
Covenant Retirement Communities, Inc.

**Consolidated Financial Report
with Additional Consolidating Information
January 31, 2019 and 2018**

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Statements of Financial Position	3-4
Statement of Operations and Changes in Net Assets without Donor Restrictions	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-31
Additional Consolidating Information	32
Independent Auditor's Report on Additional Consolidating Information	33
Statement of Financial Position Information	34-35
Statement of Operations and Changes in Net Assets without Donor Restrictions Information	36-37
Campus Consolidating Statements	38-45
Statement of Financial Position Information - Covenant Retirement Services	46-47
Statement of Operations and Changes in Net Assets without Donor Restrictions Information - Covenant Retirement Services	48-49
Note to Consolidating Statement of Financial Position and Consolidating Statement of Operations and Changes in Net Assets without Donor Restrictions Information as of and for the Year Ended January 31, 2019	50

Independent Auditor's Report

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Retirement Communities, Inc.

We have audited the accompanying consolidated financial statements of Covenant Retirement Communities, Inc. (an affiliate of The Evangelical Covenant Church (see Note 2)), which comprise the consolidated statements of financial position as of January 31, 2019 and 2018 and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant Retirement Communities, 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 Retirement Communities, Inc.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, on February 1, 2018, Covenant Retirement Communities, Inc. adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, and, as of January 31, 2019, the provisions of ASC Topic 958, *Presentation of Financial Statements of Not-for-Profit Entities*, using the retrospective adoption method. Our opinion is not modified with respect to these matters.

Plante & Moran, PLLC

May 24, 2019

Covenant Retirement Communities, Inc.

Consolidated Statements of Financial Position

January 31, 2019 and 2018
(in thousands)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,285	\$ 16,008
Restricted cash (Note 5)	4,359	2,174
Assets whose use is limited, including beneficial interest in investment pool: (Notes 3, 6, 9 and 11)		
Board designated	75,372	65,182
Restricted under debt agreements	10,246	4,969
Accounts receivable - Net	20,005	24,127
Prepaid expenses and other assets	4,646	4,859
Total current assets	137,913	117,319
Property and Equipment - Net (Notes 8, 11 and 13)	542,268	552,226
Other Assets (Notes 7 and 14)	30,680	32,664
Interest in Irrevocable Trusts (Notes 3 and 17)	2,655	4,334
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool (Notes 3, 6, 9 and 11)		
Board designated	195,688	192,979
Restricted under state and debt agreements	142,556	37,849
Endowment	7,900	8,348
Total assets whose use is limited, including beneficial interest in investment pool	346,144	239,176
Total assets	<u>\$ 1,059,660</u>	<u>\$ 945,719</u>

Covenant Retirement Communities, Inc.

Consolidated Statements of Financial Position (Continued)

January 31, 2019 and 2018
(in thousands)

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable - Trade	\$ 13,277	\$ 15,256
Accounts payable - Contractors (Note 13)	45	-
Accrued salaries and wages	7,542	7,191
Accrued interest	3,684	2,582
Advanced deposits	3,566	1,466
Current maturities of long-term debt (Note 11)	13,380	19,730
Deferred revenue subject to refund (Note 2)	99,472	91,823
Refundable contract liabilities (Note 2)	107,262	92,457
Other current liabilities	16,082	13,089
	<u>264,310</u>	<u>243,594</u>
Total current liabilities	264,310	243,594
Long-term Debt - Less current maturities (Note 11)	438,094	339,896
Payable to Covenant Institutions (Notes 11 and 14)	13,050	13,050
Other Liabilities (Notes 2, 11 and 12)	32,733	39,310
Deferred Revenue from Entrance Fees (Note 2)	218,618	210,346
	<u>966,805</u>	<u>846,196</u>
Total liabilities	966,805	846,196
Net Assets		
Net position without donor restrictions	76,370	83,391
Net position with donor restrictions	16,485	16,132
	<u>92,855</u>	<u>99,523</u>
Total net assets	92,855	99,523
	<u>\$ 1,059,660</u>	<u>\$ 945,719</u>
Total liabilities and net assets	\$ 1,059,660	\$ 945,719

Covenant Retirement Communities, Inc.

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

Years Ended January 31, 2019 and 2018

(in thousands)

	2019	2018
Operating Revenue		
Routine resident services	\$ 216,807	\$ 213,238
Ancillary services	45,532	49,881
Amortization of deferred entrance fees	46,083	42,047
Net assets released from restrictions for operations	2,657	2,333
Other	7,034	6,163
	<u>318,113</u>	<u>313,662</u>
Expenses		
Routine nursing services	68,039	67,341
Ancillary services	16,257	18,297
Resident benefits	14,195	14,288
Dietary	37,699	37,501
Laundry	1,833	1,737
Housekeeping	8,057	7,911
Maintenance	17,769	17,642
Utilities	11,815	11,784
Administrative and general	55,751	56,879
Interest (Note 11)	16,607	16,815
Property taxes	3,256	3,148
Insurance	4,877	5,521
Marketing and promotion	11,120	11,606
Depreciation	48,509	46,552
Amortization	664	754
Other	429	398
	<u>316,877</u>	<u>318,174</u>
	318,113	313,662
Operating Income (Loss)	1,236	(4,512)
Nonoperating Revenue (Expense)		
Gifts and bequests - Net of related expenses (Note 19)	128	792
Net assets released from restriction - Distributions from trusts	316	658
Loss on extinguishment of debt (Note 11)	-	(471)
Other nonoperating (expense) revenue - Net	(532)	71
Interest and dividend income	5,472	4,461
Realized gains on fixed-income and equity securities - Net	3,101	4,185
Unrealized (losses) gains on fixed-income and equity securities - Net (Note 2)	(11,147)	9,647
Alternative investment (loss) income - Including net realized (losses) gains	(3,896)	14,120
Unrealized gains on derivative instruments (Note 12)	1,652	3,706
Interest expense on interest rate swaps (Note 12)	(2,441)	(3,246)
Loss on swap termination	-	(45)
	<u>(7,347)</u>	<u>33,878</u>
	(7,347)	33,878
(Loss) Income	(6,111)	29,366
Net Assets Released from Restriction for Capital Purchases	24	588
Net Asset Transfer - Related organization	(238)	-
(Decrease) Increase in Net Assets without Donor Restrictions	<u>\$ (6,325)</u>	<u>\$ 29,954</u>

Covenant Retirement Communities, Inc.

Consolidated Statement of Changes in Net Assets

Years Ended January 31, 2019 and 2018

(in thousands)

	2019	2018
Net Assets without Donor Restrictions		
(Loss) income	\$ (6,111)	\$ 29,366
Net assets released from restriction for capital purchases	24	588
Net asset transfer - Related organization	(238)	-
	<u>(6,325)</u>	<u>-</u>
(Decrease) increase in net assets without donor restrictions	(6,325)	29,954
Net Assets with Donor Restrictions		
Contributions	3,916	5,836
Net assets released from restriction for capital purchases	(24)	(588)
Change in present value discount	(137)	217
Net additions - Present value of new trusts received (Note 17)	40	36
Net assets released from restriction - Distribution from trusts - Net	(337)	(658)
Net assets released from restriction for operations	(2,657)	(2,333)
Net (loss) gain on perpetual trusts	(448)	887
	<u>353</u>	<u>3,397</u>
Increase in net assets with donor restrictions	353	3,397
(Decrease) Increase in Net Assets	(5,972)	33,351
Net Assets - As Restated - Beginning of year	98,827	66,172
Net Assets - End of year	<u><u>\$ 92,855</u></u>	<u><u>\$ 99,523</u></u>

Covenant Retirement Communities, Inc.

Consolidated Statement of Cash Flows

Years Ended January 31, 2019 and 2018

(in thousands)

	2019	2018
Cash Flows from Operating Activities		
Cash received from resident care fees	\$ 269,272	\$ 269,203
Cash received from nonrefundable entrance fees	68,383	54,051
Cash from nonrefundable entrance fees refunded due to early termination	(5,074)	(7,284)
Cash paid to suppliers	(98,816)	(100,795)
Cash paid to employees	(152,663)	(152,791)
Interest paid, including interest on derivatives	(17,943)	(20,133)
Contributions received (excluding endowment and capital contributions)	7,044	7,983
Investment income received	301	323
	<u>70,504</u>	<u>50,557</u>
Net cash provided by operating activities	70,504	50,557
Cash Flows from Investing Activities		
Major capital project expenditures	(2,262)	(1,069)
Routine property and equipment expenditures	(36,246)	(34,230)
Deposit to bond project funds	(98,119)	-
Withdrawal from bond project funds	992	-
Deposit to debt reserve funds	(13,720)	-
Net change in assets whose use is limited, including beneficial interest in pooled investments	(21,001)	(17,798)
Proceeds from sale of real estate	3	14
Net change in other assets	146	(2,982)
	<u>(170,207)</u>	<u>(56,065)</u>
Net cash used in investing activities	(170,207)	(56,065)
Cash Flows from Financing Activities		
Proceeds from borrowings, including original issue premium and discount	113,480	52,070
Early termination of debt	-	(52,070)
Payment of financing costs	(1,642)	-
Termination of interest rate swap	(5,332)	-
Payment of debt	(19,964)	(12,378)
Refundable entrance fees collected	32,206	20,882
Refundable entrance fees refunded	(11,528)	(8,060)
Changes in advances to Covenant institutions	(240)	(106)
	<u>106,980</u>	<u>338</u>
Net cash provided by financing activities	106,980	338
Net Increase (Decrease) in Cash and Cash Equivalents	7,277	(5,170)
Cash and Cash Equivalents - Beginning of year	16,008	21,178
Cash and Cash Equivalents - End of year	\$ 23,285	\$ 16,008
Supplemental Disclosures of Noncash Investing and Financing Activities		
- Capitalized interest	\$ 1,138	\$ -

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 1 - Mission Statement

As a ministry of The Evangelical Covenant Church, Covenant Retirement Communities, 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 Consolidation

Covenant Retirement Communities, Inc., an Illinois not-for-profit corporation, and its consolidated facilities (together, the "Retirement Communities") are responsible for operating retirement, assisted living, and skilled care facilities and home and community-based services. Covenant Retirement Communities, Inc. operates as 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"), and the consolidated facilities operate as wholly owned subsidiaries of Covenant Retirement Communities, Inc.

The consolidated financial statements include the accounts of Covenant Retirement Communities, Inc. and the following entities for which it is the sole corporate member: Covenant Village of Florida, Inc.; Covenant Retirement Communities of the Great Lakes Conference dba Covenant Village of the Great Lakes; Covenant Home, Inc. (CT) dba Covenant Village of Cromwell; Colonial Acres Home, Inc. dba Covenant Village of Golden Valley; Covenant Home (IL) dba Covenant Village of Northbrook; The Holmstad, Inc.; Covenant Health Care Center, Inc. (Batavia); Covenant Home of Chicago; Covenant Village of Colorado, Inc.; Windsor Park; Covenant Retirement Communities West dba The Samarkand; Covenant Village of Turlock; Brandel Manor; Mount Miguel Covenant Village; and Covenant Shores. The consolidated financial statements also include the accounts of Covenant Retirement Services and its wholly owned subsidiaries: Covenant Solutions Business and Development Support LLC (Covenant Solutions); CRC Holdings One, LLC (CRC Holdings One); CRC Holdings Two, LLC (CRC Holdings Two); CovenantCare at Home (CovenantCare at Home); and Covenant Place of Tulsa (Tulsa). Covenant Retirement Communities, Inc. is the sole corporate member of Covenant Retirement Services. All significant interfacility transactions and balances have been eliminated in the consolidated financial statements.

Covenant Retirement Communities, Inc. is the sole shareholder of Covenant International Insurance Company, Ltd. (CIIC). Certain accounts of CIIC directly attributable to the Retirement Communities' insurance-related activities are included in the consolidated financial statements of Covenant Retirement Communities, Inc. (see Note 7).

In October 2015, the Retirement Communities sold their shares of Symbria, Inc. to the Symbria, Inc. Employee Stock Ownership Trust. The Retirement Communities had accounted for the investment in Symbria, Inc. using the equity method. As a result of the sale, the following consideration was received: \$1,581 in cash proceeds, \$3,169 in an interest-bearing note, and 32,051 of unexercised warrant shares. As of January 31, 2019 and 2018, the subordinated note plus accrued interest totaling \$2,951 and \$2,947, respectively, is recorded in other assets in the consolidated statements of financial position. The Retirement Communities have not recorded any amounts related to the warrant shares, as the value is not material at January 31, 2019 and 2018.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 2 - Summary of Significant Accounting Policies (Continued)

On December 15, 2017, the Retirement Communities sold Covenant Place of Lenexa. As a result of the sale, a gain of \$950 was recorded in other nonoperating revenue in the consolidated statement of operations and changes in net assets without donor restrictions for the year ended January 31, 2018.

Basis of Presentation

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

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

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 and regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, 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 Communities are in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 28 percent of the Retirement Communities' routine resident and ancillary services revenue for the years ended January 31, 2019 and 2018.

Use of Estimates

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

Cash and Cash Equivalents

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

Assets Whose Use is Limited, Including Interest in Investment Pool

Assets whose use is limited are 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.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 Communities retain the benefits of ownership of their proportional interest in the Combined Investment Fund. This ownership interest in the Combined Investment Fund is reported as assets whose use is limited - board designated, which is an interest in investment pool in the accompanying consolidated financial statements (see Note 6). The Retirement Communities recognize their interest in the Combined Investment Fund equal to the amounts contributed, less amounts withdrawn, and adjust the balance for their share of the changes in the fair values of the underlying investments in the Combined Investment Fund. Realized gains and losses from sales of investments and unrealized gains and losses on investments are determined using the average cost method. Interest, dividends, realized gains and losses, and unrealized gains and losses are recorded as nonoperating revenue.

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

Accounts Receivable

Accounts receivable from residents, insurance companies, and governmental agencies are based on the amount that reflects the consideration to which the Retirement Communities expect 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 Communities' 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 \$1,580 and \$1,889 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 consolidated statements of financial position.

The Retirement Communities provide services without collateral to their residents, most of whom are local residents and are insured under third-party agreements. The mix of receivables from residents and third-party payors for the year ended January 31, 2019 was 34 percent from private payors, 44 percent from Medicare, and 22 percent from Medicaid. The mix of receivables from residents and third-party payors for the year ended January 31, 2018 was 27 percent from private payors, 47 percent from Medicare, and 26 percent from Medicaid.

Derivative Instruments

All derivative instruments, specifically interest rate swaps, are recorded on the consolidated statements of financial position at their fair value. The Retirement Communities use interest rate swaps to reduce volatility in cash flow arising from its variable rate borrowings. Management has elected not to pursue hedge accounting. Therefore, the change in the fair value of derivative instruments is reflected in nonoperating expense in the accompanying consolidated statement of operations and changes in net assets without donor restrictions (see Note 12).

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 2 - Summary of Significant Accounting Policies (Continued)

Benevolent Care Fund

The Retirement Communities have adopted a policy requiring amounts received from unrestricted wills and bequests through Covenant Estate Planning Services, net of assessments for Covenant Estate Planning Services' operating expenses, to be placed into the Benevolent Care Fund (a component of board-designated assets whose use is limited). The earnings from the Benevolent Care Fund are used to offset charity care costs (see Notes 4 and 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 outstanding long-term debt. Unamortized debt expense is shown net of accumulated amortization of \$2,398 and \$1,961 at January 31, 2019 and 2018, 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:

	<u>Years</u>
Land improvements	5-20
Buildings and improvements	10-50
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 \$704 and \$877 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. Capitalized interest costs were \$1,138 for the year ended January 31, 2019. There were no capitalized interest costs in 2018.

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. If the analysis indicates that an asset group is not recoverable from the estimated future cash flows from use, the fair value of the asset group is determined. If the carrying amount of the asset group is in excess of the estimated fair value, an impairment is recorded to reduce the carrying amount to fair value.

Advance Deposits

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

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 Communities expect to be entitled in exchange for services provided. The majority of the Retirement Communities' 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 Communities have concluded that each day that a resident receives services represents a separate contract and performance obligation based on the fact that residents have unilateral rights to terminate the contract after each day with no penalty or compensation due. The Retirement Communities also provide certain ancillary services that are not included in the bundle of services and, as such, are treated as separate performance obligations satisfied over time as the services are rendered. The Retirement Communities determine the transaction price based on contractually agreed-upon amounts or rates.

Entrance Fees

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

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

Refundable entrance fees are those entrance fees that are guaranteed to be refunded, regardless of when the contract is terminated. The refundable portion of entrance fees are not included in the transaction price, as the Retirement Communities 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 Communities' performance obligation. Nonrefundable entrance fees totaling \$218,618 and \$210,346 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 a retirement community within the first 50 or 60 months of residency. Included in deferred revenue at January 31, 2019 and 2018 are \$99,472 and \$91,823, respectively, of deferred entrance fees subject to the above refund provisions.

The Retirement Communities also offer 90 percent, 75 percent, and, on a limited basis, 50 percent refundable contracts (approximately 10 percent of contract residents have chosen these three options). Included in refundable contract liabilities, other current liabilities, and other long-term liabilities on the consolidated statements of financial position are \$123,275 and \$105,142 at January 31, 2019 and 2018, respectively, for refundable entrance fees.

Certain Windsor Park resident agreements are life-care agreements that include a 55 percent refund of the entrance fee (payable at the date of resale of the apartment) to the resident's estate. Windsor Park recognizes the 45 percent resident-based amount as income ratably over the estimated remaining life expectancy of each resident, which is evaluated annually. The 55 percent refundable portion is not amortized. Included in other liabilities is \$1,771 and \$2,241 at January 31, 2019 and 2018, respectively, for refunds due to residents' estates. The 55 percent refundable life-care agreement is not currently being offered to new residents.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 2 - Summary of Significant Accounting Policies (Continued)

Entrance fee refunds under all programs were \$16,602 and \$15,344 in 2019 and 2018, respectively. Although a portion of refundable contract liabilities and deferred revenue is classified as current liabilities, the likelihood of actual payment of these total liabilities within one year is remote based on the Retirement Communities' experience.

Under Accounting Standards Codification (ASC) 606, the Retirement Communities do, 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 Communities calculate 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 the 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 Communities are not required to maintain those residents who are unable to pay their entire monthly maintenance charges; however, as a matter of policy, such residents generally have remained in the facility. Normal charges for these services are not recorded as revenue in the statement of operations and changes in net assets without donor restrictions. Funds to support these residents are derived primarily from contributions, public aid, and earnings from the Benevolent Care Fund (see Note 4).

Classification of Net Assets

Net assets of the Retirement Communities 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 Communities' 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 \$16,485 and \$16,132, respectively, include irrevocable trusts, which are not available for use until assets are distributed from the trusts; contributions restricted for a particular purpose; and endowment net assets that have been restricted by donors to be maintained in perpetuity.

(Loss) Income (Performance Indicator)

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

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 2 - Summary of Significant Accounting Policies (Continued)

Tax Status

The Retirement Communities qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Despite the overall exemption from federal and state income tax, the Retirement Communities are required to pay tax on unrelated business income (UBI) activities. The Retirement Communities have an overall loss from such UBI activities and have not recorded a benefit for such activities, as management has concluded that it is more likely than not that the benefits will not be realized in the future.

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 Communities adopted ASC 606 effective February 1, 2018 using the modified retrospective transition method. There was a cumulative effect on the opening balance of net assets in the amount of \$696 due to the write-off of deferred marketing costs 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 Communities 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 Communities, 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 has increased \$25,814, program expenses has decreased \$25,923, and fundraising expenses has increased \$1,747 from the amounts previously reported. Additionally, net assets of \$7,784 and \$8,348 previously reported as temporarily restricted net assets and permanently restricted net assets, respectively, have been combined into net assets with donor restrictions.

Note 3 - Fair Value Measurements

In determining fair value, the Retirement Communities use various valuation approaches. ASC No. 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 No. 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.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 3 - Fair Value Measurements (Continued)

ASC No. 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Retirement Communities. Unobservable inputs are inputs that reflect the Retirement Communities' assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

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

Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Retirement Communities have 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 or liabilities, but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third-party pricing services for comparable assets or liabilities.

Level 3 - Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances whereby 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 Retirement Communities' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Retirement Communities' 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 Communities' interest in the investment pool is valued on a recurring basis and is a direct interest in the investment pool, valued using Level 3 inputs of the valuation hierarchy for both 2019 and 2018. There were total withdrawals of \$6,500 in 2018 and no withdrawals in 2019 and total deposits of \$21,001 and \$24,298 in 2019 and 2018, respectively. The total allocation of pooled (losses) earnings was \$(8,440) and \$31,844 in 2019 and 2018, respectively.

Covenant Retirement Communities, Inc.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 3 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at January 31, 2019				
	Balance at January 31, 2019	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Beneficial interest in investment pool	\$ 274,052	\$ -	\$ -	\$ 274,052
Other - Cash and short-term investments	2,334	2,334	-	-
Covenant trust endowment - Equity investment funds	2,574	-	2,574	-
Restricted under state and debt agreements:				
Cash and money market securities	35,793	35,793	-	-
Fixed-income securities	117,009	-	117,009	-
Total restricted under state and debt agreements	152,802	35,793	117,009	-
Total	\$ 431,762	\$ 38,127	\$ 119,583	\$ 274,052
Investments held for insurance obligations:				
International equity	\$ 4,624	\$ -	\$ 4,624	\$ -
Fixed-income securities	11,860	-	11,860	-
Alternative investment funds (held within beneficial interest in investment pool)	163	-	-	163
Total (Note 7)	\$ 16,647	\$ -	\$ 16,484	\$ 163
Interest in irrevocable trusts	\$ 2,655	\$ -	\$ -	\$ 2,655
Liabilities - Derivatives - Interest rate swaps (Note 12)	\$ 2,513	\$ -	\$ 2,513	\$ -

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 3 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at January 31, 2018			
	Balance at January 31, 2018	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Beneficial interest in investment pool	\$ 261,491	\$ -	\$ -	\$ 261,491
Other - Cash and short-term investments	2,174	2,174	-	-
Covenant trust endowment - Equity investment funds	2,844	-	2,844	-
Restricted under state and debt agreements:				
Cash and money market securities	5,524	5,524	-	-
Fixed-income securities	37,294	-	37,294	-
Total restricted under state and debt agreements	42,818	5,524	37,294	-
Total	\$ 309,327	\$ 7,698	\$ 40,138	\$ 261,491
Investments held for insurance obligations:				
International equity	\$ 6,279	\$ -	\$ 6,279	\$ -
Fixed-income securities	11,093	-	11,093	-
Alternative investment funds (held within beneficial interest in investment pool)	168	-	-	168
Total (Note 7)	\$ 17,540	\$ -	\$ 17,372	\$ 168
Interest in irrevocable trusts	\$ 4,334	\$ -	\$ -	\$ 4,334
Liabilities - Derivatives - Interest rate swaps (Note 12)	\$ 9,497	\$ -	\$ 9,497	\$ -

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

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 3 - Fair Value Measurements (Continued)

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	Held for Insurance Obligations	Total
Beginning balance - February 1, 2018	\$ 4,334	\$ 168	\$ 4,502
Net withdrawals	(557)	-	(557)
Unrealized losses	(1,122)	(5)	(1,127)
Ending balance - January 31, 2019	<u>\$ 2,655</u>	<u>\$ 163</u>	<u>\$ 2,818</u>

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)		
	Interest in Irrevocable Trusts	Held for Insurance Obligations	Total
Beginning balance - February 1, 2017	\$ 4,180	\$ 141	\$ 4,321
Net deposits	56	-	56
Unrealized gains	98	27	125
Ending balance - January 31, 2018	<u>\$ 4,334</u>	<u>\$ 168</u>	<u>\$ 4,502</u>

Note 4 - Charity and Other Unreimbursed Care

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

Records are maintained to identify and monitor the level of charity care provided. Unreimbursed costs foregone for charity care were \$4,689 and \$5,021 in 2019 and 2018, respectively. Charitable gifts received to offset costs were \$5,376 and \$4,171 in 2019 and 2018, respectively. The Retirement Communities use a cost per resident day amount to determine unreimbursed costs.

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

	2019	2018
Estimated cost of Medicaid services provided	\$ 34,947	\$ 34,166
Less government reimbursement	(25,101)	(21,296)
Unreimbursed care - Based on estimated cost	<u>\$ 9,846</u>	<u>\$ 12,870</u>

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 and other debt agreements.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

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 three categories:

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

Restricted Under State and Debt Agreements - These are assets held by trustees under the terms of the Master Indenture agreement, various bond trust indentures, and state laws for debt service reserves, certain construction projects, and operating expense escrow accounts.

Endowment - These are assets restricted by donors in perpetuity as an endowment fund.

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

	<u>2019</u>	<u>2018</u>
Beneficial interest in investment pool:		
Board designated:		
Benevolent care fund	\$ 67,610	\$ 68,356
Capital reserve fund	29,952	30,452
Property replacement fund	65,476	59,731
Reserve for refundable contracts	85,668	76,090
Other	<u>20,020</u>	<u>21,358</u>
Total board designated	268,726	255,987
Endowment - Brandel Fund	<u>5,326</u>	<u>5,504</u>
Total beneficial interest in investment pool	274,052	261,491
Endowment - Covenant Trust	2,574	2,844
Board-designated investments - Other	2,334	2,174
Restricted under state and debt agreements:		
Bond interest, sinking and expense fund	10,246	4,969
Bond project fund	97,127	-
Debt service reserve fund	36,819	29,395
State-required reserves	<u>8,610</u>	<u>8,454</u>
Total restricted under state and debt agreements	152,802	42,818
Total	<u>\$ 431,762</u>	<u>\$ 309,327</u>

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

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

	2019	2018
Equity securities:		
Board designated	\$ 67,261	\$ 73,426
Brandel endowment	1,333	1,577
Covenant trust endowment	2,574	2,844
Total equity securities	71,168	77,847
Fixed-income securities:		
Board designated	88,435	76,478
Restricted under state and debt agreements	117,009	37,294
Endowment	1,753	1,645
Total fixed-income securities	207,197	115,417
Alternative investments:		
Board designated:		
International equity	42,434	40,908
Hedge funds	28,900	19,366
Private equity	9,223	8,691
Mortgages	1,290	508
Domestic equity	30,160	29,239
Puts and calls	1,026	2,176
High-yield bonds	-	5,195
Endowment:		
International equity	841	880
Hedge funds	573	528
Private equity	183	187
Mortgages	26	12
Domestic equity	598	628
Puts and calls	16	47
Total alternative investments	115,270	108,365
Cash and short-term investments:		
Board designated	2,334	2,174
Restricted under state and debt agreements	35,793	5,524
Total cash and short-term investments	38,127	7,698
Total	<u>\$ 431,762</u>	<u>\$ 309,327</u>

Note 7 - Other Assets

Other assets at January 31, 2019 and 2018 consisted of the following:

	2019	2018
Unamortized deferred marketing costs - Net	\$ -	\$ 696
Investment in real estate - Net	7,838	8,283
Investment held for insurance obligation by CIIC	16,647	17,540
Other	6,195	6,145
Total	<u>\$ 30,680</u>	<u>\$ 32,664</u>

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 7 - Other Assets (Continued)

Included in other assets is \$16,647 and \$17,540 of investments held by CIIC primarily for the purpose of funding insurance obligations as of January 31, 2019 and 2018, respectively (see Note 3).

Included in other assets of the consolidated statements of financial position is \$2,951 and \$2,947 related to the subordinated note receivable received as consideration for the sale of shares in Symbria, Inc. as of January 31, 2019 and 2018, respectively.

Note 8 - Property and Equipment

Property and equipment at January 31, 2019 and 2018 consisted of the following:

	2019	2018
Land and land improvements	\$ 50,761	\$ 50,245
Buildings and improvements	771,294	770,944
Furniture and equipment	218,269	205,234
Construction in progress (Note 13)	17,039	10,123
Property and equipment - At cost	1,057,363	1,036,546
Less accumulated depreciation	515,095	484,320
Property and equipment - Net	<u>\$ 542,268</u>	<u>\$ 552,226</u>

Note 9 - Continuing Care Requirements

Under the provisions of various state regulations, the Retirement Communities are required to maintain escrow accounts to cover defined portions of debt service and annual operating expenses. Management believes the Retirement Communities were in compliance with all such state regulations at January 31, 2019.

Note 10 - Line of Credit

Covenant Retirement Communities, Inc. has a secured bank line of credit for a maximum of \$8,000, reduced by certain outstanding letters of credit, which totaled \$6,150 at January 31, 2019. Borrowings under the line bear interest at the prime rate. The line has no compensating balance arrangement, but requires a commitment fee equal to one-quarter of 1 percent per annum on the average daily unused portion, payable quarterly. There were no draws on the line during 2019 or 2018 and no balance outstanding at January 31, 2019 or 2018. The line expires on March 1, 2020.

Covenant Retirement Communities, Inc.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt and Other Obligations

Long-term debt at January 31, 2019 and 2018 as follows:

	2019	2018
Master Indenture obligations:		
Colorado Health Facilities Authority revenue bonds, series 2018A, due 2049, interest at 5.000 percent	\$ 59,780	\$ -
State of Connecticut Health and Educational Facilities Authority revenue bonds, series 2018B, due 2041, interest at 5.000 percent	46,850	-
Colorado Health Facilities Authority revenue bonds, series 2012A, due 2034, interest at 4.500 percent - 5.000 percent	104,205	104,205
Colorado Health Facilities Authority revenue bonds, series 2012B, due 2027, interest at 4.000 percent - 5.000 percent	22,905	22,905
Colorado Health Facilities Authority revenue bonds, series 2012C, due 2023, interest at 2.000 percent - 5.000 percent	8,210	9,875
Colorado Health Facilities Authority revenue bonds, series 2013A, due 2036, interest at 4.250 percent - 5.750 percent	21,995	21,995
Colorado Health Facilities Authority revenue bonds, series 2013B (TEMPS), due 2018, interest at 3.150 percent	-	7,550
California Statewide Communities Development Authority revenue bonds, series 2013C due 2036, interest at 5.625 percent	20,450	20,450
Colorado Health Facilities Authority revenue refunding bonds, series 2015A due 2036, interest at 1.000 percent - 5.000 percent	97,460	101,875
Colorado Health Facilities Authority revenue refunding bonds, series 2015B due 2025, interest adjusted weekly, 2.67 percent at January 31, 2019	12,595	15,295
Illinois Finance Authority revenue refunding direct placement bonds, series 2017, due 2029, interest rate adjusted weekly, 3.24 percent at January 31, 2019	45,425	48,825
	<u>439,875</u>	<u>352,975</u>
Total long-term debt	439,875	352,975
Less current maturities	(13,380)	(19,730)
Less unamortized debt issuance costs - Net of accumulated amortization	(5,685)	(4,403)
Plus unamortized original issue discount - Net of unamortized original issue premium	17,284	11,054
	<u>17,284</u>	<u>11,054</u>
Total long-term debt - Less current maturities	<u>\$ 438,094</u>	<u>\$ 339,896</u>

Master Indenture Obligations

The Retirement Communities, excluding Covenant Retirement Services and its affiliates, are members of the obligated group, as defined (the "Obligated Group"), under the Master Indenture. As members, each community is jointly and severally liable for the repayment of the Master Indenture bonds. The Master Indenture obligations, totaling \$439,875 at January 31, 2019, 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 minimum debt service coverage and days cash on hand ratios, as defined; require the maintenance of minimum debt service reserve funds; and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the Obligated Group was in compliance with these requirements at January 31, 2019.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt and Other Obligations (Continued)

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

On November 13, 2018, the Retirement Communities issued \$59,780 of tax-exempt revenue bonds through the Colorado Health Facilities Authority (Series 2018A) and \$46,850 of tax-exempt revenue bonds through the State of Connecticut Health and Educational Facilities Authority (Series 2018B). Proceeds of the 2018A and 2018B bonds were used to fund capital project funds, reserve funds, and to pay the cost of issuance. The Series 2018A project funds will be used to construct a residential living building at the Mount Miguel campus, reposition the assisted living at Windsor Park, and remodel skilled nursing units at several other campuses. The Series 2018B project funds will be used to construct a town center, which includes residential living units, at the Cromwell campus. The series 2018A and 2018B bonds mature on December 1, 2048 and December 1, 2040, respectively. Debt issuance costs of \$1,642 were paid by the Retirement Communities as of January 31, 2019 related to this transaction.

On February 1, 2017, the Retirement Communities issued \$52,070 of tax-exempt revenue refunding direct placement bonds with the Illinois Finance Authority (Series 2017). Proceeds from the Series 2017 bonds were used to pay the Illinois Finance Authority Series 2011 A and B direct placement bonds. The Series 2017 bonds mature on December 1, 2029, but are subject to mandatory tender on February 1, 2024. The Retirement Communities recognized a loss on extinguishment of debt of \$471 representing the write-off of deferred costs to early extinguish the aforementioned bonds, which is recorded as a loss on extinguishment of debt in the consolidated statement of operations and changes in net assets without donor restrictions for the year ended January 31, 2018.

The weighted-average interest rate on all outstanding borrowings was approximately 4.9 percent at January 31, 2019.

Total Long-term Debt

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

<u>Years Ending January 31</u>	<u>Amount</u>
2020	\$ 13,380
2021	14,070
2022	14,570
2023	15,085
2024	15,685
2025 and thereafter	<u>367,085</u>
Total	<u>\$ 439,875</u>

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 11 - Long-term Debt and Other Obligations (Continued)

The tax-exempt revenue bond indentures require certain funds to be held in accounts controlled by the bond trustees. The funds are primarily invested in fixed-income securities and cash and short-term investments. The total trustee-held funds, which are included in assets whose use is limited, including interest in investment pool as "restricted under state and debt agreements," at January 31, 2019 and 2018 are as follows:

	2019	2018
Fund:		
Bond interest, sinking and expense fund	\$ 10,246	\$ 4,969
Debt service reserve fund	36,819	29,395
Bond project fund	97,127	-
Subtotal	144,192	34,364
Less amounts classified as current	(10,246)	(4,969)
Trustee-held funds - Noncurrent	\$ 133,946	\$ 29,395

Other Obligations

In 2015, Tulsa secured a construction loan with Huntington Bank, N.A. (the "Priority Tulsa Loan") for construction and development of a rental continuing care retirement community. The loan allows for maximum borrowing of \$12,570 and bears interest at LIBOR plus the bank spread. Monthly principal and interest payments are amortized over 25 years. The loan matures in July 2021. The balance of the loan is \$12,153 as of January 31, 2019, of which \$248 is payable in 2019 and is included in other current liabilities on the consolidated statements of financial position. The remainder of the balance, \$11,905, is included in other liabilities on the consolidated statements of financial position.

Tulsa also secured an additional \$4,200 loan from National Covenant Properties (the "Junior Tulsa Loan") for the Tulsa campus construction, which is payable on the earlier of (i) demand of National Covenant Properties or (ii) April 30, 2021, and is secured by a mortgage and other related loan documents that were subordinated to the Priority Tulsa Loan. National Covenant Properties has represented to the Retirement Communities that it will not demand payment on this loan prior to February 1, 2020.

Guarantees of Debt

In May 2015, Covenant Village of Portland, Limited Partnership (Portland), an affiliate of Covenant Ministries of Benevolence, entered into a credit agreement with U.S. Bank for borrowings up to \$6,000, which was used to redeem the State of Oregon Housing and Community Service Department Housing Development Revenue Bonds Series 2000A in May 2015. The balance outstanding on the credit agreement amounted to \$5,017 at January 31, 2019. The Retirement Communities guarantee payments of the obligation by Portland. Portland continues to service its debt as it comes due, and, therefore, the Retirement Communities do not expect to make payments under this guarantee.

The Retirement Communities have guaranteed repayment of the Priority Tulsa Loan, whose payment guarantee is subject to certain rights of the Retirement Communities to limit their liability under such guarantee. The Retirement Communities have also guaranteed repayment of the Junior Tulsa Loan.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 12 - Derivative Instruments

The Retirement Communities entered into interest rate swap agreements to manage their debt structure and lessen interest rate risk. The fair values aggregate to \$2,513 and \$9,497 at January 31, 2019 and 2018, respectively, and are recorded in other liabilities. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are contracts to exchange variable-rate for fixed-rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. During the years ended January 31, 2019 and 2018, the Retirement Communities had the following interest rate swaps in effect:

Counterparty	Maturity Date	Rate Paid	Rate Received	Notional Amount		Market Value as of January 31	
				2019	2018	2019	2018
Wells Fargo Bank, N.A.	12/1/2034	3.59%	67% of 1M LIBOR	\$ 13,000	\$	(1,911)	\$ (1,996)
Wells Fargo Bank, N.A.	12/1/2025	3.49%	67% of 1M LIBOR	8,675		(602)	(739)
Wells Fargo Bank, N.A.	2/1/2019	5.18%	SIFMA Index	-		-	(6,762)

The Wells Fargo Bank, N.A. ISDA (International Swaps and Dealers Association, Inc.) contains an Additional Termination Event. If the long-term unsecured, unenhanced senior debt rating falls below certain thresholds, it triggers an Additional Termination Event. The Retirement Communities have three remedies available in lieu of termination, including collateral posting. No collateral was required to be posted at either January 31, 2019 or 2018.

The Retirement Communities paid \$5,332 to terminate one of the swaps in January 2019. The payment reduced the outstanding swap liability on the date of termination.

The net amount paid in 2019 and 2018 to Wells Fargo Bank, N.A. under the interest rate swap agreements is \$2,441 and \$3,246, respectively. The expense is recorded as interest expense on interest rate swaps in 2019 and 2018.

The change in the fair market value of the swaps of \$1,652 and \$3,706 is recorded as a component of nonoperating revenue in the consolidated statement of operations and changes in net assets without donor restrictions for the years ended January 31, 2019 and 2018, respectively.

Note 13 - Construction in Progress

The construction in progress balance of \$17,039 and \$10,123 at January 31, 2019 and 2018, respectively, relates to various projects across the communities. All of the projects are for the purpose of improving or expanding resident facilities and are in accordance with the Covenant Retirement Communities' not-for-profit tax status. Sufficient funds to complete all projects are available from bond project funds and board-designated reserves.

Note 14 - Related Party Transactions

Included in assets whose use is limited, including interest in investment pool, classified as noncurrent at January 31, 2019 and 2018, are \$1,134 and \$1,108, respectively, of National Covenant Properties certificates of deposit. Interest income earned on the National Covenant Properties certificates of deposit was \$33 in 2019 and 2018.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 14 - Related Party Transactions (Continued)

On July 31, 2014, CMB sold its ownership in Emanuel Medical Center (EMC) to a third-party provider. On August 1, 2014, ownership of Brandel Manor-Cypress, a 145-bed skilled nursing facility, and Cypress, a 29-bed assisted living facility, transferred to CMB. While ownership of the facilities belongs to CMB, Covenant Retirement Communities, Inc. signed a lease agreement to lease the operations and management for both facilities. The initial lease term is 10 years with two optional five-year extension periods and a \$300 annual base rent.

In 2019, CMB contributed \$600 to Covenant Retirement Communities, Inc. to be used in Turlock, California. As of the end of the year, the majority of the funds remain unspent and are recorded as a donor restricted net asset.

In 2018, CMB contributed \$600 to Covenant Retirement Communities, Inc. to be used in Turlock, California. The funds were accounted for as net assets with donor restrictions.

Included in other assets is \$756 and \$475 of amounts due from Covenant Ministries of Benevolence as of January 31, 2019 and 2018, respectively.

Included in administrative and general expense are management fees paid to Covenant Ministries of Benevolence of \$1,950 and \$2,050 in 2019 and 2018, respectively.

Certain costs, which relate to trust contributions, are incurred by the Retirement Communities in connection with the Covenant Estate Planning Services of The Evangelical Covenant Church, which assists certain residents and nonresidents in managing assets, establishing trusts, and other related activities. Amounts paid to the Covenant Estate Planning Services were \$290 and \$427 in 2019 and 2018, respectively.

During the year ended January 31, 2009, CRC Holdings Two acquired Geneva Place, a 53-unit senior residential building in Geneva, Illinois. This acquisition was primarily financed through a \$5,000 note payable to an affiliate, National Covenant Properties. As of January 31, 2019 and 2018, the outstanding balance on the note is \$4,850. The note payable bears interest at a rate equal to the prime rate plus five basis points, and the amount is due no later than 20 years from the date of first disbursement of loan funds, which was May 1, 2008.

On September 27, 2010, CRC Holdings One entered into a revolving line of credit with National Covenant Properties with an available credit line of \$4,000. During the year ended January 31, 2011, CRC Holdings One borrowed \$4,000 on the line of credit. As of January 31, 2019 and 2018, the outstanding balance on the line is \$4,000. The line of credit bears interest at the prime rate or a minimum of 4 percent, due monthly. The principal amount borrowed is due no later than 20 years from the date of first disbursement of loan funds, which was November 1, 2010.

In April 2014, Tulsa entered into a revolving line of credit with National Covenant Properties with an available credit of \$4,200. As of January 31, 2019 and 2018, the outstanding balance on the line is \$4,200. The line of credit bears interest at the prime rate or a minimum of 4 percent, due monthly. The Retirement Communities guarantee payment of the balance, as described in Note 11.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 15 - 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 January 1, 2013, the Retirement Communities began to match contributions to a defined contribution plan, based on eligibility, made by employees up to 3 percent of each employee's salary. The Retirement Communities recorded expense of \$1,723 and \$1,579 for the match in 2019 and 2018, respectively.

Pension expense, representing the Retirement Communities' required contribution to the Plan, was \$1,660 and \$1,625 in 2019 and 2018, respectively. The contributions made by the Retirement Communities represented more than 5 percent of the total contributions made to the Plan in 2019 and 2018. 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:

Pension Fund	FEIN	Total Contributions to the Plan for the Years Ended December 31	
		2018	2017
The Evangelical Covenant Church Retirement Plan	36-2167730	\$ 1,776	\$ 10,817

As of December 31, 2017, net assets of the Plan were \$361,302, and the actuarial present value of accumulated plan benefits was \$373,458. This information is not yet available for the year ended December 31, 2018.

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

Note 16 - Employee Medical Benefit Plan

The Retirement Communities sponsor a medical benefit plan, which is 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. At January 31, 2019 and 2018, the liability recorded for unpaid and unreported claims was \$2,450 and \$2,109, respectively, and is reported in other current liabilities. The medical benefit expense was \$11,786 and \$10,495 for the years ended January 31, 2019 and 2018, respectively.

Note 17 - Beneficial Interest in Gift Instruments

A source of funds to the Retirement Communities is in the form of bequests from The Evangelical Covenant Church members, residents of the Retirement Communities, and other parties. The Office of Covenant Estate Planning Services (CEPS) of The Evangelical Covenant Church maintains information as to the estimated values of certain of the Retirement Communities' share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal values (where available) for real property, and other reasonable estimates made by the trustees for specific assets. The Retirement Communities have recorded their interest in irrevocable trusts as of 2019 and 2018 at fair value.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 17 - Beneficial Interest in Gift Instruments (Continued)

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

Amounts related to irrevocable trusts for which the Retirement Communities are the 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 consolidated statements of financial position.

The Retirement Communities have recorded their interest in three endowment accounts funded by distributions from irrevocable trusts. The endowment accounts are managed by CEPS and are to be held in perpetuity. Income on the endowment funds is paid to the Retirement Communities quarterly and increases net assets with donor restrictions until the funds are spent for the designated purpose. The value of the endowment accounts at January 31, 2019 and 2018 is \$2,574 and \$2,844, respectively, and is recorded in assets whose use is limited and net assets with donor restrictions in the consolidated statements of financial position.

Note 18 - 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 respective states and are adjusted periodically for changes in resident acuity.

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

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 Communities' historical settlement activity. The Retirement Communities have not applied a constraint to the transaction price for settlement estimates, as the Retirement Communities have 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 Communities make an initial and ongoing evaluation of a resident's creditworthiness or obtain third-party verification of payment coverage and, as such, consider the credit risks they assume and any billed amounts not expected to be collected from residents or third parties for services rendered represent bad debt expense.

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 18 - Revenue Recognition (Continued)

Because all of their performance obligations relate to contracts with a duration of less than one year, the Retirement Communities have 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 Communities have elected the practical expedient allowed under FASB ASC 606-10-32-18 and do not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Retirement Communities' expectation that the period between the time the resident services are provided to a resident and the time that the resident or a third-party payor pays for that service will be one year or less. The Retirement Communities do, 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.

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

	<u>2019</u>	<u>2018</u>
Payors:		
Private	\$ 189,500	\$ 188,267
Medicare	47,738	50,626
Medicaid	<u>25,101</u>	<u>24,226</u>
Total	<u>\$ 262,339</u>	<u>\$ 263,119</u>
Level of care:		
Residential living	\$ 91,045	\$ 90,452
Assisted living	45,333	43,046
Skilled nursing	108,239	108,998
Home health	<u>17,722</u>	<u>20,623</u>
Total	<u>\$ 262,339</u>	<u>\$ 263,119</u>

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 19 - Functional Expenses

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

	<u>2019</u>	<u>2018</u>
Program services:		
Salaries and benefits	\$ 137,601	\$ 136,821
Purchased services	28,466	28,912
Equipment and supplies	21,993	23,055
Depreciation and amortization	44,619	42,925
Interest	17,282	18,203
Insurance	4,422	5,010
Other	22,464	24,736
	<u>276,847</u>	<u>279,662</u>
Total program services	276,847	279,662
Support services:		
Salaries and benefits	15,125	11,584
Purchased services	8,445	12,228
Equipment and supplies	1,723	1,705
Depreciation and amortization	4,554	4,381
Interest	1,766	1,858
Insurance	455	511
Other	10,278	9,382
	<u>42,346</u>	<u>41,649</u>
Total support services	42,346	41,649
Fundraising		
Salaries and benefits	1,003	866
Purchased services	199	58
Equipment and supplies	20	15
Other	578	808
	<u>1,800</u>	<u>1,747</u>
Fundraising	1,800	1,747
Total	<u>\$ 320,993</u>	<u>\$ 323,058</u>

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 interest, depreciation and amortization, insurance, purchased services, and equipment and supplies. The methods used to allocate these expenses include square footage basis, full-time equivalent basis, and units of service. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 20 - Liquidity

The Retirement Communities' financial assets available within one year of the consolidated statements of financial position date for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 23,285	\$ 16,008
Accounts receivable - Net	20,005	24,127
	<u>43,290</u>	<u>40,135</u>
Total	<u>\$ 43,290</u>	<u>\$ 40,135</u>

Notes to Consolidated Financial Statements

January 31, 2019 and 2018

(all amounts in thousands unless otherwise noted)

Note 20 - Liquidity (Continued)

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

The Retirement Communities have a policy to structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Retirement Communities also have 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. Additionally, the Retirement Communities maintain an \$8 million line of credit, as disclosed in Note 10, which could be drawn upon if necessary.

Additional Consolidating Information

Independent Auditor's Report on Additional Consolidating Information

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Retirement Communities, Inc.

We have audited the consolidated financial statements of Covenant Retirement Communities, Inc. as of and for the years ended January 31, 2019 and 2018 and have issued our report thereon dated May 24, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

May 24, 2019

Consolidating Statement of Financial Position Information

January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 23,285	\$ -	\$ 1,960	\$ 21,325	\$ -	\$ 17,447	\$ 3,878
Restricted cash	4,359	-	791	3,568	-	708	2,860
Assets whose use is limited, including beneficial interest in investment pool:							-
Board designated	75,372	-	14	75,358	-	1,078	74,280
Restricted under debt agreements	10,246	-	-	10,246	-	356	9,890
Accounts receivable - net	20,005	1	3,023	16,981	-	683	16,298
Prepaid expenses and other assets	4,646	-	29	4,617	-	3,309	1,308
Total current assets	\$ 137,913	\$ 1	\$ 5,817	\$ 132,095	\$ -	\$ 23,581	\$ 108,514
PROPERTY AND EQUIPMENT							
Property and Equipment- at Cost	\$ 1,057,363	\$ -	\$ 29,115	\$ 1,028,248	\$ -	\$ 50,765	\$ 977,483
Less Accumulated Depreciation	(515,095)	-	(5,008)	(510,087)	-	(21,200)	(488,887)
Property and Equipment- Net	\$ 542,268	\$ -	\$ 24,107	\$ 518,161	\$ -	\$ 29,565	\$ 488,596
OTHER ASSETS							
	\$ 30,680	\$ (20,848)	\$ 1,336	\$ 50,192	\$ (1,677)	\$ 46,571	\$ 5,298
INTEREST IN IRREVOCABLE TRUSTS							
	2,655	-	-	2,655	-	134	2,521
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:							
Board designated	\$ 195,688	\$ -	\$ -	\$ 195,688	\$ -	\$ 34,278	\$ 161,410
Restricted under state and debt agreements	142,556	-	-	142,556	-	1,624	140,932
Endowment	7,900	-	-	7,900	-	5,326	2,574
Total assets whose use is limited, including beneficial interest in investment pool	346,144	-	-	346,144	-	41,228	304,916
TOTAL	\$ 1,059,660	\$ (20,847)	\$ 31,260	\$ 1,049,247	\$ (1,677)	\$ 141,079	\$ 909,845

Covenant Retirement Communities, Inc.

Consolidating Statement of Financial Position Information (Continued)

January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
LIABILITIES AND NET ASSETS (DEFICITS)							
CURRENT LIABILITIES:							
Accounts payable - trade	\$ 13,277	\$ -	\$ 461	\$ 12,816	\$ (1)	\$ 10,303	\$ 2,514
Accounts payable - contractors	45	-	-	45	-	-	45
Accrued salaries and wages	7,542	-	-	7,542	-	7,416	126
Accrued interest	3,684	-	101	3,583	-	118	3,465
Advance deposits	3,566	-	-	3,566	-	21	3,545
Current maturities of long-term debt	13,380	-	-	13,380	-	731	12,649
Deferred revenue subject to refund	99,472	-	-	99,472	-	-	99,472
Refundable contract liabilities	107,262	-	-	107,262	-	-	107,262
Other current liabilities	16,082	-	1,585	14,497	-	7,691	6,806
Total current liabilities	\$ 264,310	\$ -	\$ 2,147	\$ 262,163	\$ (1)	\$ 26,280	\$ 235,884
LONG-TERM DEBT - Less current maturities	\$ 438,094	\$ -	\$ -	\$ 438,094	\$ -	\$ 14,018	\$ 424,076
PAYABLE TO (FROM) COVENANT INSTITUTIONS:							
Covenant Retirement Communities - Notes and advances	-	(20,852)	20,888	(36)	(1,677)	26,591	(24,950)
Other Benevolent institutions- Notes and advances	13,050	-	13,050	-	-	-	-
Total payable to (from) Covenant institutions	\$ 13,050	\$ (20,852)	\$ 33,938	\$ (36)	\$ (1,677)	\$ 26,591	\$ (24,950)
OTHER LIABILITIES	32,733	-	11,752	20,981	(154)	9,138	11,997
DEFERRED REVENUE FROM ENTRANCE FEES	218,618	-	-	218,618	-	10,566	208,052
Total liabilities	\$ 966,805	\$ (20,852)	\$ 47,837	\$ 939,820	\$ (1,832)	\$ 86,593	\$ 855,059
NET ASSETS (DEFICITS):							
Net Position Without Donor Restrictions	\$ 76,370	\$ 5	\$ (17,624)	\$ 93,989	\$ 155	\$ 47,991	\$ 45,843
Net Position With Donor Restrictions	16,485	-	1,047	15,438	-	6,495	8,943
Total net assets (deficits)	\$ 92,855	\$ 5	\$ (16,577)	\$ 109,427	\$ 155	\$ 54,486	\$ 54,786
TOTAL	1,059,660	(20,847)	31,260	1,049,247	(1,677)	141,079	909,845

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
OPERATING REVENUES:							
Routine resident services	\$ 216,807	\$ -	\$ 4,523	\$ 212,284	\$ -	\$ 2,302	\$ 209,982
Ancillary services	45,532	-	17,745	27,787	-	9	27,778
Amortization of deferred entrance fees	46,083	-	-	46,083	-	1,011	45,072
Net assets released from restriction for operations	2,657	-	84	2,573	-	226	2,347
Other	7,034	(69)	1,267	5,836	(240)	817	5,259
Total operating revenues	\$ 318,113	\$ (69)	\$ 23,619	\$ 294,563	\$ (240)	\$ 4,365	\$ 290,438
EXPENSES:							
Routine nursing services	\$ 68,039	\$ -	\$ 9,624	\$ 58,415	\$ (148)	\$ 37	\$ 58,526
Ancillary services	16,257	-	1,474	14,783	(3)	3	14,783
Resident benefits	14,195	-	591	13,604	(28)	80	13,552
Dietary	37,699	-	552	37,147	(69)	97	37,119
Laundry	1,833	-	-	1,833	(4)	2	1,835
Housekeeping	8,057	-	107	7,950	(28)	32	7,946
Maintenance	17,769	-	457	17,312	(24)	360	16,976
Utilities	11,815	-	301	11,514	-	256	11,258
Administrative and general	55,751	(74)	8,233	47,592	92	(2,190)	49,690
Interest	16,607	-	1,204	15,403	(6,706)	(925)	23,034
Property taxes	3,256	-	428	2,828	-	516	2,312
Insurance	4,877	-	212	4,665	-	145	4,520
Marketing and promotion	11,120	-	672	10,448	(26)	159	10,315
Depreciation	48,509	-	860	47,649	-	2,326	45,323
Amortization	664	-	238	426	-	20	406
Other	429	-	55	374	-	(580)	954
Total expenses	\$ 316,877	\$ (74)	\$ 25,008	\$ 291,943	\$ (6,944)	\$ 338	\$ 298,549
OPERATING (LOSS) INCOME	\$ 1,236	\$ 5	\$ (1,389)	\$ 2,620	\$ 6,704	\$ 4,027	\$ (8,111)

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
OPERATING (LOSS) INCOME	\$ 1,236	\$ 5	\$ (1,389)	\$ 2,620	\$ 6,704	\$ 4,027	\$ (8,111)
NONOPERATING REVENUE (EXPENSE):							
Contributions:							
Gifts and bequests — net	128	-	69	59	2	(314)	371
Net assets released from restriction — distributions from trusts	316	-	-	316	-	(1)	317
Total contributions	\$ 444	\$ -	\$ 69	\$ 375	\$ 2	\$ (315)	\$ 688
Other nonoperating revenue - net	(532)	-	(1)	(531)	-	(8)	(523)
Investment return, including beneficial interest in investment pool:							
Interest and dividend income	5,472	-	-	5,472	(6,706)	557	11,621
Realized gains (losses) on fixed income and equity securities — net	3,101	-	-	3,101	-	(41)	3,142
Unrealized gains (losses) on fixed income and equity securities — net	(11,147)	-	-	(11,147)	-	(8,186)	(2,961)
Alternative investment income (loss)	(3,896)	-	-	(3,896)	-	(3,896)	-
Total investment return (loss), including beneficial interest in investment pool	\$ (6,470)	\$ -	\$ -	\$ (6,470)	\$ (6,706)	\$ (11,566)	\$ 11,802
Unrealized gains (losses) on derivative instruments	1,652	-	-	1,652	(247)	1,899	-
Interest expense on interest rate swaps	(2,441)	-	-	(2,441)	-	(2,441)	-
Total nonoperating revenue (expense)	\$ (7,347)	\$ -	\$ 68	\$ (7,415)	\$ (6,951)	\$ (12,431)	\$ 11,967
(LOSS) INCOME	\$ (6,111)	\$ 5	\$ (1,321)	\$ (4,795)	\$ (247)	\$ (8,404)	\$ 3,856
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:							
Net assets released from restriction for capital purchases	\$ 24	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ 24
Net asset transfer from (to) related organization	(238)	-	3,089	(3,327)	-	(3,327)	-
Total other changes in net assets without donor restrictions	\$ (214)	\$ -	\$ 3,089	\$ (3,303)	\$ -	\$ (3,327)	\$ 24
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(6,325)	5	1,768	(8,098)	(247)	(11,731)	3,880

Covenant Retirement Communities, Inc.

Campus Consolidating Statement of Financial Position Information

January 31, 2019

(in thousands)

	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 2,451	\$ 15	\$ 559	\$ 1,168	\$ 15	\$ 8	\$ 685	\$ 1
Restricted cash	2,785	517	15	23	99	150	1,975	6
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	26,398	9,929	-	2,827	6,124	4,725	2,793	-
Restricted under debt agreements	3,775	166	-	89	267	292	2,961	-
Accounts receivable - net	6,326	684	122	960	572	1,415	935	1,638
Prepaid expenses and other assets	682	54	25	40	85	42	380	56
Total current assets	\$ 42,417	\$ 11,365	\$ 721	\$ 5,107	\$ 7,162	\$ 6,632	\$ 9,729	\$ 1,701
PROPERTY AND EQUIPMENT - Net	179,899	43,254	4,629	33,285	30,654	35,621	30,636	1,820
OTHER ASSETS	1,336	-	-	-	73	200	1,063	-
INTEREST IN IRREVOCABLE TRUSTS	1,315	112	112	439	492	37	123	-
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:								
Board designated	\$ 25,228	\$ 1,221	\$ 4,168	\$ 6,966	\$ 4,284	\$ 455	\$ 8,134	\$ -
Restricted under state and debt agreements	65,250	3,525	-	7,118	3,443	3,987	47,177	-
Endowment	-	-	-	-	-	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	\$ 90,478	\$ 4,746	\$ 4,168	\$ 14,084	\$ 7,727	\$ 4,442	\$ 55,311	\$ -
TOTAL	\$ 315,445	\$ 59,477	\$ 9,630	\$ 52,915	\$ 46,108	\$ 46,932	\$ 96,862	\$ 3,521

Covenant Retirement Communities, Inc.

Campus Consolidating Statement of Financial Position Information (Continued)

January 31, 2019

(in thousands)

	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
LIABILITIES AND NET ASSETS (DEFICITS)								
CURRENT LIABILITIES:								
Accounts payable - trade	\$ 959	\$ 62	\$ 35	\$ 266	\$ 268	\$ 179	\$ 144	\$ 5
Accounts payable - contractors	45	-	-	-	-	-	45	-
Accrued salaries and wages	110	-	81	-	-	29	-	-
Accrued interest	1,347	178	-	95	254	306	514	-
Advance deposits	2,283	85	194	6	73	53	1,872	-
Current maturities of long-term debt	3,904	1,847	-	566	73	598	820	-
Deferred revenue subject to refund	35,782	8,734	-	8,754	4,742	9,023	4,529	-
Refundable contract liabilities	38,811	13,939	-	5,306	8,669	6,576	4,321	-
Other current liabilities	1,464	540	(128)	182	320	53	163	334
Total current liabilities	\$ 84,705	\$ 25,385	\$ 182	\$ 15,175	\$ 14,399	\$ 16,817	\$ 12,408	\$ 339
LONG-TERM DEBT - Less current maturities	172,593	35,484	-	13,818	31,586	42,732	48,973	-
PAYABLE TO (FROM) COVENANT INSTITUTIONS:								
Covenant Retirement Communities - Notes and advances	92,864	2,505	5,524	28,114	20,412	11,497	21,021	3,791
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	\$ 92,864	\$ 2,505	\$ 5,524	\$ 28,114	\$ 20,412	\$ 11,497	\$ 21,021	\$ 3,791
OTHER LIABILITIES	17	-	-	-	17	-	-	-
DEFERRED REVENUE FROM ENTRANCE FEES	55,860	14,607	-	10,958	9,627	9,524	11,144	-
Total liabilities	\$ 406,039	\$ 77,981	\$ 5,706	\$ 68,065	\$ 76,041	\$ 80,570	\$ 93,546	\$ 4,130
NET ASSETS (DEFICITS):								
Net Position Without Donor Restrictions	(91,908)	(18,670)	3,844	(15,464)	(30,144)	(33,687)	3,033	(820)
Net Position With Donor Restrictions	1,314	166	80	314	211	49	283	211
Total net assets (deficits)	\$ (90,594)	\$ (18,504)	\$ 3,924	\$ (15,150)	\$ (29,933)	\$ (33,638)	\$ 3,316	\$ (609)
TOTAL	\$ 315,445	\$ 59,477	\$ 9,630	\$ 52,915	\$ 46,108	\$ 46,932	\$ 96,862	\$ 3,521

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
OPERATING REVENUES:								
Routine resident services	\$ 83,831	\$ 14,266	\$ 2,706	\$ 14,089	\$ 16,132	\$ 10,163	\$ 15,084	\$ 11,391
Ancillary services	11,728	1,402	19	2,503	1,980	1,396	1,423	3,005
Amortization of deferred entrance fees	13,208	3,192	-	2,969	1,862	2,877	2,308	-
Net assets released from restriction for operations	626	118	-	51	295	64	98	-
Other	2,353	285	27	243	235	568	991	4
Total operating revenues	\$ 111,746	\$ 19,263	\$ 2,752	\$ 19,855	\$ 20,504	\$ 15,068	\$ 19,904	\$ 14,400
EXPENSES:								
Routine nursing services	25,209	3,617	201	3,288	5,230	2,665	3,698	6,510
Ancillary services	6,647	765	-	1,374	977	640	791	2,100
Resident benefits	5,874	952	528	904	1,101	752	1,189	448
Dietary	14,713	2,410	466	2,566	3,010	2,142	2,657	1,462
Laundry	801	81	17	79	156	35	69	364
Housekeeping	2,893	357	19	566	693	291	660	307
Maintenance	6,484	1,168	164	1,280	1,190	993	1,355	334
Utilities	4,483	688	140	830	848	589	1,190	198
Administrative and general	19,916	3,224	900	3,556	3,482	2,836	3,529	2,389
Interest	9,734	2,109	163	1,986	2,043	2,467	891	75
Property taxes	1,439	-	-	346	50	356	686	1
Insurance	1,803	288	91	410	336	250	291	137
Marketing and promotion	4,022	713	5	1,001	863	704	670	66
Depreciation	15,344	3,282	305	3,391	3,151	2,078	2,976	161
Amortization	143	46	-	22	35	40	-	-
Other	424	58	-	57	83	76	117	33
Total expenses	\$ 119,929	\$ 19,758	\$ 2,999	\$ 21,656	\$ 23,248	\$ 16,914	\$ 20,769	\$ 14,585
OPERATING (LOSS) INCOME	\$ (8,183)	\$ (495)	\$ (247)	\$ (1,801)	\$ (2,744)	\$ (1,846)	\$ (865)	\$ (185)

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
OPERATING (LOSS) INCOME	\$ (8,183)	\$ (495)	\$ (247)	\$ (1,801)	\$ (2,744)	\$ (1,846)	\$ (865)	\$ (185)
NONOPERATING REVENUE (EXPENSE):								
Contributions:								
Gifts and bequests — net	(215)	24	55	(134)	54	(41)	(173)	-
Net assets released from restriction — distributions from trusts	4	-	-	-	4	-	-	-
Total contributions	(211)	24	55	(134)	58	(41)	(173)	-
Other nonoperating (expense) income - net	(414)	(1)	-	-	(3)	(3)	(358)	(49)
Investment return, including beneficial interest in investment pool:								
Interest and dividend income	2,596	418	78	706	411	276	707	-
Realized gains (losses) on fixed income and equity securities — net	435	61	76	134	24	(64)	204	-
Unrealized gains (losses) on fixed income and equity securities — net	(472)	(205)	-	(24)	(49)	(133)	(61)	-
Total investment return (loss), including beneficial interest in investment pool	\$ 2,559	\$ 274	\$ 154	\$ 816	\$ 386	\$ 79	\$ 850	\$ -
Total nonoperating revenue (expense)	\$ 1,934	\$ 297	\$ 209	\$ 682	\$ 441	\$ 35	\$ 319	\$ (49)
(LOSS) INCOME	\$ (6,249)	\$ (198)	\$ (38)	\$ (1,119)	\$ (2,303)	\$ (1,811)	\$ (546)	\$ (234)
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:								
Net assets released from restriction for capital purchases	9	9	-	-	-	-	-	-
Total other changes in net assets without donor restrictions	\$ 9	\$ 9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (6,240)	\$ (189)	\$ (38)	\$ (1,119)	\$ (2,303)	\$ (1,811)	\$ (546)	\$ (234)

Campus Consolidating Statement of Financial Position Information

January 31, 2019

(in thousands)

	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 1,427	\$ 686	\$ 34	\$ 660	\$ 10	\$ 9	\$ 16	\$ 12
Restricted cash	75	34	28	5	1	-	-	7
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	47,882	8,392	5,142	14,691	6,765	10,133	2,759	-
Restricted under debt agreements	6,115	876	1,411	1,105	216	152	615	1,740
Accounts receivable - net	9,972	1,605	2,251	1,979	1,874	536	437	1,290
Prepaid expenses and other assets	626	81	167	57	109	24	62	126
Total current assets	<u>\$ 66,097</u>	<u>\$ 11,674</u>	<u>\$ 9,033</u>	<u>\$ 18,497</u>	<u>\$ 8,975</u>	<u>\$ 10,854</u>	<u>\$ 3,889</u>	<u>\$ 3,175</u>
PROPERTY AND EQUIPMENT - Net	308,697	50,656	38,953	71,263	42,541	40,267	31,966	33,051
OTHER ASSETS	3,962	108	2,116	637	848	-	253	-
INTEREST IN IRREVOCABLE TRUSTS	1,206	171	209	17	298	99	343	69
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:								
Board designated	\$ 136,182	\$ 18,207	\$ 7,324	\$ 45,072	\$ 33,547	\$ 2,098	\$ 15,617	\$ 14,317
Restricted under state and debt agreements	75,682	10,362	20,282	7,118	3,269	2,098	5,896	26,657
Endowment	2,574	733	44	-	-	-	-	1,797
Total assets whose use is limited, including beneficial interest in investment pool	<u>\$ 214,438</u>	<u>\$ 29,302</u>	<u>\$ 27,650</u>	<u>\$ 52,190</u>	<u>\$ 36,816</u>	<u>\$ 4,196</u>	<u>\$ 21,513</u>	<u>\$ 42,771</u>
TOTAL	<u>\$ 594,400</u>	<u>\$ 91,911</u>	<u>\$ 77,961</u>	<u>\$ 142,604</u>	<u>\$ 89,478</u>	<u>\$ 55,416</u>	<u>\$ 57,964</u>	<u>\$ 79,066</u>

Covenant Retirement Communities, Inc.

Campus Consolidating Statement of Financial Position Information (Continued)

January 31, 2019

(in thousands)

	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
LIABILITIES AND NET ASSETS (DEFICITS)								
CURRENT LIABILITIES:								
Accounts payable - trade	\$ 1,555	\$ 329	\$ 57	\$ 323	\$ 237	\$ 244	\$ 86	\$ 279
Accounts payable - contractors	-	-	-	-	-	-	-	-
Accrued salaries and wages	16	-	-	-	-	16	-	-
Accrued interest	2,118	563	384	354	51	157	232	377
Advance deposits	1,262	89	103	161	557	233	36	83
Current maturities of long-term debt	8,745	762	610	3,351	787	463	1,743	1,029
Deferred revenue subject to refund	63,690	11,992	9,052	13,402	13,499	9,039	6,706	-
Refundable contract liabilities	68,451	12,306	7,524	21,087	10,438	13,359	3,737	-
Other current liabilities	5,342	818	171	655	858	1,252	209	1,379
Total current liabilities	\$ 151,179	\$ 26,859	\$ 17,901	\$ 39,333	\$ 26,427	\$ 24,763	\$ 12,749	\$ 3,147
LONG-TERM DEBT - Less current maturities	251,483	69,488	40,230	38,940	6,792	20,474	28,320	47,239
PAYABLE TO (FROM) COVENANT INSTITUTIONS:								
Covenant Retirement Communities - Notes and advances	(117,814)	5,981	(45,600)	(24,012)	(45,097)	(20,588)	(7,906)	19,408
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	\$ (117,814)	\$ 5,981	\$ (45,600)	\$ (24,012)	\$ (45,097)	\$ (20,588)	\$ (7,906)	\$ 19,408
OTHER LIABILITIES	11,980	-	-	-	26	-	-	11,954
DEFERRED REVENUE FROM ENTRANCE FEES	152,192	16,426	17,797	30,551	24,037	21,350	11,730	30,301
Total liabilities	\$ 449,020	\$ 118,754	\$ 30,328	\$ 84,812	\$ 12,185	\$ 45,999	\$ 44,893	\$ 112,049
NET ASSETS (DEFICITS):								
Net Position Without Donor Restrictions	\$ 137,751	\$ (27,718)	\$ 47,452	\$ 57,770	\$ 72,886	\$ 9,312	\$ 12,893	\$ (34,844)
Net Position With Donor Restrictions	7,629	875	181	22	4,407	105	178	1,861
Total net assets (deficits)	\$ 145,380	\$ (26,843)	\$ 47,633	\$ 57,792	\$ 77,293	\$ 9,417	\$ 13,071	\$ (32,983)
TOTAL	\$ 594,400	\$ 91,911	\$ 77,961	\$ 142,604	\$ 89,478	\$ 55,416	\$ 57,964	\$ 79,066

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
OPERATING REVENUES:								
Routine resident services	\$ 126,151	\$ 21,335	\$ 17,417	\$ 20,133	\$ 20,044	\$ 15,724	\$ 12,835	\$ 18,663
Ancillary services	16,050	2,497	2,437	2,525	2,330	2,041	1,032	3,188
Amortization of deferred entrance fees	31,864	5,022	4,093	6,908	4,769	3,686	2,543	4,843
Net assets released from restriction for operations	1,721	177	106	205	231	290	112	600
Other	2,906	478	405	383	602	649	198	191
Total operating revenues	\$ 178,692	\$ 29,509	\$ 24,458	\$ 30,154	\$ 27,976	\$ 22,390	\$ 16,720	\$ 27,485
EXPENSES:								
Routine nursing services	33,317	5,872	4,693	5,843	4,872	4,006	2,984	5,047
Ancillary services	8,136	1,220	1,252	1,149	1,416	858	655	1,586
Resident benefits	7,678	1,424	929	1,219	1,445	771	782	1,108
Dietary	22,406	3,330	3,031	3,834	3,674	2,684	2,389	3,464
Laundry	1,034	169	194	206	152	90	119	104
Housekeeping	5,053	868	672	647	1,076	511	654	625
Maintenance	10,492	1,708	1,276	1,734	1,672	1,361	1,119	1,622
Utilities	6,775	1,259	1,225	908	1,002	805	715	861
Administrative and general	29,774	4,698	4,081	4,569	4,844	3,856	3,288	4,438
Interest	13,300	4,364	1,215	2,146	769	1,037	1,326	2,443
Property taxes	873	348	-	-	2	233	-	290
Insurance	2,717	394	357	427	446	421	292	380
Marketing and promotion	6,293	1,045	839	1,081	878	556	795	1,099
Depreciation	29,979	4,608	3,597	6,346	4,594	3,277	2,697	4,860
Amortization	263	61	25	101	9	21	22	24
Other	530	84	59	115	92	49	47	84
Total expenses	178,620	31,452	23,445	30,325	26,943	20,536	17,884	28,035
OPERATING (LOSS) INCOME	\$ 72	\$ (1,943)	\$ 1,013	\$ (171)	\$ 1,033	\$ 1,854	\$ (1,164)	\$ (550)

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
OPERATING (LOSS) INCOME	\$ 72	\$ (1,943)	\$ 1,013	\$ (171)	\$ 1,033	\$ 1,854	\$ (1,164)	\$ (550)
NONOPERATING REVENUE (EXPENSE):								
Contributions:								
Gifts and bequests — net	586	25	(1)	(95)	(28)	(138)	282	541
Net assets released from restriction — distributions from trusts	313	-	-	13	-	38	258	4
Total contributions	899	25	(1)	(82)	(28)	(100)	540	545
Loss on extinguishment of debt	-	-	-	-	-	-	-	-
Other nonoperating (expense) income - net	(109)	28	(49)	(67)	(16)	-	(10)	5
Investment return, including beneficial interest in investment pool:								
Interest and dividend income	9,025	1,757	1,230	1,729	1,966	617	641	1,085
Realized gains (losses) on fixed income and equity securities — net	2,707	283	183	1,043	669	62	317	150
Unrealized gains (losses) on fixed income and equity securities — net	(2,489)	(350)	(32)	(842)	(219)	(337)	(127)	(582)
Total investment return (loss), including beneficial interest in investment pool	\$ 9,243	\$ 1,690	\$ 1,381	\$ 1,930	\$ 2,416	\$ 342	\$ 831	\$ 653
Total nonoperating revenue (expense)	10,033	1,743	1,331	1,781	2,372	242	1,361	1,203
(LOSS) INCOME	\$ 10,105	\$ (200)	\$ 2,344	\$ 1,610	\$ 3,405	\$ 2,096	\$ 197	\$ 653
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:								
Net assets released from restriction for capital purchases	15	-	-	-	15	-	-	-
Total other changes in net assets without donor restrictions	\$ 15	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ -
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 10,120	\$ (200)	\$ 2,344	\$ 1,610	\$ 3,420	\$ 2,096	\$ 197	\$ 653

Covenant Retirement Communities, Inc.

Consolidating Statement of Financial Position Information – Covenant Retirement Services

January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Solutions Business Development and Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Tulsa	CovenantCare at Home	Covenant Retirement Services
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 1,960	\$ -	\$ 62	\$ 409	\$ 84	\$ 870	\$ 527	\$ 8
Restricted cash	791	-	-	-	-	291	500	-
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	14	-	14	-	-	-	-	-
Restricted under debt agreements	-	-	-	-	-	-	-	-
Accounts receivable - net	3,023	(28)	-	-	4	1	2,780	266
Prepaid expenses and other assets	29	-	-	-	1	-	28	-
Total current assets	<u>\$ 5,817</u>	<u>\$ (28)</u>	<u>\$ 76</u>	<u>\$ 409</u>	<u>\$ 89</u>	<u>\$ 1,162</u>	<u>\$ 3,835</u>	<u>\$ 274</u>
PROPERTY AND EQUIPMENT - Net	24,107	-	-	3,417	5,861	14,615	151	63
OTHER ASSETS	1,336	(1)	-	(36)	111	(160)	3,376	(1,954)
INTEREST IN IRREVOCABLE TRUSTS	-	-	-	-	-	-	-	-
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:								
Board designated	-	-	-	-	-	-	-	-
Restricted under state and debt agreements	-	-	-	-	-	-	-	-
Endowment	-	-	-	-	-	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL	<u>\$ 31,260</u>	<u>\$ (29)</u>	<u>\$ 76</u>	<u>\$ 3,790</u>	<u>\$ 6,061</u>	<u>\$ 15,617</u>	<u>\$ 7,362</u>	<u>\$ (1,617)</u>

Covenant Retirement Communities, Inc.

Consolidating Statement of Financial Position Information – Covenant Retirement Services (Continued)

January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Solutions Business Development and Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Tulsa	CovenantCare at Home	Covenant Retirement Services
LIABILITIES AND NET ASSETS (DEFICITS)								
CURRENT LIABILITIES:								
Accounts payable - trade	\$ 461	\$ (28)	\$ -	\$ 10	\$ 12	\$ 16	\$ 416	\$ 35
Accounts payable - contractors	-	-	-	-	-	-	-	-
Accrued salaries and wages	-	-	-	-	-	-	-	-
Accrued interest	101	-	-	18	14	69	-	-
Advance deposits	-	-	-	-	-	-	-	-
Current maturities of long-term debt	-	-	-	-	-	-	-	-
Deferred revenue subject to refund	-	-	-	-	-	-	-	-
Refundable contract liabilities	-	-	-	-	-	-	-	-
Other current liabilities	1,585	-	-	15	148	655	767	-
Total current liabilities	\$ 2,147	\$ (28)	\$ -	\$ 43	\$ 174	\$ 740	\$ 1,183	\$ 35
LONG-TERM DEBT - Less current maturities	-	-	-	-	-	-	-	-
PAYABLE TO (FROM) COVENANT INSTITUTIONS:								
Covenant Retirement Communities - Notes and advances	20,888	-	1,907	(194)	3,731	472	15,012	(40)
Other Benevolent institutions- Notes and advances	13,050	-	-	4,000	4,850	4,200	-	-
Total payable to (from) Covenant institutions	\$ 33,938	\$ -	\$ 1,907	\$ 3,806	\$ 8,581	\$ 4,672	\$ 15,012	\$ (40)
OTHER LIABILITIES	11,752	-	-	-	-	11,752	-	-
Total liabilities	\$ 47,837	\$ (28)	\$ 1,907	\$ 3,849	\$ 8,755	\$ 17,164	\$ 16,195	\$ (5)
NET ASSETS (DEFICITS):								
Net Position Without Donor Restrictions	(17,624)	(1)	(1,831)	(59)	(2,694)	(1,547)	(9,880)	(1,612)
Net Position With Donor Restrictions	1,047	-	-	-	-	-	1,047	-
Total net assets (deficits)	\$ (16,577)	\$ (1)	\$ (1,831)	\$ (59)	\$ (2,694)	\$ (1,547)	\$ (8,833)	\$ (1,612)
TOTAL	\$ 31,260	\$ (29)	\$ 76	\$ 3,790	\$ 6,061	\$ 15,617	\$ 7,362	\$ (1,617)

Covenant Retirement Communities, Inc.

**Consolidating Statement of Operations and Changes in Net Assets Without Donor
Restrictions Information – Covenant Retirement Services**

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Solutions Business Development and Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Tulsa	CovenantCare at Home	Covenant Retirement Services
OPERATING REVENUES:								
Routine resident services	\$ 4,523	\$ -	\$ -	\$ -	\$ 1,258	\$ 3,265	\$ -	\$ -
Ancillary services	17,745	-	-	-	-	23	17,722	-
Amortization of deferred entrance fees	-	-	-	-	-	-	-	-
Net assets released from restriction for operations	84	-	-	-	-	-	84	-
Other	1,267	-	-	665	9	41	-	552
Total operating revenues	<u>\$ 23,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 665</u>	<u>\$ 1,267</u>	<u>\$ 3,329</u>	<u>\$ 17,806</u>	<u>\$ 552</u>
EXPENSES:								
Routine nursing services	9,624	-	-	-	-	277	9,347	-
Ancillary services	1,474	-	-	-	-	3	1,471	-
Resident benefits	591	-	-	-	19	46	526	-
Dietary	552	-	-	-	24	528	-	-
Laundry	-	-	-	-	-	-	-	-
Housekeeping	107	-	-	-	59	48	-	-
Maintenance	457	-	-	206	81	170	-	-
Utilities	301	-	-	-	125	140	36	-
Administrative and general	8,233	1	69	34	226	445	7,015	443
Interest	1,204	-	-	200	235	769	-	-
Property taxes	428	-	-	99	124	201	4	-
Insurance	212	-	8	5	33	62	104	-
Marketing and promotion	672	-	-	-	48	111	488	25
Depreciation	860	-	-	129	187	495	36	13
Amortization	238	-	-	199	-	11	28	-
Other	55	-	-	-	-	-	55	-
Total expenses	<u>\$ 25,008</u>	<u>\$ 1</u>	<u>\$ 77</u>	<u>\$ 872</u>	<u>\$ 1,161</u>	<u>\$ 3,306</u>	<u>\$ 19,110</u>	<u>\$ 481</u>
OPERATING (LOSS) INCOME	<u>\$ (1,389)</u>	<u>\$ (1)</u>	<u>\$ (77)</u>	<u>\$ (207)</u>	<u>\$ 106</u>	<u>\$ 23</u>	<u>\$ (1,304)</u>	<u>\$ 71</u>

Covenant Retirement Communities, Inc.

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

For the Year Ended January 31, 2019

(in thousands)

	Consolidated	Eliminations	Covenant Solutions Business Development & Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Tulsa	CovenantCare at Home	Covenant Retirement Services
OPERATING (LOSS) INCOME	(1,389)	(1)	(77)	(207)	106	23	(1,304)	71
NONOPERATING REVENUE (EXPENSE):								
Contributions:								
Gifts and bequests — net	69	-	-	-	-	-	72	(3)
Net assets released from restriction — distributions from trusts	-	-	-	-	-	-	-	-
Total contributions	69	-	-	-	-	-	72	(3)
Other nonoperating (expense) income - net	(1)	-	-	-	-	-	(1)	-
Total investment return (loss), including beneficial interest in investment pool								
Interest and dividend income	-	-	-	-	-	-	-	-
Total nonoperating revenue (expense)	\$ 68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71	\$ (3)
(LOSS) INCOME	\$ (1,321)	\$ (1)	\$ (77)	\$ (207)	\$ 106	\$ 23	\$ (1,233)	\$ 68
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:								
Net asset transfer from related organization	3,089	-	-	-	-	-	3,738	(649)
Total other changes in net assets without donor restrictions	\$ 3,089	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,738	\$ (649)
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 1,768	\$ (1)	\$ (77)	\$ (207)	\$ 106	\$ 23	\$ 2,505	\$ (581)

Covenant Retirement Communities, Inc.

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

As of and For the Year Ended January 31, 2019

(in thousands)

1. Basis of Reporting

In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position and consolidating statement of operations and changes in net assets without donor restrictions information as of and for the year ended January 31, 2019 for the Obligated Group exclude the effects of consolidating entities controlled by members of the Obligated Group but which themselves are not members of the Obligated Group. Those entities which are not members of the Obligated Group are included in Covenant Retirement Services. The balances for Covenant Retirement Communities and the Obligated Group do not include interests in controlled entities.