donor restrictions, depending on the presence and characteristics of donor-imposed restrictions limiting the Community's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements and donor-imposed restrictions that limit the use of net assets in perpetuity result in net assets with donor restrictions. Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law. Total net assets with donor restrictions of $767,426 and $544,915 at September 30, 2024 and 2023, respectively, include $61,530 and $29,775, respectively, of irrevocable trusts, which are not available for use until assets are distributed from the trusts, and the remaining is contributions restricted for a particular purposes including resident benevolent care and resident activities.

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 13. 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.

New Accounting Pronouncement

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

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Community has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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, 2024 and 2023 using unadjusted quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

The 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 2024 and 2023. Management’s estimate of the value of their interest in the investment pool held and invested by Covenant Ministries of Benevolence is based on information provided by CMB, which is based on the Community’s allocation of ownership in the pool and the value of the underlying investments included in the pool. There were withdrawals, net of deposits, of approximately $137,060 and $29,775 during 2024 and 2023, respectively. The total allocation of pooled earnings was approximately $1,101,000 and $94,000 for the years ended September 30, 2024 and 2023, respectively.

Note 3 - Fair Value Measurements (Continued)

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

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2024			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2024
Assets				
Interest in investment pool - Board designated	$ -	$ -	$ 7,616,899	$ 7,616,899
Restricted under debt agreements:				
Cash and money market securities	1,234,664	-	-	1,234,664
Fixed-income securities	-	1,246,283	-	1,246,283
Total restricted under debt agreements	1,234,664	1,246,283	-	2,480,947
Interest in irrevocable trusts	-	-	61,530	61,530
Total	$ 1,234,664	$ 1,246,283	$ 7,678,429	$ 10,159,376

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2023
Assets				
Interest in investment pool - Board designated	$ -	$ -	$ 7,572,127	$ 7,572,127
Restricted under debt agreements:				
Short-term investments	1,154,094	-	-	1,154,094
Fixed-income securities	-	1,255,979	-	1,255,979
Total restricted under debt agreements	1,154,094	1,255,979	-	2,410,073
Interest in irrevocable trusts	-	-	29,775	29,775
Total	$ 1,154,094	$ 1,255,979	$ 7,601,902	$ 10,011,975

The fair value of fixed-income securities at September 30 was determined primarily based on Level 2 inputs. The Level 2 inputs used is based on stated interest rates and maturity dates.

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

Note 3 - Fair Value Measurements (Continued)

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

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - October 1, 2023	$ 29,775
Net deposits	29,681
Unrealized gains	2,074
Ending balance - September 30, 2024	$ 61,530

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - October 1, 2022	$ 10,082
Net deposits	356
Unrealized gains	19,337
Balance at September 30, 2023	$ 29,775

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 $112,635 and $46,452 for the years ended September 30, 2024 and 2023, respectively. Charitable gifts received to offset costs were $340,327 and $147,884 for the years ended September 30, 2024 and 2023, 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, 2024 and 2023 as follows:

	2024	2023
Estimated cost of Medicaid services provided	$ 1,960,082	$ 1,562,558
Less government reimbursement	(1,360,897)	(958,766)
Unreimbursed care - Based on estimated cost	$ 599,185	$ 603,792

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

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

	2024	2023
Interest in investment pool - Board designated:		
Benevolent Care Fund	$ 878,367	$ 706,269
Property replacement fund	373,307	464,203
Reserve for refundable contracts	6,365,225	6,401,655
Total interest in investment pool	7,616,899	7,572,127
Restricted under debt agreements:		
Bond interest and sinking fund	1,106,629	1,094,666
Debt service reserve fund	1,374,318	1,315,407
Total restricted under debt agreements	2,480,947	2,410,073
Total	$ 10,097,846	$ 9,982,200

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

	2024	2023
Equity securities - Board designated	$ 1,383,387	$ 1,161,897
Fixed-income securities:		
Board designated	2,335,512	2,722,497
Restricted under debt agreements	1,246,283	1,255,979
Total fixed-income securities	3,581,795	3,978,476
Alternative investments - Board designated:		
Domestic equity	1,798,679	1,495,513
International equity	1,184,577	1,185,699
Hedge funds	681,491	731,810
Private equity	142,266	183,614
Puts and calls	49,612	46,856
Mortgages	41,374	44,241
Total alternative investments	3,897,999	3,687,733
Short-term investments - Restricted under debt agreements	1,234,665	1,154,094
Total	$ 10,097,846	$ 9,982,200

Note 6 - Long-term Debt

Long-term debt under Master Trust Indenture bonds at September 30, 2024 and 2023 consisted of the following:

	2024	2023
Colorado Health Facilities Authority revenue refunding bonds, Series 2015A due in 2036, interest at 1.00 percent - 5.00 percent	$ 8,421,513	$ 8,880,533
Illinois Finance Authority revenue refunding direct placement bonds, Series 2017, due in 2029, interest adjusted weekly, 5.12 percent and 5.19 percent at September 30, 2024 and 2023, respectively	4,058,105	4,860,852
Colorado Health Facilities Authority revenue bonds, Series 2020B, due in 2040, interest at 2.80 percent - 4.48 percent	24,368,043	24,620,852
Total long-term debt	36,847,661	38,362,237
Less current maturities	(1,570,365)	(1,515,502)
Less unamortized debt issuance costs - Net of accumulated amortization	(390,164)	(409,215)
Plus unamortized original issue premium	518,793	566,137
Total long-term debt - Less current maturities	$ 35,405,925	$ 37,003,657

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

The Master Trust Indenture obligations, totaling $574,170,000 and $534,880,000 at September 30, 2024 and 2023, 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, 2024 and 2023.

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 4.5 percent at September 30, 2024 and 2023.

Note 6 - Long-term Debt (Continued)

Maturities of long-term debt, excluding original issue premium and discount and unamortized debt expense, for years subsequent to September 30, 2024 are as follows:

Years Ending September 30	Amount
2025	$ 1,570,365
2026	1,828,550
2027	1,863,822
2028	1,926,953
2029	1,993,565
Thereafter	27,664,406
Total	$ 36,847,661

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 debt agreements in the accompanying financial statements, at September 30, 2024 and 2023 are as follows:

	2024	2023
Trustee-held funds - Noncurrent - Debt service reserve fund	$ 1,374,318	$ 1,315,407

Note 7 - Construction in Progress

The construction in progress balance of $1,113,170 and $1,942,296 at September 30, 2024 and 2023, 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 board-designated reserves. The Community has no construction commitments at September 30, 2024.

Note 8 - Related Party Transactions

Included in administrative and general expense are management fees charged by the central office of Covenant Living Communities and Services. These fees aggregated to $1,123,023 and $1,068,329 for the years ended September 30, 2024 and 2023, respectively.

Notes and advances from Covenant Living Communities and Services bear interest at 3.90 and 3.75 percent for the years ended September 30, 2024 and 2023, respectively, 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 $26,909,816 and $24,679,866 at September 30, 2024 and 2023, respectively.

Net interest charges from Covenant Living Communities and Services were $1,005,246 and $846,203 for the years ended September 30, 2024 and 2023, 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 $123,874 and $115,163 for the years ended September 30, 2024 and 2023, respectively.

Note 9 - Pension Plan

Certain full-time employees participate in The Evangelical Covenant Church Retirement Plan (the “Plan”). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning on January 1, 2013, the Community began to match contributions to a defined contribution plan, based on certain eligibility requirements, made by employees, up to 3 percent of each employee’s salary. The Community recorded expense of $18,954 and $40,732 for the match during the years ended September 30, 2024 and 2023, respectively.

Pension expense, representing the Community's required contribution to the Plan, was $38,718 and $9,476 for the years ended September 30, 2024 and 2023, 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, 2024 and 2023. 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.

Contributions from all employers to the Plan for the years ended December 31, 2023 and 2022 are as follows:

Pension Fund	FEIN	Total Contributions to the Plan for the Year Ended December 31, 2023	Total Contributions to the Plan for the Year Ended December 31, 2022
The Evangelical Covenant Church Retirement Plan	36-2167730	$ 510,700	$ 1,459,141

As of December 31, 2023, the fair value of the assets of the Plan was $268,302,373, and the actuarial present value of accumulated plan benefits was $264,871,600. As of December 31, 2022, the fair value of the assets of the Plan was $254,780,818, and the actuarial present value of accumulated plan benefits was $270,178,620.

The information is not yet available for the year ended December 31, 2024.

On December 6, 2024, the Board of Benevolence voted to terminate the Plan, which will require a termination settlement payment that CLCS will pay and expense, without allocation to the Community, during the year ending September 30, 2025.

Note 10 - 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 $589,398 and $629,601 for the years ended September 30, 2024 and 2023, respectively.

Note 11 - 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, 2024 and 2023 at fair value.

Revocable trusts and bequests may be revoked by the donor at any time and, therefore, have not been recorded in the accompanying 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 12 - Revenue Recognition

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

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

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

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.

Note 12 - Revenue Recognition (Continued)

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 credit loss 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.

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

	2024	2023
Payors:		
Private/Contract/Other	$ 11,441,939	$ 11,045,575
Medicare	2,172,823	2,079,307
Medicaid	1,360,897	958,766
Total	$ 14,975,659	$ 14,083,648
Level of care:		
Residential living	$ 5,914,157	$ 5,278,060
Assisted living	4,108,669	4,005,978
Skilled nursing/Memory care	4,952,833	4,799,610
Total	$ 14,975,659	$ 14,083,648

Note 13 - Functional Expenses

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

	2024	2023
Program services:		
Salaries and benefits	$ 7,390,350	$ 6,358,323
Purchased services	1,513,824	2,740,750
Equipment and supplies	1,643,798	1,574,143
Depreciation and amortization	2,968,391	2,800,528
Interest	2,453,331	2,532,728
Insurance	519,005	477,871
Other	2,100,709	1,812,649
Total program services	18,589,408	18,296,992
Support services:		
Salaries and benefits	726,590	634,132
Purchased services	1,364,190	1,628,803
Equipment and supplies	88,688	79,535
Depreciation and amortization	227,287	199,180
Interest	187,851	180,135
Insurance	39,740	33,987
Other	967,351	865,958
Total support services	3,601,697	3,621,730
Fundraising:		
Salaries and benefits	106,993	77,101
Purchased services	14,685	3,050
Equipment and supplies	2,916	403
Other	11,231	8,672
Total fundraising	135,825	89,226
Total	$ 22,326,930	$ 22,007,948

The expenses above include $121,722 and $76,619 of gifts and bequests expenses during the years ended September 30, 2024 and 2023, respectively, which are netted on the accompanying statement of operations within gifts and bequests - net of related expenses.

Note 14 - Liquidity

The Community's financial assets available within one year of September 30 2024 and 2023 for general expenditures are as follows:

	2024	2023
Cash and cash equivalents	$ 6,193	$ 34,244
Accounts receivable - Net	773,362	1,324,246
Total	$ 779,555	$ 1,358,490

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 14 - 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 described in Note 5, have been designated by the board of directors for future capital improvement and may, at its discretion, be made available for general expenditure within the next year.

The Community also realizes there could be unanticipated liquidity needs.