Covenant Retirement Communities of the Great Lakes Conference

Financial Report

January 31, 2019

Table of Contents

Plante & Moran, PLLC
Suite 900
200 N. Martingale Rd.
Schaumburg, IL 60173-2044
Tel: 847.697.6161
Fax: 847.697.6176
plantemoran.com

Independent Auditor's Report

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Retirement Communities of the Great Lakes Conference

We have audited the accompanying financial statements of Covenant Retirement Communities of the Great Lakes Conference (an affiliate of The Evangelical Covenant Church and Covenant Retirement Communities, Inc. (see Note 2)), which comprise the statement of financial position as of January 31, 2019 and the related statements of operations, changes in total net assets (deficit), and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant Retirement Communities of the Great Lakes Conference as of January 31, 2019 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Plante & Moran, PLLC

May 24, 2019

Statement of Financial Position

	January 31, 2019
Assets	
Current Assets	
Cash and cash equivalents	$ 8,224
Restricted cash (Note 5)	150,499
Assets whose use is limited, including beneficial interest in investment pool: (Notes 3 and 6)	
Board designated	4,724,635
Restricted under debt agreements	292,275
Accounts receivable - Net	1,415,032
Prepaid and other assets	42,331
Total current assets	6,632,996
Property and Equipment	
Land and improvements	1,248,174
Buildings and improvements	46,511,133
Furniture and equipment	9,449,008
Construction in progress (Note 8)	821,497
Total property and equipment - At cost	58,029,812
Less accumulated depreciation	22,408,716
Net property and equipment	35,621,096
Other Assets	200,000
Interest in Irrevocable Trusts (Note 11)	37,463
Assets Whose Use is Limited, Including Beneficial Interest in Investment Pool (Notes 3 and 6)	
Board designated	455,089
Restricted under state and debt agreements	3,986,945
Total assets whose use is limited, including beneficial interest in investment pool	4,442,034
Total assets	**$ 46,933,589**

Statement of Financial Position (Continued)

	January 31, 2019
Liabilities and Net Assets (Deficit)	
Current Liabilities	
Accounts payable	$ 179,432
Accrued salaries and wages	28,771
Accrued interest	306,492
Advance deposits	53,100
Current maturities of long-term debt (Note 7)	597,505
Deferred revenue subject to refund (Note 2)	9,022,626
Refundable contract liabilities (Note 2)	6,576,389
Other current liabilities	53,390
Total current liabilities	16,817,705
Long-term Debt - Less current maturities (Note 7)	42,731,674
Other Long-term Liabilities	
Due to Covenant Retirement Communities, Inc. (Note 9)	11,497,145
Deferred revenue from entrance fees (Note 2)	9,524,480
Total other long-term liabilities	21,021,625
Total liabilities	80,571,004
Net Assets (Deficit)	
Net deficit without donor restrictions	(33,686,889)
Net assets with donor restrictions	49,474
Total net assets (deficit)	(33,637,415)
Total liabilities and net assets (deficit)	**$ 46,933,589**

Statement of Operations

	Year Ended January 31, 2019
Operating Revenue	
Routine resident services	$ 10,162,563
Ancillary services	1,395,584
Amortization of deferred entrance fees	2,877,347
Net assets released from restrictions used for operations	63,934
Other	567,512
Total operating revenue	15,066,940
Expenses (Note 14)	
Routine nursing services	2,665,293
Ancillary services	639,706
Resident benefits	752,496
Dietary	2,141,874
Laundry	34,831
Housekeeping	291,042
Maintenance	993,178
Utilities	588,591
Administration and general	2,836,019
Interest	2,467,261
Property taxes	356,020
Insurance	249,537
Marketing and promotion	703,789
Depreciation	2,078,139
Amortization	39,998
Other	76,255
Total expenses (Note 14)	16,914,029
Operating Loss	(1,847,089)
Nonoperating (Expense) Revenue	
Gifts and bequests - Net of related expenses (Note 14)	(41,494)
Unrealized loss on investments - Net	(133,061)
Realized loss on investments - Net	(63,542)
Interest and dividend income	275,845
Other nonoperating expense - Net	(2,100)
Total nonoperating revenue	35,648
Loss	(1,811,441)
Increase in Net Deficit without Donor Restrictions	**$ (1,811,441)**

Statement of Changes in Total Net Assets (Deficit)

	Year Ended January 31, 2019
Net Deficit without Donor Restrictions - Loss	$ (1,811,441)
Net Assets (Deficit) with Donor Restrictions	
Contributions	69,674
Net assets released from restriction	(63,934)
Irrevocable trusts - Change in present value discount	(4,360)
Transfer to affiliate	(84,250)
Decrease in net assets (deficit) with donor restrictions	(82,870)
Increase in Net Deficit	(1,894,311)
Net Assets (Deficit) - As restated - Beginning of year	(31,743,104)
Net Assets (Deficit) - End of year	**$ (33,637,415)**

Statement of Cash Flows

	Year Ended January 31, 2019
Cash Flows from Operating Activities	
Change in net assets (deficit)	$ (1,894,311)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:	
Amortization of deferred entrance fees	(2,877,347)
Depreciation	2,078,139
Amortization	39,998
Provision for bad debts	9,075
Original issue premium accretion - Net of original issue discount amortization and unamortized debt expense	(10,667)
Net realized and unrealized gains on assets whose use is limited	196,603
Other changes in irrevocable trusts - Net	4,360
Nonrefundable entrance fees collected	4,924,640
Nonrefundable entrance fees refunded	(474,478)
Changes in operating assets and liabilities:	
Accounts receivable	205,127
Other assets	(44,716)
Accounts payable	(16,228)
Accrued salaries and wages	(9,952)
Accrued interest	2,587
Other liabilities	(71,410)
Net cash provided by operating activities	2,061,420
Cash Flows from Investing Activities	
Property and equipment expenditures	(1,954,046)
Net change in assets whose use is limited, including beneficial interest in investment pool and restricted cash	(870,240)
Net cash used in investing activities	(2,824,286)
Cash Flows from Financing Activities	
Payment of debt	(548,610)
Net advances from Covenant Retirement Communities, Inc.	1,035,516
Refundable entrance fees collected	1,557,181
Refundable entrance fees refunded	(1,282,737)
Net cash provided by financing activities	761,350
Net Decrease in Cash and Cash Equivalents	(1,516)
Cash and Cash Equivalents - Beginning of year	9,740
Cash and Cash Equivalents - End of year	**$ 8,224**
Supplemental Disclosure of Operating Investing, and Financing Activities - Interest paid (including intercompany interest paid of $380,375 in 2019)	$ 2,515,339

See notes to financial statements.

Note 1 - Mission Statement

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statements

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

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

Basis of Presentation

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

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

Financial Support from Parent Organization

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Industry

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations of regulations by healthcare providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Retirement Community is in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 27 percent of the Retirement Community's combined routine resident and ancillary services revenue for the year ended January 31, 2019.

Use of Estimates

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

Cash and Cash Equivalents

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

Assets Whose Use is Limited, Including Interest in Investment Pool

Assets whose use is limited are classified as trading and are recorded at fair value. See Note 3 for more information regarding the methods used to estimate fair value. See Note 6 for details regarding the composition of assets whose use is limited.

Board-designated assets are invested in a Combined Investment Fund that aggregates investments of all the Board of Benevolence institutions. While these funds are held and invested by CMB, the Retirement Community retains the benefits of ownership of its proportional interest in the Combined Investment Fund. This ownership interest in the Combined Investment Fund is reported as assets whose use is limited - board designated, which is an interest in investment pool, in the accompanying financial statements.

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable from residents, insurance companies, and governmental agencies are based on the amount that reflects the consideration to which the Retirement Community expects to be entitled in exchange for services provided. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Retirement Community's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts totaled $21,810 at January 31, 2019.

Overpayments from third-party payors on residents' accounts receivable balances have been included in other current liabilities on the statement of financial position. Total overpayments amounted to $7,388 at January 31, 2019.

The Retirement Community provides services without collateral to its residents, most of whom are local residents and insured under third-party agreements. The mix of receivables from residents and third-party payors for the year ended January 31, 2019 was 21 percent from private payors, 54 percent from Medicare, and 25 percent from Medicaid.

Benevolent Care Fund

Covenant Retirement Communities, Inc. has adopted a policy requiring amounts received from unrestricted wills and bequests, net of assessments for Covenant Estate Planning Services' operating expenses, to be placed into the Benevolent Care Fund (a component of board-designated assets whose use is limited). The earnings from this fund are used to offset charity care costs (see Notes 4 and 6).

Unamortized Debt Expense

Underwriting fees and expenses related to the procurement of debt are deferred and amortized on the bonds outstanding method. These costs are recorded as a reduction in the recorded balance of the outstanding long-term debt. Unamortized debt expense is shown net of accumulated amortization of $205,971 at January 31, 2019 (see Note 7).

Property and Equipment

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

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

Certain apartment refurbishing costs are expensed as incurred, whereas significant renewals and betterments are capitalized. Maintenance expense includes refurbishing costs of $67,185 in 2019.

Interest costs are capitalized during periods of active construction for qualified expenditures based upon interest rates in place during the construction period until construction is substantially complete. Capitalized interest costs are amortized over the lives consistent with the constructed assets. The Retirement Community did not capitalize interest costs in 2019, as the costs were not significant.

During the year ended January 31, 2019, the Retirement Community recorded the retirement of certain fully depreciated property and equipment having an original cost of approximately $7,000, which were physically disposed.

Note 2 - Summary of Significant Accounting Policies (Continued)

Long-lived Assets

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

Advance Deposits

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

Routine Resident and Ancillary Service Revenue

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

Entrance Fees

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

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

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

The nonrefundable portion of the entrance fee represents a right to the resident to access to future services. This right is deemed to be the Retirement Community's performance obligation. Nonrefundable entrance fees totaling $9,524,480 at January 31, 2019, are recorded as deferred revenue and are amortized into income over the actuarial life of each resident.

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves the Retirement Community within the first 50 or 60 months of residency. Included in current liabilities at January 31, 2019 is $9,022,626 of deferred entrance fees subject to the above refund provisions.

The Retirement Community also offers contracts that include a 50, 75, and 90 percent refund of the entrance fee. The refundable portion of the one-time entrance fee is treated as a current liability, with the remainder recorded as noncurrent deferred revenue. The Retirement Community recognizes income on the noncurrent deferred portion of the entrance fee ratably, using the actuarial life of each resident. Included in refundable contract liabilities is $6,576,389 at January 31, 2019 for refundable entrance fees.

Note 2 - Summary of Significant Accounting Policies (Continued)

Entrance fee refunds under all programs were $1,757,215 in 2019. Although the refundable contract liabilities and a portion of deferred revenue are classified as current liabilities, the likelihood of actual payment of these liabilities in full within one year is remote, based on the Retirement Community's experience.

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

Obligation to Provide Future Services

Annually, the Retirement Community calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities were to exceed the deferred revenue from entrance fees, a liability (obligation to provide future services) would be recorded with a corresponding charge to income. No such obligation was required to be recorded at January 31, 2019.

Charity Care

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

Classification of Net Assets

Net assets of the Retirement Community are classified as net assets without donor restrictions or net assets with donor restrictions, depending on the presence and characteristics of donor-imposed restrictions limiting the Retirement Community's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements and donor-imposed restrictions that limit the use of net assets in perpetuity result in net assets with donor restrictions. Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions, unless specifically restricted by the donor or by applicable state law. Total net assets with donor restrictions at January 31, 2019 of $49,474, include irrevocable trusts, which are not available for use until assets are distributed from the trusts, and contributions restricted for a particular purpose.

Loss (Performance Indicator)

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

Tax Status

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Retirement Community adopted ASC 606 effective February 1, 2018 using the modified retrospective transition method. There was a cumulative effect on the opening balance of net assets in the amount of $49,497 due to the write off of deferred marketing costs as a result of adopting the standard as of February 1, 2018.

As of January 31, 2019, the Retirement Community adopted ASU No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories: net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Retirement Community, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general.

Note 3 - Fair Value Measurements

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

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Retirement Community. Unobservable inputs are inputs that reflect the Retirement Community's assumptions about the assumptions market participants would use in pricing the asset 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 and liabilities that the Retirement Community has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2

Valuations are not based on quoted prices for identical assets and 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 and liabilities.

Note 3 - Fair Value Measurements (Continued)

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

Fair Value of Financial Instruments Carried at Fair Value

The following are categories of assets measured at fair value on a recurring basis during the year ended January 31, 2019 using unadjusted quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

The Retirement Community's interest in the investment pool is valued on a recurring basis and is a direct interest in the investment pool, valued using Level 3 inputs of the valuation hierarchy for 2019. There were total withdrawals and allocated pooled earnings of approximately $507,000 in 2019.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at January 31, 2019			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at January 31, 2019
Assets				
Beneficial interest in investment pool - Board designated	$ -	$ -	$ 5,179,724	$ 5,179,724
Restricted under state and debt agreements:				
Cash and money market securities	661,075	-	-	661,075
Fixed-income securities	-	3,618,145	-	3,618,145
Total assets	$ 661,075	$ 3,618,145	$ 5,179,724	$ 9,458,944
Interest in irrevocable trusts	$ -	$ -	$ 37,463	$ 37,463

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

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 year ended January 31, 2019 is as follows:

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended January 31, 2019 is as follows:

	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - Interest in Irrevocable Trusts
Beginning balance - February 1, 2018	$ 41,823
Unrealized losses	(4,360)
Ending balance - January 31, 2019	$ 37,463

Note 4 - Charity Care and Other Unreimbursed Care

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

Records are maintained to identify and monitor the level of charity care provided. Unreimbursed costs foregone for charity care were $109,486 in 2019. Charitable gifts received to offset costs were $65,222 in 2019. The Retirement Community uses a cost per resident day amount to determine unreimbursed costs.

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

Estimated cost of Medicaid services provided	$ 1,204,080
Less government reimbursement	(618,150)
Unreimbursed care - Based on estimated cost	$ 585,930

Note 5 - Restricted Cash

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

Note 6 - Assets Whose Use is Limited, Including Interest in Investment Pool

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

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

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

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

The Retirement Community invests a significant portion of its total investments in a Combined Investment Fund, which aggregates the investments of all the Board of Benevolence institutions in order to maximize return on investment and promote portfolio diversity. Investment income, realized and unrealized gains (losses), and expenses are allocated to the Retirement Community based upon the number of units owned as compared to the total number of units in the Combined Investment Fund. Certain funds invested in the Combined Investment Fund have minimum returns guaranteed by Covenant Retirement Communities, Inc. that are fixed annually. Such returns totaled $15,676 for the year ended January 31, 2019.

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

Beneficial interest in investment pool - Board designated:	
Benevolent care fund	$ 228,265
Property replacement fund	226,824
Reserve for refundable contracts	4,724,635
Total beneficial interest in investment pool	5,179,724
Restricted under state and debt agreements:	
Bond interest and sinking fund	292,275
Debt service reserve fund	3,986,945
Total restricted under state and debt agreements	4,279,220
Total	$ 9,458,944
Equity securities - Board designated	$ 1,296,433
Fixed-income securities:	
Board designated	1,704,597
Restricted under state and debt agreements	3,618,145
Total fixed-income securities	5,322,742
Alternative investments - Board designated:	
Domestic equity	581,335
International equity	817,922
Hedge funds	557,041
Private equity	177,767
Puts and calls	19,770
Mortgages	24,859
Total alternative investments	2,178,694
Cash and short-term investments - Restricted under state and debt agreements	661,075
Total	$ 9,458,944

Note 7 - Long-term Debt

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

Colorado Health Facilities Authority revenue bonds, series 2012A, due in 2034, interest at 4.500 percent - 5.000 percent	$	21,396,045
Colorado Health Facilities Authority revenue bonds, series 2012B, due in 2027, interest at 4.000 percent - 5.000 percent		2,264,460
Colorado Health Facilities Authority revenue bonds, series 2013A, due in 2036, interest at 4.250 percent - 5.750 percent		586,000
Colorado Health Facilities Authority revenue refunding bonds, series 2015A due in 2036, interest at 1.000 percent - 5.000 percent		11,083,000
Illinois Finance Authority revenue refunding direct placement bonds, series 2017, due in 2029, interest rate adjusted weekly, 5.000 percent at January 31, 2019		7,329,599
Total long-term debt		42,659,104
Less current maturities		(597,505)
Less unamortized debt issuance costs - Net of accumulated amortization		(459,557)
Plus unamortized original issue discount - Net of unamortized original issue premium		1,129,632
Total long-term debt - Less current maturities	$	42,731,674

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

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

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

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

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

Years Ending January 31		Amount
2020	$	597,505
2021		625,206
2022		655,328
2023		686,256
2024 and thereafter		40,094,809
Total	$	42,659,104

Note 7 - Long-term Debt (Continued)

The tax-exempt bond indentures for the Retirement Community's bonds require certain funds to be held in accounts controlled by the bond trustee. The total trustee-held funds, which are included in assets whose use is limited - restricted under state and debt agreements in the accompanying financial statements, at January 31, 2019 are as follows:

Trustee-held funds - Noncurrent - Debt service reserve fund	$ 3,986,945

Note 8 - Construction in Progress

The construction in progress balance of $821,497 at January 31, 2019 relates to ongoing projects at the campus that will be paid for from operations and reserves. Sufficient funds to complete all projects are available from board-designated reserves.

Note 9 - Related Party Transactions

Included in administrative and general expense are management fees charged by the central office of Covenant Retirement Communities, Inc. These fees aggregated $678,470 in 2019.

Notes and advances from Covenant Retirement Communities, Inc. bear interest at 3 percent and generally have no fixed repayment terms. These advances are classified as long term, as the Retirement Community has the intent and ability to postpone repayment of the balance for at least one year. Amounts due to Covenant Retirement Communities, Inc. were $11,497,145 at January 31, 2019.

Net interest charges from Covenant Retirement Communities, Inc. were $300,865 in 2019.

Each facility within Covenant Retirement Communities, Inc. is assessed a percentage of reoccupancy entrance fees to support the national marketing expenses of Covenant Retirement Communities, Inc. The Retirement Community's marketing assessment totaled $101,995 in 2019.

Note 10 - Pension Plan

Certain full-time employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning on January 1, 2013, the Retirement Community began to match contributions to a defined contribution plan, based on certain eligibility requirements, made by employees, up to 3 percent of each employee's salary. The Retirement Community recorded expense of $39,585 for the match in 2019.

Pension expense, representing the Retirement Community's required contribution to the Plan, was $31,628 in 2019. The contributions made by the Retirement Community represented less than 5 percent of the total contributions made to the Plan in 2018 and 2017. To the extent the Plan is underfunded, future contributions to the Plan may increase.

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

Note 10 - Pension Plan (Continued)

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

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

Information regarding plan net assets and the actuarial present value of accumulated plan benefits is not yet available as of December 31, 2018.

The fair value of plan assets as of December 31, 2018 was $267,063,238.

Note 11 - Beneficial Interest of Gift Instruments

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

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

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

Note 12 - Employee Medical Benefit Plan

The Retirement Community participates in a medical benefit plan, which is sponsored by CRC and available to full-time and eligible part-time employees and their dependents. The medical benefit expense is based on actual medical, dental, and prescription claims paid, administration fees, and the provision for unpaid and unreported claims at year end. The medical benefit expense was $513,100 for the year ended January 31, 2019.

Note 13 - Revenue Recognition

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

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

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

Note 13 - Revenue Recognition (Continued)

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

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

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

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

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

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

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

Payors:	
Private	$ 9,392,621
Medicare	1,547,376
Medicaid	618,150
Total	$ 11,558,147
Level of care:	
Residential living	$ 3,974,631
Assisted living	4,114,142
Skilled nursing/memory care	3,469,374
Total	$ 11,558,147

Note 14 - Functional Expenses

The Retirement Community provides various services to its members. Expenses related to providing these services are as follows as of January 31, 2019:

Program services:	
Salaries and benefits	$ 5,454,987
Purchased services	1,466,005
Equipment and supplies	1,211,983
Depreciation and amortization	1,977,492
Interest	2,303,434
Insurance	232,968
Other	1,652,726
Total program services	14,299,595
Support services:	
Salaries and benefits	400,191
Purchased services	981,342
Equipment and supplies	83,360
Depreciation and amortization	140,645
Interest	163,827
Insurance	16,569
Other	825,054
Total support services	2,610,988
Fundraising	
Salaries and benefits	30,625
Purchased services	771
Supplies	398
Other	13,146
Fundraising	44,940
Total	$ 16,955,523

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

Note 15 - Liquidity

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

Cash and cash equivalents	$ 8,224
Accounts receivable - Net	1,415,032
Total	$ 1,423,256

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

Note 15 - Liquidity (Continued)

The Retirement Community operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures over the next 12 months. To help manage unanticipated liquidity needs, the Retirement Community also has certain board-designated assets limited as to use, which as noted in Note 6, have been designated by the board of directors for future capital improvement and may, at its discretion, be made available for general expenditures within the next year.