

DISCLOSURE STATEMENT

DATE: February 26, 2021

Name of Facility: Covenant Village, Inc.
located at 1351 Robinwood Road
Gastonia, North Carolina 28054
704 867-2319

In accordance with Chapter 58, Article 64 of the North Carolina General Statutes of the State of North Carolina:

- ◆ this Disclosure Statement may be delivered until revised, but not after July 26, 2022.
- ◆ delivery of the Disclosure Statement to a contracting party before execution of a contract for continuing care is required.
- ◆ this Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure accuracy or completeness of the information set out.

Note: Covenant Village believes this information is accurate and complete in all material respects, so far as compliance with the disclosure requirements for Continuing Care Facilities in the State of North Carolina.

TABLE OF CONTENTS

| | | |
|-------------|---|-------|
| I. | ORGANIZATION, INTRODUCTION and INFORMATION (Corporation) | |
| | Narrative Description of the Organization and its Operation | I-1 |
| | Non-Profit/For-Profit Status | I-1 |
| | Affiliation(s) | I-1 |
| | Accreditation(s) | I-1 |
| II. | FACILITY INTRODUCTION and INFORMATION (Facility) | |
| | Narrative Description of the Facility and its Operation | II-1 |
| | Non-Profit/For-Profit Status | II-1 |
| | Legal Description, (i.e., corporation partnership, etc.) | II-1 |
| | Identification and background of officers, directors, management staff, owners including addresses and professional services. | |
| | Criminal Violation Statement | II-2 |
| | Location and Description of Physical Property | II-5 |
| | Estimated Number of Residents | II-5 |
| | Small Business Administration, COVID-19 Outbreak and Payroll Protection Program Loan Assistance | II-6 |
| | Vision of Covenant Village and Master Planning | II-6 |
| III. | POLICIES | |
| | Admission | III-1 |
| | Health Criteria | III-1 |
| | Covenant Village is For Active Seniors | III-2 |
| | Financial and Insurance Criteria | III-3 |
| | Age Requirements | III-3 |
| | Changes of Condition of Resident Prior to Occupancy/Refund(s) | |
| | Applicable/Not Applicable/Time Frame of Refund(s) | III-3 |
| | Cancellation/Termination-Refund(s) Applicable/Not Applicable/Time Frame of Refund(s) | III-3 |
| | Moves | III-7 |
| | Marriages/New Second Occupant | III-8 |
| | Inability to Pay | III-8 |
| IV. | SERVICES | |
| | General | IV-1 |
| | Standard Services Available | IV-2 |
| | Services Available at Extra Charge, Identified | IV-3 |
| | Health Services Available | IV-3 |
| | Personal Services Available | IV-3 |
| V. | FEES | |
| | Application/Registration Fee | V-1 |
| | Refundable/Non-Refundable Entrance Fee | V-1 |
| | Entrance and Monthly Fee | V-5 |

| | | |
|--------------|--|--------|
| | Change in Fees for the Previous Five Years | V-6 |
| VI. | FINANCIAL INFORMATION | |
| | Financial Overview Statement | VI-1 |
| | Reserves, Escrow and Trusts (Description of each, describing circumstances under which funds will be released, including a copy of documentation. (Complies with G.S.58-64-20(a)(9), G.S.58-64-35.) | VI-1 |
| | Facility Development/Expansion (Description of proposed or Further development activities including a statement of anticipated sources and uses of funds. (In compliance with G.S.58-64-20(a)(14).) | VI-1 |
| VII. | OTHER MATERIAL INFORMATION | |
| | Unaudited Interim Financial Statements, December 31, 2020 | VII-1 |
| VIII. | ATTACHMENT 1 | |
| | Current Certified Financial Statements | VIII-1 |
| IX. | ATTACHMENT 2 | |
| | Five Year Projection Statements (Balance Sheet, Statement of Operations, Statement of Cash Flow, and Statement detailing all significant assumptions), including an independent CPA compilation statement. | IX-1 |
| X. | ATTACHMENT 3 | |
| | Resident's Agreement/Contracts (Copy of current Resident's Agreement/Contracts and Agreement for Direct Admission to the Health Center which complies with all contract specifications as per N.C.G.S.68-64-25(a) and (b). Copies of reservation or waiting list contracts or any other contracts between the Provider and Residents or Prospective Residents. | X-1 |
| XI. | ATTACHMENT 4 | |
| | Escrow Agreement, Not Applicable | XI-1 |
| XII. | ATTACHMENT 5 | |
| | Other Material Information, Not Applicable | XII-1 |

SECTION I

ORGANIZATION, INTRODUCTION AND INFORMATION

DISCLOSURE STATEMENT

Organization, Introduction, and Information

Description of the Organization and its Operation

Covenant Village, Inc. is a private non-profit church related corporation which owns and operates a full-service retirement community called Covenant Village. The corporation was founded in 1977 out of a Christian concern for meeting a well-defined need in the community. Covenant Village is governed by a dedicated and influential Board of Directors, comprised of community leaders who are elected to represent the original five religious denominations and the community at large.

Non-Profit/For Profit Status

Covenant Village, Inc. is organized as a not-for-profit North Carolina corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Covenant Village is also exempt from property taxes.

Affiliations

Covenant Village is not affiliated with any other organization except for its membership in the State and National trade association, LeadingAge.

The Board of Directors is selected to represent the original five religious denominations and the community, but the church community is in no way responsible for the financial or contractual obligations of the corporation.

Accreditation

Covenant Village believes there is no widely accepted accreditation for retirement communities.

SECTION II

FACILITY INTRODUCTION AND INFORMATION

DISCLOSURE STATEMENT

Facility Introduction and Information

Description of the Facility and Its Operation

Covenant Village is a full-service retirement community located on a 59-acre site in Gastonia, North Carolina. The main building consists of 130 single room, one-bedroom and two-bedroom apartments, a 72 bed Health Center consisting of nursing care and assisted living beds, and numerous public and service areas. The main building also includes a 9,700 square foot Wellness Center (WC) to serve the residents. The WC includes state-of-the-art cardio and strength equipment, and an indoor swimming pool and spa. Covenant Village also has 21 duplex cottages consisting of 42 two-bedroom cottages located on the western side of the property.

Mailing Address - 1351 Robinwood Road
Gastonia, NC 28054

Telephone Number - 704-867-2319
Fax Number - 704-854-8738
Website - covenantvillagenc.com

Legal Description

Covenant Village, Inc. owns and operates Covenant Village. Covenant Village, Inc. is a non-profit corporation chartered under the laws of the State of North Carolina.

Identification and Background

The Board of Directors of Covenant Village, Inc. employs a Chief Executive Officer to manage Covenant Village on a day-to-day basis.

Identification and Background of Officers, Directors,
Management and Staff

On October 1, 2018, Dale Melton became the Chief Executive Officer of Covenant Village. Prior to Covenant Village, Dale served as the Director of Development at Salemtowne Retirement Community, a position he held since June 2012.

Dale serves on the Board of the LeadingAge North Carolina Foundation, our state association, as well as on the Awards Selection Committee. He was Vice-President for Seminary Relations at Louisville Presbyterian Theological Seminary in Louisville, KY, where he served over 15 years from 1997-2012. A native of North Carolina, Dale is a graduate of Wake Forest University and Southeastern Baptist Theological Seminary in Wake Forest, NC.

None of the officers, directors or persons involved in managing Covenant Village on a day-to-day basis has been convicted of a felony or pleaded nolo contendere to a felony charge, nor been held liable or enjoined in a civil action by final judgment which involved fraud, embezzlement, fraudulent conversion, or misappropriation of property; or is subject to a state or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department related to the business activity of health care, including actions affecting a license to operate a foster care facility, nursing home, retirement home, home for the aged, or similar facility.

There is no professional service firm, association, trust, partnership, or corporation in which the officers, directors or any person who will be managing the facility on a day to day basis, has, or which has in this person a ten percent (10%) or greater interest, and which it is presently intended shall currently or in the future provide goods, leases, or services to the facility, or to residents of the facility, of an aggregate value of one hundred dollars (\$100.00) or more within any year.

Covenant Village Board of Directors 2021 With Professional Experience

Mrs. Carol Carstarphen
1351 Robinwood Road
Gastonia, NC 28054
Artist

Christy Gliddon
1351 Robinwood Road
Gastonia, NC 28054
Pharr, Executive VP Human Resources

Dr. William A. Current, Jr.
1351 Robinwood Road
Gastonia, NC 28054
Dentist

John McDonald
1351 Robinwood Road
Gastonia, NC 28054
Retired, Broadcast Software Sales

Rob Collis
1351 Robinwood Road
Gastonia, NC 28054
CPA, Collis & Associates

Nancy Paschall
1351 Robinwood Road
Gastonia, NC 28054
Attorney at Law

Rick Craig
1351 Robinwood Road
Gastonia, NC 28054
CEO, A. B. Carter, Inc.

Dr. Kelly Shedd, MD
1351 Robinwood Road
Gastonia, NC 28054
Physician

Reverend Brack C. East
1351 Robinwood Road
Gastonia, NC 28054
Pastor, Holy Trinity Lutheran Church

Wes Styers
1351 Robinwood Road
Gastonia, NC 28054
Owner, Gastonia Plumbing & Heating

H. Timothy Efrid
1351 Robinwood Road
Gastonia, NC 28054
Beverage Distributor

Mrs. Nancy Paschall is a partner in her law firm. It is anticipated that such firm will provide legal services to Covenant Village, but the extent and cost of such services cannot be presently estimated.

COVENANT VILLAGE, INC.

2020 BOARD OF DIRECTORS

Officers and Members by Class

| 2021 | 2022 | 2023 |
|---|--|--|
| William Current Tim Efir Nancy Paschall | Rob Collis Christy Gliddon Kelly Shedd, MD | Carol Carstarphen Rick Craig Brack East John McDonald Wes Styers |

At Large Member: Sybil Hollowell

EXECUTIVE OFFICERS

Chairman – H. Timothy Efir
Vice-Chairman – Nancy Paschall
Secretary – Carol Carstarphen
Treasurer –
Chief Executive Officer – Dale Melton
Executive Assistant - Brenda M. Harris

President of Residents' Association
Ex-Officio

Sybil Hollowell
1933 Villagewood Court
Gastonia, NC 28054
704-864-5518

Location and Description of Physical Property

See the description of the facility.

Estimated Number of Residents

Covenant Village is currently serving about 254 residents.

GENERAL

11-6. Small Business Administration, “COVID-19 outbreak” and Payroll Protection Program Loan Assistance.

On January 30, 2020, The World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak”), which posed significant risks to the international community. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on rapid increase in exposure globally. The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings. There has been a significant change in Village operations, including the delivery of instruction and implementation of enhanced safety protocols.

To mitigate the potential negative impact, Covenant Village applied for, and on May 13, 2020, received \$1,578,700 in loan assistance through the Payroll Protection Program “PPP” administered by the Small Business Administration (“SBA”) as part of the Coronavirus Aid, Relief and Economic Security Act (CARE’S Act”). The prevailing accounting guidance defines the PPP loans as conditional contributions, with a right of return in the form of an obligation for repayment if a barrier to entitlement is unmet. Per guidance provided by the SBA, the barrier is a requirement that PPP loan funds must maintain compensation costs, employee headcount and other qualifying expenses (mortgage interest, rent and utilities). Application for the loan’s forgiveness will happen in the fiscal year 2021 and include compliance substantiation and certification. As of February 26, 2021, Covenant Village has not applied for nor received lender forgiveness. Covenant Village believes the total PPP of \$1,578,700 will be forgiven.

11-6. Vision of Covenant Village and Master Planning

We have started a Master Planning process that will deliver a campus master plan for the next 3-5 years, 5-10 years, and 10+ years.

The Master Planning process will be a comprehensive process that will include both renovation and expansion projects, as well as capital improvements and new Resident-centered programs and service line products. The major initiatives will provide benefits and an expansion of services to both current and future Residents.

Some of the key strategic initiatives to be considered include multiple dining venues, on-site concierge gerontologist clinic, increased and enhanced common areas, at home program, cottage renovations, branded wellness programs and new villa expansion.

The Master Plan will be reviewed by current and future Residents, Management, and the Board of Directors. The Board of Directors will decide which strategic initiatives to begin, considering the benefits to current and future Residents.

SECTION III

POLICIES

DISCLOSURE STATEMENT

Policies

Admission

The requirements for admission are outlined in the life care agreements found in Attachment 3 of this disclosure statement.

Health Criteria

The guidelines used by Covenant Village to help future residents decide if their needs will be met, are entitled “Covenant Village is for Active Seniors” and are as follows:

COVENANT VILLAGE IS FOR ACTIVE SENIORS

Covenant Village is committed to providing a safe and secure environment where active seniors can lead the independent life-style they choose. Our cottages and apartments are for people who can live independently without direct assistance from others for routine personal activities. Our Health Center provides two areas of care, assisted living and skilled, for residents whose needs can no longer be met in the residential area. Residents join Covenant Village in the apartments or cottages and may move to the Health Center in the future if the need arises, either on a temporary or permanent basis.

Staff is not available for direct personal assistance in the residential areas, so we place a lot of emphasis on our residents' ability to live independently. Functional ability is the primary criteria for residency in the apartments and cottages of Covenant Village. We define this as having sufficient mobility, dexterity, sensory function, and mental status to live without direct assistance of another. This includes activities of daily living, getting to meals, and taking medications. Adaptive devices which enhance abilities are encouraged and welcomed, such as aids for ambulation, mobility, dexterity, or sensory improvement. Home Health Care Agencies or personal caregivers that provide direct personal assistance for Residents living independently must have prior approval from the CEO or the Health Services Administrator.

Residents must be able to live independently for the first ninety (90) days of occupancy to qualify for the health care daily rate for a Life Care resident. To assure that residents have the functional ability needed to live in our cottages and apartments, we offer an orientation stay in our guest room for a few days, free of charge. Our goal is to make sure we can meet resident needs. Approval for residency comes after orientation.

If you have questions specific to your personal situation, please do not hesitate to contact us.

FINANCIAL AND INSURANCE CRITERIA

Covenant Village believes it is the responsibility of the applicant to determine whether or not he or she can "afford" to live at Covenant Village. A general rule of thumb suggests that continuing care retirement residents should have monthly income of at least 1.5 times monthly fees. A confidential financial statement is required from the applicant to assist Covenant Village in planning.

Residents are required to maintain Medicare part A, Medicare part B, and one supplemental health insurance policy or equivalent insurance coverage acceptable to Covenant Village, as outlined in the life care agreement found in Attachment 3 of this disclosure statement.

AGE CRITERIA

Residents must be 65 years of age or older, except that in the case of a married couple in which one spouse is 65 years of age or older, the other spouse may be as young as 62 years of age.

CHANGES OF CONDITION PRIOR TO OCCUPANCY

Admission requirements must be met immediately prior to admission and during the first 90 days of residency as outlined in the life care agreements found in this disclosure statement. Attachment 3.

APARTMENT TERMINATION AND REFUND PROVISIONS

- A. Resident may rescind this agreement within thirty days of the latter of the execution date of this contract or the receipt of the disclosure statement, with no penalty. Resident is not required to move into the unit before the expiration of the 30-day period. If Resident dies before occupying the apartment, or if, on account of illness, injury or incapacity a resident is precluded from occupying the apartment and such condition is certified in writing by a physician, then in either event the contract shall be deemed immediately cancelled. Any refund under this paragraph will be paid within 60 days after written notice has been received by Covenant Village. Resident or Resident's legal representative shall receive a refund of all money, less monthly fees specified in the Contract for the period of time unit was actually occupied by Resident, less non-standard costs specifically incurred by Covenant Village at the request of the Resident and described in the contract or any contract amendment signed by resident, and less a \$1,000.00 administrative fee. The

entrance fee will be refunded without amortization reductions as specified herein below during the 30-day rescission period.

- B. After taking occupancy and becoming a resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident provided, however, that if such cessation of residency occurs within the first twenty-five (25) months of residency, Covenant Village will refund the Entrance Fee, less four percent (4%) thereof for each calendar month, or portion thereof of residency, and less one thousand dollars (\$1,000) as an administrative and refurbishing charge. Payment of any refund due Resident under this paragraph will be made when Covenant Village receives full payment of the Entrance Fee from a qualified substitute resident.
- C. No Entrance Fee refund will be made after twenty-five (25) months of residency and no refund will be made, at any time, for a resident transferring to Covenant Village's Health Center facilities.
- D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules or regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund of the Entrance Fee paid by Resident determined in accordance with the same manner provided in Paragraph V.A. or V.B.
- E. At the effective date of termination of this Agreement, Resident shall vacate the Apartment and shall leave it in good condition except for normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Apartment to good condition except for normal wear and tear. Monthly Fees will be continued until all personal effects have been removed from Covenant Village.

COTTAGE TERMINATION AND REFUND PROVISIONS

- A. Resident may rescind this agreement within thirty days of the latter of the execution date of this contract or the receipt of the disclosure statement, with no penalty. Resident is not required to move into the unit before the expiration of the 30-day period. If Resident dies before occupying the cottage, or if, on account of illness, injury or incapacity, a resident is precluded from occupying the cottage and such condition is certified in writing by a physician, then in either event the contract shall be deemed immediately cancelled. Any refund under this paragraph will be paid within 60 days after written notice has been received by Covenant Village. Resident or Resident's legal representative shall receive a refund of all money, less monthly fees specified in the Contract for the period of time unit was actually occupied by Resident, less non-standard costs specifically incurred by Covenant Village at the request of the Resident and described in the contract or any contract amendment signed by resident, and less a \$1,000.00 administrative fee. The entrance fee will be refunded without amortization reductions as specified herein below during the 30-day rescission period.
- B. After taking occupancy and becoming a Resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident provided however, that if such cessation of residency occurs within the first fifty (50) months of residency, Covenant Village will refund the Entrance Fee less two percent (2%) thereof for each calendar month or portion thereof of residency and one thousand dollars (\$1,000) as an administrative and refurbishing charge. Payment of any refund due Resident under this paragraph will be made when Covenant Village receives full payment of the Entrance Fee from a qualified substitute Resident.
- C. In the event Resident should transfer to an apartment in the main building of Covenant Village during the first fifty (50) months of residency, a refund of the difference in Entrance Fees between the Cottage and the apartment will be made to Resident less two percent (2%) of the cottage entrance fee for each calendar month or portion thereof of residency. No refund will be made if the transfer occurs after fifty (50) months of residency and no refund will be made, at any time, for a Resident transferring to Covenant Village's Health Center facilities.

- D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules and regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund if the Entrance Fee paid by Resident determined in accordance with the same manner provided in Paragraph V.A., or V.B.
- E. At the effective date of termination of this Agreement, Resident shall vacate the Cottage and shall leave it in good condition except for the normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Cottage to good condition except for normal wear and tear. Monthly fees will be continued until all personal effects have been removed from the Cottage.

MOVES

Main Building Apartments and Cottages

- A. It is understood that Covenant Village has the right to make or change living accommodation assignments if necessary, in order to best serve the needs of Residents and Covenant Village.
- B. Resident agrees that Covenant Village shall have authority to determine when or if Resident should be transferred from Resident's Apartment to the Covenant Village Health Center or from one level of care to another level of care within the Covenant Village Health Center. Such determination shall be based on the professional opinion of the Medical Director and the Chief Executive Officer of Covenant Village and shall be made only after consultation to the extent practical with resident, a representative of Resident's family, or the sponsor of Resident, and Resident's attending physician.
- C. If it is determined by the Medical Director and the Chief Executive Officer that Resident needs care beyond that which can be provided by the facility and personnel of Covenant Village, Resident may be transferred to a hospital, center or

institution equipped to give such care, which care will be at the expense of Resident. Such transfer of Resident will be made only after consultation with Resident, to the extent possible, a representative of Resident's family or the sponsor of Resident, and Resident's attending physician.

- D. If a determination is made by Covenant Village that any transfer described in Paragraph C. above is probably not temporary in nature, Resident agrees to surrender the cottage, apartment or the accommodation in the Health Center within 30 days after Resident has been notified by Covenant Village. If Covenant Village subsequently determines upon the opinion of the Medical Director and the Chief Executive Officer that Resident can resume occupancy in accommodations comparable to those occupied by Resident prior to such transfer, Resident shall have priority to such accommodation as soon as they become available. If the living accommodation is not vacated within 30 days, the Resident agrees to pay additional Monthly Charges.

MARRIAGES/NEW SECOND OCCUPANT

Should a resident marry, a new spouse does not have rights under the resident's agreement. In order for the new spouse to be admitted to Covenant Village, the new spouse would need to be approved by the Admissions Committee. The new spouse would be required to pay the second person entrance fee, currently \$20,000 for a one-bedroom unit, and \$25,000 for a two-bedroom or cottage unit. The resident and the new spouse would pay the two-person monthly fee if they occupy the same living unit. If the new spouse does not meet the requirements for entry, he or she would not be admitted to an apartment or cottage but may be admitted to Covenant Village's Health Center on a space available basis.

Should two residents marry and decide to live in one unit, they would pay the two-person fee for the unit. An additional entrance fee may or may not be required. This will be determined based on the size of the unit they are moving into and the size of the units they are vacating. A revised contract will be signed by the couple, outlining the terms of any refund.

INABILITY TO PAY

The Board of Directors is committed to fulfilling the policy that no resident will be discharged by reason of inability to pay monthly fees provided the resident has not impaired his or her ability to meet obligations by transfer of assets below market value or sale of assets and the organization has the capability of meeting needs of the resident.

SECTION IV

SERVICES

General

The service to be provided by Covenant Village and the respective rights and duties of Covenant Village and Resident are stated in the Life Care Agreements entered into by Covenant Village with each Resident. The current version of the Life Care Agreement is attached hereto as Attachment 3. Certain Life Care Agreements entered into prior to the date of this Disclosure Statement differed in certain respects from the current version, and in the future some Life Care Agreements may also differ from the current version in certain respects.

Certain services that are provided by Covenant Village have been modified or suspended in response to the Coronavirus Disease 2019 (COVID-2019). Recent updates regarding Covenant Village's response to COVID-19, including the current Resident Policies in effect during COVID-19 are as follows:

Since mid-March when COVID-19 came into our lives at Covenant Village, CEO Dale Melton has provided weekly ***Covenant Conversations*** broadcast on our internal TV channel, as well as the Covenant Village Facebook page and Wellzesta, our Resident Communications Portal.

To date, Dale has done 50 ***Covenant Conversations*** and includes a section for Resident Questions that are captured from the previous week. Right now, being able to share updated COVID Vaccination information has been crucial for Residents. Additionally, since mid-March, we have sent out 45 COVID community memos to Residents, Staff, Families and POA's.

DISCLOSURE STATEMENT

Services

Standard Services Available

Monthly fees cover the costs of providing the following services for main building residents:

- Multi-station Cable TV, Phone and Wireless Internet
- 3 meals per day
- Special diets when ordered by a physician
- All utilities
- Trash removal
- Weekly housekeeping services
- Launder and change of bed and bath linens weekly
- Maintenance and repair of property owned by Covenant
- Grounds-keeping
- Parking spaces
- Use of common facilities
- Scheduled shopping trips and transportation to local medical appointments
- Social activities program
- Wellness Center
- 24-hour emergency call system and security
- Emergency nursing services
- Nursing care in a semi-private room in the Health Center

Please see the life care agreement in Attachment 3 of this disclosure statement for a complete description and explanation of the services provided. See Section I of the agreement.

Monthly fees cover the cost of providing the following services for cottage residents:

- Multi-station Cable TV, Phone and Wireless Internet
- 1 meal per day
- Special diets when ordered by a physician
- Water, sewer and trash removal
(Residents pay their own electric and gas)
- Weekly housekeeping services
- Launder and change of bed and bath linens weekly
- Maintenance and repair of property owned by Covenant
- Grounds keeping

- Parking spaces
- Use of common facilities
- Scheduled shopping trips and transportation to local medical appointment.
- Social activities program
- Wellness Center
- 24-hour emergency call system and security
- Emergency nursing services
- Nursing care in a semi-private room in the Health Center

Services Available at an Extra Charge:

- Extra meals for cottage residents
- Guest meals and catering
- Repair of personal properties
- Guest Room
- Private room in the Health Center, when available
- Supplies, drugs and equipment used for care in the Health Center
- Personal laundry (Health Center only)
- Beauty and barber shop

Health Services Available

Covenant Village's Health Center is licensed as a combination facility by the State of North Carolina, with a full classification capacity of 38 nursing facility beds and 42 adult care beds.

In addition to the services normally provided by a licensed nursing home, Covenant Village also has a contract with a contract therapy firm to provide physical therapy, speech therapy and occupational therapy. The billing for this as well as other outside professional services is done directly between the resident and the provider.

Personal Services Available

The description above and the life care agreement found in Attachment 3 of this disclosure statement provide a complete description of the services available at Covenant Village.

SECTION V

FEES

DISCLOSURE STATEMENT

Fees

Application Registration Fees

A one thousand dollar (\$1,000) non-refundable application fee is required at the time application is made to be placed on the waiting list. At the time of admission, the application fee is credited against the entrance fee.

Entrance Fees Refunds

The entrance fee is refundable, on a declining basis, during the first twenty-five (25) months of occupancy for residents of the apartments. Apartment fee refunds equal the entrance fee less four percent (4%) per month of occupancy and less one thousand dollars (\$1,000) administrative charge. There is no refund of the entrance fee after twenty-five (25) months and no refunds will be made for a resident transferring to Covenant Village's health care facilities. See the agreement in Attachment 3 for complete details.

The entrance fee is refundable, on a declining basis, during the first fifty (50) months of occupancy for residents of the cottages. Cottage refunds equal the entrance fee less two percent (2%) per month of occupancy and less one thousand dollars (\$1,000) administrative charge. There is no refund of the entrance fee after fifty (50) months and no refund will be made for a resident transferring to Covenant Village's health care facilities. See the agreement in Attachment 3 for complete details.

APARTMENT TERMINATION AND REFUND PROVISIONS

- A. Resident may rescind this agreement within thirty days of the latter of the execution of this contract or the receipt of the disclosure statement, with no penalty. Resident is not required to move into the unit before the expiration of the 30-day period. If Resident dies before occupying the apartment, or if, on account of illness, injury, or incapacity, a resident is precluded from occupying the apartment and such condition is certified in writing by a physician, then in event the contract shall be deemed immediately cancelled. Any refund under this paragraph will be paid within sixty (60) days after written notice has been received by Covenant Village. Resident or Resident's legal representative shall receive a refund of all money, less monthly fees specified in the Contract for the period of time unit was actually occupied by Resident, less non-standard costs specifically

incurred by Covenant Village at the request of the Resident and described in the contract or any contract amendment signed by resident, and less a \$1,000.00 administrative fee. The entrance fee will be refunded without amortization reductions as specified herein below during the 30-day rescission period.

- B. After taking occupancy and becoming a resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident provided, however, that if such cessation of residency occurs within the first twenty-five (25) months of residency, Covenant Village will refund the Entrance Fee, less four percent (4%) thereof for each calendar month, or portion thereof of residency, and less one thousand dollars (\$1,000) as an administrative and refurbishing charge. Payment of any refund due Resident under this paragraph will be made when Covenant Village receives full payment of the Entrance Fee from a qualified substitute resident.
- C. No Entrance Fee refund will be made after twenty-five (25) months of residency and no refund will be made, at any time, for a resident transferring to Covenant Village's Health Center facilities.
- D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules or regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund of the Entrance Fee paid by Resident determined in accordance with the same manner provided in Paragraph V.A. or V.B.
- E. At the effective date of termination of this Agreement, Resident shall vacate the Apartment and shall leave it in good condition except for normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Apartment to good condition except for normal wear and tear. Monthly Fees will be continued until all personal effects have been removed from Covenant Village.

COTTAGE TERMINATION AND REFUND PROVISIONS

- A. Resident may rescind this agreement within thirty days of the latter of the execution of this contract or the receipt of the disclosure statement, with no

penalty. Resident is not required to move into the unit before the expiration of the 30-day period. If resident dies before occupying the cottage, or if, on account of illness, injury, or incapacity, a resident is precluded from occupying the cottage and such condition is certified in writing by a physician, then in either event the contract shall be deemed immediately cancelled. Any refund under this paragraph will be paid within sixty (60) days after written notice has been received by Covenant Village. Resident or Resident's legal representative shall receive a refund of all money, less monthly fees specified in the Contract for the period of time unit was actually occupied by Resident, less non-standard costs specifically incurred by Covenant Village at the request of the Resident and described in the Contract or any Contract amendment signed by Resident, and less a \$1000 administrative fee. The entrance fee will be refunded without amortization reductions as specified herein below during the 30-day rescission period.

- B. After taking occupancy and becoming a Resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident provided, however, that if such cessation of residency occurs within the first fifty (50) months of residency, Covenant Village will refund the Entrance Fee less two percent (2%) thereof for each calendar month or portion thereof of residency and one thousand dollars (\$1,000) as an administrative and refurbishing charge. Payment of any refund due Resident under this paragraph will be made when Covenant Village receives full payment of the Entrance Fee from a qualified substitute Resident.
- C. In the event Resident should transfer to an apartment in the main building of Covenant Village during the first fifty (50) months of residency, a refund of the difference in Entrance Fees between the Cottage and the apartment will be made to Resident less two percent (2%) of the cottage entrance fee for each calendar month or portion thereof of residency. No refund will be made if the transfer occurs after fifty (50) months of residency and no refund will be made, at any time, for a Resident transferring to Covenant Village's Health Center facilities.
- D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules and regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund if the

Entrance Fee paid by Resident determined in accordance with the same manner provided in Paragraph V. A., or V. B.

- E. At the effective date of termination of this Agreement, Resident shall vacate the Cottage and shall leave it in good condition except for the normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Cottage to good condition except for normal wear and tear. Monthly fees will be continued until all personal effects have been removed from the Cottage.

ENTRANCE FEES

The Entrance Fee is consideration paid for living accommodations, services and programs offered by Covenant Village as defined by the Life Care Agreement. It gives the resident the exclusive right to occupy and use an apartment or cottage for life, subject to the terms and conditions set forth in the Life Care Agreement.

Covenant Village Fee Schedule
October 1, 2020

| <u>Unit</u> | <u>Entrance Fee</u> | <u>Monthly Fee</u> |
|---|-------------------------|------------------------|
| Studio (single room) A-Unit | | |
| Single Room (A1) | \$42,000 | \$2,810.00 |
| Second Person | | <u>\$2,107.00</u> |
| | | \$4,917.00 |
| Single with Kitchenette (A2) | \$44,625 | \$2,810.00 |
| Second Person | | <u>\$2,107.00</u> |
| | | \$4,917.00 |
| Single with Balcony and Kitchenette (A4) | \$47,775 | \$2,810.00 |
| Second Person | | <u>\$2,107.00</u> |
| | | \$4,917.00 |
| One-Bedroom (two rooms) B-Unit | \$120,750 | \$3,230.00 |
| Second Person | \$20,000 | <u>\$2,361.00</u> |
| | | \$5,591.00 |
| Two-Bedroom (three rooms) C-Unit | \$204,750 | \$5,655.00 |
| Second Person | \$25,000 | <u>\$ 635.00</u> |
| | | \$6,290.00 |
| Cottage (two-bedroom, two bath) | \$246,750 | |
| | to \$344,022 * | |
| Second Person | \$25,000 | \$3,410.00 |
| | | <u>\$1,231.00</u> |
| | | \$4,641.00 |

Health Center rate for temporary use of a semi-private room is based on the single person monthly fee of the unit occupied by the resident.

Health Center daily fee for a private room for a Resident with a Life Care contract is \$134.00.

Health Center daily rate for non-life care Residents is \$289.00. There will be a \$20,000 non-refundable entrance fee.

*The entrance fee for cottages may include options, such as a garage for \$15,000 and a fireplace for \$12,000. We also provide an open floor plan options for a \$45,000 additional fee.

A second person entrance fee of \$20,000 to \$25,000 will be charged for double occupancy. Studio units are excluded.

CHANGES IN MONTHLY FEES FOR THE PREVIOUS FIVE YEARS

Rates as of the First Day of October
And Average Annual Dollar Increases

| | 2020 Actual Fee | 2020 Average Increase | 2019 Actual Fee | 2019 Average Increase | 2018 Actual Fee | 2018 Average Increase | 2017 Actual Fee | 2017 Average Increase | 2016 Actual Fee | 2016 Average Increase | 2015 Actual Fee | 2015 Average Increase |
|---------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|
| Single Room | \$2,810 | 82 | \$2,728 | 79 | \$2,649 | 90 | \$ 2,559 | 62 | \$ 2,497 | \$ 67 | \$ 2,430 | \$ 71 |
| Second Person | \$2,107 | 61 | \$2,046 | 61 | \$1,985 | | | | | | | |
| One Bedroom | \$3,230 | 94 | 3,136 | 91 | 3,045 | 103 | 2942 | 72 | 2,870 | 77 | 2,793 | 81 |
| Second Person | \$2,361 | 69 | 2,292 | 67 | 2,225 | 75 | 2150 | 52 | 2,098 | 56 | 2,042 | 59 |
| Two Bedroom | \$5,655 | 165 | 5,490 | (1) | 5,816 | 197 | 5,619 | 137 | 5,482 | 147 | 5,335 | 155 |
| Second Person | \$635 | 19 | 616 | | | | 0 | | - | | - | |
| Cottage | \$3,410 | 99 | 3,311 | 96 | 3,215 | 109 | 3106 | 76 | 3,030 | 81 | 2,949 | 86 |
| Second Person | \$1,231 | 36 | 1195 | 239 | 956 | 32 | 924 | 23 | 901 | 24 | 877 | 26 |

(1) Beginning 10/1/2020, the total for two people is \$6,290 and the single rate for a two-bedroom apartment is \$5,655.

SECTION VI
FINANCIAL INFORMATION

DISCLOSURE STATEMENT

Financial Information

Financial Overview

An overview of the financial results of the operation of Covenant Village is contained in the audited financial statements found in Attachment 1.

Operating Reserves

Covenant Village maintains an occupancy rate in excess of 90% and therefore is required to maintain an operating reserve of 25% of operating costs, including debt service but excluding depreciation.

Covenant Village possesses sufficient reserves as shown below:

| | |
|--|--------------------|
| Total Operating Costs Forecast for 2021 | \$13,741,555 |
| Plus Debt Services | 200,000 |
| Less Depreciation | <u>(1,400,000)</u> |
| Balance | \$12,541,555 |
| | <u>x.25</u> |
| Total Operating Reserve Required for 2020 | \$3,135,389 |
| Cash and | |
| Investments in Operating Reserve | \$3,135,389 |

The security by which Covenant Village intends to fulfill its contractual and financial obligations rests with the financial strength of the organization, its conservative methods of operation and the integrity of the Board of Directors. The financial strength of the organization was made possible in large part to the original \$2.5 million in contributions from the community to establish Covenant Village. The integrity and conservative nature of the individuals who serve on the Board of Directors and the churches they represent is well known in Covenant Village's service area.

All of Covenant's investments are handled under the direction of the Finance Committee of the Board of Directors. The Benevolent Fund is managed by The Granzow Consulting Group of Wells Fargo Advisors, under the direction of the Finance Committee.

There are no expansion or significant renovation projects under way at this time.

Material Differences Between Forecasted and Actual Data
Filed with Disclosure Statements
Year Ended September 30, 2020

The schedules that follow herein are a comparison of forecasted and actual data as filed in the disclosure statements of Covenant Village. Covenant Village considers a material difference to be the greater of 5% or a minimum of \$5,000.

Notes regarding material differences for the Statement of Financial Position, Statement of Income and Expense, and Statement of Cash Flows are as follows:

NOTES – Please see corresponding note numbers on the Statements.

1. Cash, Property, and Equipment, Notes Payable and SBA Note-PPP
 During 2020, the Village, through the Small Business Administration (SBA), Applied for and received \$1,578,700 in an SBA-PPP loan. The Village expects this loan to be totally forgiven in 2021. During 2020, Covenant Village recognized \$150,000 in SBA-PPP loan forgiveness. The Village also increased its Notes Payable by \$700,000 to be used in acquiring the Smyre Property which purchase was finalized in December 2020. Increase in cash as follows:

| | |
|-----------------------------------|--------------------|
| SBA-PPP: | \$1,579,000 |
| Notes Payable: | 700,000 |
| Property and Equipment Purchases: | <u>(1,086,000)</u> |
| | \$1,193,000 |
| | |
| Other Management Decisions | <u>\$ 271,000</u> |
| Cash Over Forecast | <u>\$1,464,000</u> |

2. Deferred Entrance/Refundable Fees and Entrance Fee Income.
 Covenant Village had 37 deaths during this year, and entrance fee cash was down from 2019 by \$867,000. During this COVID-19 year, many people are waiting to move to Covenant Village until the pandemic is over.

3. Investments
 For 2020, Operating and Benevolent Fund investments gained over 7.5% and far exceeded the benchmark.

4. Net Assets Released from Restrictions
 Net Assets Released are as follows:

| | |
|---|------------------|
| Recognized SBA-PPP grant | \$150,000 |
| Scholarship grant for Nursing Personnel | <u>8,400</u> |
| TOTAL | <u>\$158,400</u> |

5. Maintenance
 Maintenance under forecast by \$202,000.
 Principal reasons are:

| | |
|---|-----------|
| Capitalization of air conditioning and carpet | \$ 53,000 |
| Utilities under forecast | 41,000 |
| Pool and Grounds Cost Under Forecast | 24,000 |
| Supplies and outside services | |

| | |
|----------------------------|------------------|
| delayed due to COVID- 19 | 80,000 |
| Compensation over Forecast | <u>(8,000)</u> |
| | <u>\$190,000</u> |

Depreciation increased over the estimate mainly due to increased additions.

6. Accounts Receivable
Accounts Receivable continue to be collected on a current basis. The amount over actual of \$75,000 is principally due to amounts due from North Carolina for mandatory COVID-19 testing.
7. Loss on Disposition of Assets
Covenant Village wrote off approximately \$150,000 of old obsolete furniture, equipment and paving in 2020.

8. Property and Equipment
Principal additions to P & E include:

| | |
|---|--------------------|
| Maintenance Shop Addition | \$ 138,000 |
| New Trucks (2) | 102,000 |
| New Tractor | 36,000 |
| Health Care Beds (20) | 34,000 |
| New Health Care Equipment | 24,000 |
| Complete Fire Alarm System | 172,000 |
| Wellness Center Additions | 43,000 |
| Grounds Improvement and Parking Lot | 65,000 |
| New HVAC Units | 181,000 |
| New Computer Laptops | 29,000 |
| Renovation costs of Apartments and Cottages | <u>187,000</u> |
| | <u>\$1,011,000</u> |

Depreciation increased over 2019 by \$56,000 and was less than budget by \$2,000.

9. Accrued Expenses
Accrued wages at September 30, 2020 include some departments that are paid 7 days in a week, and some others are paid 5 days in a week. Since October we had 3 bi-weekly pay periods and with pay increases and additional days accrued at September 30, the total accrued wages were \$313,000 or \$33,000 more than 2019 and about \$40,000 more than forecast. Accrued paid time off (PTO) was revised in September 2019 to a pro-rata method from a lump sum and the full effect was of this change was now accrued at September 30, 2020. The increase in PTO was \$142,000 more than 2019 and also more than forecast as follows:

| | September | Forecast | Over |
|---------------|------------------|------------------|-------------------|
| Accrued Wages | \$ 323,000 | \$280,000 | \$ 43,000 |
| Accrued PTO | <u>461,000</u> | <u>320,000</u> | <u>141,000</u> |
| | <u>\$784,000</u> | <u>\$600,000</u> | <u>\$ 184,000</u> |

10. Accounts Payable
Accounts Payable were \$138,000 under 2019 but were \$80,000 over the forecast. While accounts payable are now at a manageable level, several accounts were paid after September 30, 2020 as follows:

| | |
|--|-----------------|
| Food Interim Management | \$12,000 |
| Printing costs paid after September 30, 2020 | 20,000 |
| Extra food costs due to pandemic | <u>30,000</u> |
| | <u>\$62,000</u> |

11. Inventories
Maintenance had a \$30,000 decrease in inventory charged to supplies. Other departments had small inventory variances.
12. Prepaid Expenses
Prepaid expenses of \$42,000 are within \$1,000 at September 30, 2019
13. Notes Payable – Long Term
Covenant Village borrowed an additional \$700,000 to acquire 13 acres, the Smyre property, during 2020. The purchase was finalized in December 2020.
14. SBA Loan - PPP
Covenant Village received \$1,578,200 from the SBA for the Payroll Protection Plan in May, 2020. Covenant Village believes the entire amount will be forgiven in 2021 under SBA guidelines.
15. Total Assets / Net Assets & Liabilities
Total Assets/Net Assets and Liabilities were over forecast by \$2,400. The difference is due to all the differences on the statements of Financial Condition and Income and Expense. The principal reasons are:

| | |
|--|--------------------|
| SBA-PPP loan in May 2020 | \$1,429,000 |
| Notes Payable borrowing for the Smyre Property | 700,000 |
| Year-end income and forecast | <u>190,000</u> |
| | \$2,319,000 |
| At September 30, 2020 increase in cash | <u>(1,464,000)</u> |
| | <u>\$ 855,000</u> |

Other differences of \$81,000 due to other explanations in notes 1 through 14.

Summary

Covenant Village continues to have a strong Waiting List and occupancy exceeds 95% for all residential units.

COVENANT VILLAGE
Report on Material Differences in Forecast vs. Actual
(Income and Expenses)

As required, the following schedules report the differences in income and expense forecasts, statement of financial position forecasts and statement of cashflows forecasts from last year's disclosure statement and the actual results, for the year ending September 30, 2020

Statement of Income and Expenses

| | 2020 <u>FORECAST</u> | 2020 <u>ACTUAL</u> | <u>DIFFERENCE</u> | Percentage Favorable <u>(Unfavorable)</u> | <u>Notes</u> |
|---|-------------------------|-----------------------|-------------------|---|--------------|
| Revenues | | | | | |
| Entrance Fees | \$ 1,600,000 | \$ 1,856,000 | \$ 256,000 | 16.0 | 2 |
| Resident Income | 7,308,000 | 7,002,000 | (306,000) | (4.2) | |
| Health Care | 4,003,000 | 3,823,000 | (180,000) | (4.5) | |
| Contributions and Other Income | 330,000 | 324,000 | (6,000) | (1.8) | |
| Investment Income | 370,000 | 403,000 | 33,000 | 8.9 | 3 |
| Net Assets Released From Restrictions | - | 158,000 | 158,000 | 100.0 | 4 |
| TOTAL REVENUES | <u>13,611,000</u> | <u>13,566,000</u> | <u>(45,000)</u> | <u>(0.3)</u> | |
| Expenses | | | | | |
| Nursing Service | 3,237,000 | 3,309,000 | 72,000 | 2.2 | |
| Housekeeping | 1,119,000 | 1,115,000 | (4,000) | (0.4) | |
| Dietary | 2,545,000 | 2,480,000 | (65,000) | (2.6) | |
| Operating and Maintenance | 3,037,000 | 2,835,000 | (202,000) | (6.7) | 5 |
| Security | 293,000 | 301,000 | 8,000 | 2.7 | |
| Activities/Wellness | 447,000 | 436,000 | (11,000) | (2.5) | |
| Human Resources | 164,000 | 168,000 | 4,000 | 2.4 | |
| Management and General | 1,356,000 | 1,365,000 | 9,000 | 0.7 | |
| Depreciation | 1,300,000 | 1,298,000 | (2,000) | (0.2) | 5,8 |
| Benevolence Expense | 27,000 | 29,000 | 2,000 | 7.4 | |
| Interest | 41,000 | 44,000 | 3,000 | 7.3 | |
| Total Expenses | <u>13,566,000</u> | <u>13,380,000</u> | <u>(186,000)</u> | <u>(1.4)</u> | |
| Increase in Net Assets w/o donor restrictions | <u>\$ 45,000</u> | <u>\$ 186,000</u> | <u>\$ 141,000</u> | <u>313</u> | 15 |
| Increase in Net Assets with donor restrictions | | 49,000 | 49,000 | 100 | 3,4 |
| Change in Net Assets | <u>\$ 45,000</u> | <u>\$ 235,000</u> | <u>\$ 190,000</u> | | |

**COVENANT VILLAGE
STATEMENT OF FINANCIAL POSITION**

| | 2020 <u>FORECAST</u> | 2020 <u>ACTUAL</u> | <u>DIFFERENCE</u> CHANGE | Percentage Favorable <u>(Unfavorable)</u> | <u>Notes</u> |
|---|-------------------------|-----------------------|-----------------------------|---|--------------|
| ASSETS | | | | | |
| Cash & cash equivalents | \$1,307,000 | \$2,771,000 | \$ 1,464,000 | 112.0 | 1,15 |
| Accounts receivable | 48,000 | 123,000 | 75,000 | 156.3 | 6 |
| Inventories | 172,000 | 138,000 | (34,000) | (19.8) | 11 |
| Prepaid expenses | 30,000 | 42,000 | 12,000 | 40.0 | 12 |
| Investments | 2,408,000 | 2,907,000 | 499,000 | 20.7 | 3 |
| Total Current Assets | <u>3,965,000</u> | <u>5,981,000</u> | <u>2,016,000</u> | <u>50.8</u> | |
| Property, and equipment net | 14,098,000 | 14,423,000 | 325,000 | 2.3 | 1,7,8 |
| Operating Reserve as required by NC Statues | <u>3,116,000</u> | <u>3,175,000</u> | <u>59,000</u> | <u>1.9</u> | 3 |
| | <u>17,214,000</u> | <u>17,598,000</u> | <u>384,000</u> | <u>2.2</u> | |
| TOTAL ASSETS | <u>\$21,179,000</u> | <u>\$23,579,000</u> | <u>\$ 2,400,000</u> | <u>11.3</u> | 15 |
| LIABILITIES | | | | | |
| Note payable current | \$200,000 | \$200,000 | \$0 | 0.0 | |
| Accounts payable | 214,000 | 294,000 | 80,000 | 37.4 | 10 |
| Accrued Expenses | 600,000 | 784,000 | 184,000 | 30.7 | 9 |
| Residential accounts and deposits | 131,000 | 133,000 | 2,000 | 1.5 | |
| Current Liabilities | <u>1,145,000</u> | <u>1,411,000</u> | <u>266,000</u> | <u>23.2</u> | |
| Escrow & Deposits | 110,000 | 110,000 | 0 | 0.0 | |
| Deferred Credits Long-Term | 10,983,000 | 10,798,000 | (185,000) | (1.7) | 2 |
| Note payable Long Term | 1,000,000 | 1,700,000 | 700,000 | 70.0 | 1,13,15 |
| SBA Long-PPP | - | 1,429,000 | 1,429,000 | 100.0 | 1,14,15 |
| TOTAL | <u>12,093,000</u> | <u>14,037,000</u> | <u>1,944,000</u> | <u>16.1</u> | |
| TOTAL LIABILITIES | <u>13,238,000</u> | <u>15,448,000</u> | <u>2,210,000</u> | <u>16.7</u> | |
| NET ASSETS | | | | | |
| Without Donor Restrictions | 7,801,000 | 7,967,000 | 166,000 | 2.1 | |
| With Donor Restrictions | 140,000 | 164,000 | 24,000 | 17.1 | 4 |
| | <u>7,941,000</u> | <u>8,131,000</u> | <u>190,000</u> | <u>2.4</u> | 15 |
| TOTAL NET ASSETS | <u>7,941,000</u> | <u>8,131,000</u> | <u>190,000</u> | <u>2.4</u> | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$21,179,000</u> | <u>\$23,579,000</u> | <u>\$ 2,400,000</u> | <u>11.3</u> | 15 |

**COVENANT VILLAGE
STATEMENT OF CASH FLOWS**

| | <u>2020 FORECAST</u> | <u>2020 ACTUAL</u> | <u>DIFFERENCE</u> | | <u>NOTES</u> |
|--|--------------------------|------------------------|-------------------|------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Increase in net assets | \$45,000 | \$ 235,000 | \$ 190,000 | | 15 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | | | | |
| Depreciation | 1,300,000 | 1,298,000 | (2,000) | | 8 |
| Loss on Disposal of Assets | - | 13,000 | 13,000 | 100 | 7 |
| Forgiveness of SBA loan | - | (150,000) | (150,000) | 100 | 1,4 |
| Decrease (increase) in operating assets | 11,000 | (41,000) | (52,000) | 100 | 6,11,12 |
| Increase (decrease) in operating liabilities | (37,000) | 157,000 | 194,000 | 100 | 9 |
| Increase (decrease) in accounts payable | (218,000) | (137,000) | 81,000 | 37 | 10 |
| Decrease in deferred credits | (133,000) | (329,000) | (196,000) | 147 | 2 |
| (Increase) investments Long Term | (50,000) | (607,000) | (557,000) | 1000 | 3 |
| Net cash from operating activities | 918,000 | 439,000 | (479,000) | | |
| | | | | | |
| Purchase of Property and Equipment | (750,000) | (1,086,000) | (336,000) | 45 | 8 |
| | | | | | |
| NET CASH FLOWS USED IN FINANCING | | | | | |
| | | | | | |
| Proceeds from SBA Loan | - | 1,579,000 | 1,579,000 | 100 | 14 |
| Proceeds from bank Note | - | 700,000 | 700,000 | 100 | 13 |
| Principal payment on long-term debt | (200,000) | (200,000) | | | |
| | (200,000) | 2,079,000 | 2,279,000 | | |
| | | | | | |
| Total (decrease) increase in cash and cash equivalent | (32,000) | 1,432,000 | 1,464,000 | 100 | 15 |
| | | | | | |
| Cash & Cash Equivalen Begommomg Balance | 1,339,000 | 1,339,000 | - | | |
| | | | | | |
| Cash & Cash Equiva;emt Emdomg Balance | 1,307,000 | 2,771,000 | 1,464,000 | 100 | |

SECTION VII

OTHER MATERIAL INFORMATION

**Unaudited Interim
Financial Statements**

December 31, 2020

Covenant Village, Inc.
 Unaudited Interim Financial Statement
 December 31, 2020
 (In Thousands)

| <u>Balance Sheet</u> | <u>12/31/2020</u> |
|--|-------------------------|
| Cash | \$ 2,204 |
| Accounts Receivable | 175 |
| Investments | 2,893 |
| Other Asssets | 176 |
| Operating Reserve as Required by NC General Statutes | 3,175 |
| Property, Plant & Equipment, Net | <u>15,065</u> |
| TOTAL ASSETS | <u><u>\$ 23,688</u></u> |
| | |
| Notes Payable - Current | \$ 200 |
| Accounts Payable | 175 |
| Accrued Wages - Vacation & Holiday | 771 |
| SBA Notes Payable - PPP | 1,429 |
| Notes Payable, Long-Term | 1,500 |
| Other Long-Term Liabilities | <u>11,188</u> |
| TOTAL LIABILITIES | <u>15,263</u> |
| | |
| Net Assets | |
| Without Donor Restrictions | \$ 8,262 |
| With Donor Restrictions | <u>163</u> |
| TOTAL NET ASSETS | <u>8,425</u> |
| | |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 23,688</u></u> |

Covenant Village, Inc.
 Unaudited Interim Financial Statement
 Three Months Ended December 31, 2020
 (In Thousands)

| | 3 Months Ended <u>12/31/2020</u> |
|---|-------------------------------------|
| Entrance Fees | \$ 430 |
| Residential & Health Care Monthly Fees | 2,648 |
| Investment Earnings - Market Value Increase | 300 |
| Other Income | <u>243</u> |
| TOTAL INCOME | <u>\$ 3,621</u> |
| | |
| Nursing | \$ 836 |
| Activities | 83 |
| Wellness | 24 |
| Human Resources | 57 |
| Housekeeping | 260 |
| Dietary | 619 |
| Maintenance | 542 |
| Depreciation | 315 |
| Security | 77 |
| Technology | 166 |
| Administration | <u>348</u> |
| TOTAL EXPENSES | <u>3,327</u> |
| | |
| INCOME OVER EXPENSES | <u>\$ 294</u> |

Covenant Village, Inc.
 Unaudited Interim Financial Statement
 Three Months Ended December 31, 2020
 (In Thousands)

| | 3 Months Ended <u>12/31/2020</u> |
|---|-------------------------------------|
| Statement of Cash Flow | |
| Change in Net Assets | \$ 294 |
| Depreciation | 315 |
| (Increase) in Current Assets | (50) |
| Decrease in FMV of Investments | 15 |
| (Decrease) in Accounts Payable | (120) |
| (Decrease) in Wages and Vacation Payable | (12) |
| Increase in other Liabilities | <u>148</u> |
| Net Cash From Operations | 590 |
| Purchase of Property & Equipment | (957) |
| Current Portion of Notes Payable Paid | <u>(200)</u> |
| Decrease in Cash | (567) |
| Cash @ 9-30-2020 | <u>2,771</u> |
| Cash @ 12-31-2020 | <u><u>\$ 2,204</u></u> |

DISCLOSURE STATEMENT

Other Material Information, as Applicable

NONE

SECTION VIII

CERTIFIED FINANCIAL STATEMENTS

ATTACHMENT 1

CERTIFIED FINANCIAL STATEMENTS

COVENANT VILLAGE, INC.

FINANCIAL REPORT

September 30, 2020

CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 |
| FINANCIAL STATEMENTS | |
| Statements of financial position | 3-4 |
| Statements of activities | 5-6 |
| Statement of functional expenses – September 30, 2020 | 7 |
| Statement of functional expenses – September 30, 2019 | 8 |
| Statements of cash flows | 9 |
| Notes to financial statements | 10-22 |
| SUPPLEMENTARY INFORMATION | |
| Schedules of nursing services | 23 |
| Schedules of housekeeping | 24 |
| Schedules of dietary | 25 |
| Schedules of operating and maintenance | 26 |
| Schedules of security | 27 |
| Schedules of activities and wellness | 28 |
| Schedules of management and general | 29 |

McCANNON • ROGERS • DRISCOLL
& ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

BENJAMIN P. ALBRIGHT, III, CPA
RANDY G. BOYD, CPA

PARTNERS:

STEPHEN B. DRISCOLL, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Covenant Village, Inc.

We have audited the accompanying financial statements of Covenant Village, Inc. (a nonprofit organization) which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Village, Inc. as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New Accounting Pronouncements

As discussed in Note A, the Organization adopted new accounting pronouncements for the year ended September 30, 2020. Our opinion is not modified with respect to these new accounting pronouncements.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 22-28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

McCannon, Rogers, Driscoll & Associates, L.L.P.

Gastonia, North Carolina
January 19, 2021

COVENANT VILLAGE, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2020 and 2019

| | Operating Fund | Benevolent Assistance Fund | 2020 | 2019 |
|---|----------------------|----------------------------------|----------------------|----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,771,240 | \$ - | \$ 2,771,240 | \$ 1,339,270 |
| Accounts receivable | 98,845 | - | 98,845 | 14,840 |
| Employee receivables | 7,677 | - | 7,677 | 16,119 |
| Sales tax refund | 16,800 | - | 16,800 | 16,800 |
| Inventories | 138,199 | - | 138,199 | 172,619 |
| Prepaid expenses | 42,069 | - | 42,069 | 41,837 |
| Due to Operating or from Benevolent Fund | - | - | - | 175,000 |
| Investments | 939,821 | 1,965,914 | 2,905,735 | 2,320,916 |
| | <u>4,014,651</u> | <u>1,965,914</u> | <u>5,980,565</u> | <u>4,097,401</u> |
| ASSETS LIMITED AS TO USE | | | | |
| Operating reserve as required by North Carolina General Statues | 3,175,389 | - | 3,175,389 | 3,153,327 |
| PROPERTY AND EQUIPMENT, NET | | | | |
| | 14,423,193 | - | 14,423,193 | 14,647,821 |
| | <u>\$ 21,613,233</u> | <u>\$ 1,965,914</u> | <u>\$ 23,579,147</u> | <u>\$ 21,898,549</u> |

COVENANT VILLAGE, INC.

STATEMENTS OF FINANCIAL POSITION - CONTINUED

September 30, 2020 and 2019

| | Operating Fund | Benevolent Assistance Fund | 2020 | 2019 |
|--|----------------------|----------------------------------|----------------------|----------------------|
| LIABILITIES | | | | |
| Note payable, current portion | \$ 200,000 | \$ - | \$ 200,000 | \$ 200,000 |
| Accounts payable | 294,746 | - | 294,746 | 432,472 |
| Accrued wages | 312,965 | - | 312,965 | 279,838 |
| Accrued vacation and holiday | 462,054 | - | 462,054 | 319,920 |
| Other accrued expenses | 8,372 | - | 8,372 | 6,448 |
| Due to Operating Fund or from Benevolent | - | - | - | 175,000 |
| Residential accounts | 72,473 | - | 72,473 | 71,362 |
| Room deposits | 60,608 | - | 60,608 | 80,816 |
| | <u>1,411,218</u> | <u>-</u> | <u>1,411,218</u> | <u>1,565,856</u> |
| Total current liabilities | 1,411,218 | - | 1,411,218 | 1,565,856 |
| Deferred revenue | - | - | - | 10,919 |
| Unit deposits | 110,000 | - | 110,000 | 110,000 |
| Deferred entrance fees | 8,077,178 | - | 8,077,178 | 8,161,724 |
| Refundable entrance fees | 2,721,231 | - | 2,721,231 | 2,954,845 |
| Small Business Administration loan | 1,428,700 | - | 1,428,700 | - |
| Note payable, noncurrent portion | 1,700,000 | - | 1,700,000 | 1,200,000 |
| | <u>14,037,109</u> | <u>-</u> | <u>14,037,109</u> | <u>12,437,488</u> |
| Total liabilities | 15,448,327 | - | 15,448,327 | 14,003,344 |
| NET ASSETS | | | | |
| Without donor restrictions | | | | |
| Undesignated | 2,114,021 | 1,829,086 | 3,943,107 | 4,247,598 |
| Board designated | | | | |
| Assets limited as to use | 3,175,389 | - | 3,175,389 | 3,153,327 |
| Investment funds | 848,496 | - | 848,496 | 379,699 |
| | <u>6,137,906</u> | <u>1,829,086</u> | <u>7,966,992</u> | <u>7,780,624</u> |
| With donor restrictions | <u>27,000</u> | <u>136,828</u> | <u>163,828</u> | <u>114,581</u> |
| Total net assets | 6,164,906 | 1,965,914 | 8,130,820 | 7,895,205 |
| Total liabilities and net assets | <u>\$ 21,613,233</u> | <u>\$ 1,965,914</u> | <u>\$ 23,579,147</u> | <u>\$ 21,898,549</u> |
| Total liabilities and net assets | | | | |

See notes to financial statements

COVENANT VILLAGE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years Ended September 30, 2020 and 2019

| | Operating Fund | Benevolent Assistance Fund | 2020 | 2019 |
|--|-------------------|----------------------------------|-------------------|-------------------|
| Revenues without donor restrictions | | | | |
| Entrance fees | \$ 1,856,260 | \$ - | \$ 1,856,260 | \$ 1,458,583 |
| Residential | 7,001,548 | - | 7,001,548 | 6,899,899 |
| Health care | 3,822,748 | - | 3,822,748 | 3,530,285 |
| Contributions | 40,929 | 14,975 | 55,904 | 71,376 |
| Fitness center | 23,950 | - | 23,950 | 41,062 |
| Unit sales | 26,000 | - | 26,000 | 40,000 |
| Other revenues | 230,957 | - | 230,957 | 211,906 |
| Investment income | 310,495 | 92,906 | 403,401 | 180,575 |
| Loss on disposition of property and equipment | (12,641) | - | (12,641) | (27,858) |
| Net assets released from restrictions | 150,000 | 8,400 | 158,400 | - |
| Total revenues without donor restrictions | 13,450,246 | 116,281 | 13,566,527 | 12,405,828 |
| Expenses | | | | |
| Program Services | | | | |
| Nursing services | 3,308,611 | - | 3,308,611 | 3,124,660 |
| Housekeeping | 1,114,848 | - | 1,114,848 | 1,055,452 |
| Dietary | 2,480,255 | - | 2,480,255 | 2,320,154 |
| Operating and maintenance | 4,133,172 | - | 4,133,172 | 3,964,544 |
| Security | 301,030 | - | 301,030 | 260,032 |
| Activities and wellness | 435,843 | - | 435,843 | 488,473 |
| Management and general | 1,533,066 | - | 1,533,066 | 1,261,301 |
| Investment fees | 19,601 | 9,577 | 29,178 | 27,607 |
| Interest | 44,156 | - | 44,156 | 47,196 |
| | <u>13,370,582</u> | <u>9,577</u> | <u>13,380,159</u> | <u>12,549,419</u> |
| Increase in net assets without donor restrictions | 79,664 | 106,704 | 186,368 | (143,591) |

COVENANT VILLAGE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
 Years Ended September 30, 2020 and 2019

| | Operating Fund | Benevolent Assistance Fund | 2020 | 2019 |
|--|---------------------|----------------------------------|---------------------|---------------------|
| Changes in net assets with donor restrictions | | | | |
| Government grants | 150,000 | - | 150,000 | - |
| Contributions | - | 26,500 | 26,500 | - |
| Investment income | - | 31,147 | 31,147 | - |
| Net assets released from restrictions | <u>(150,000)</u> | <u>(8,400)</u> | <u>(158,400)</u> | <u>-</u> |
| Increase in net assets with donor restrictions | <u>-</u> | <u>49,247</u> | <u>49,247</u> | <u>-</u> |
| Change in net assets | 79,664 | 155,951 | 235,615 | (143,591) |
| Interfund transfers | (129,200) | 129,200 | - | - |
| Net assets at beginning of year | <u>6,214,442</u> | <u>1,680,763</u> | <u>7,895,205</u> | <u>8,038,796</u> |
| Net assets at end of year | <u>\$ 6,164,906</u> | <u>\$ 1,965,914</u> | <u>\$ 8,130,820</u> | <u>\$ 7,895,205</u> |

See notes to financial statements.

COVENANT VILLAGE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2020

| | Resident Services | | | | | | | Support Services | | Totals |
|------------------------------------|-------------------|--------------|--------------|---------------------------|------------|-------------------------|-------------------------|------------------------|---------------|--------|
| | Nursing Services | Housekeeping | Dietary | Operating and Maintenance | Security | Activities and Wellness | Total Resident Services | Management and General | | |
| Salaries and wages | \$ 2,533,321 | \$ 698,347 | \$ 1,294,356 | \$ 856,066 | \$ 231,818 | \$ 290,875 | \$ 5,904,783 | \$ 829,967 | \$ 6,734,750 | |
| Payroll taxes | 183,854 | 50,280 | 93,457 | 62,436 | 17,367 | 20,420 | 427,814 | 54,091 | 481,905 | |
| Employee benefits | 420,249 | 253,249 | 251,699 | 169,410 | 47,741 | 67,530 | 1,209,878 | 110,535 | 1,320,413 | |
| Automation and technology | - | - | - | 340,740 | - | - | 340,740 | - | 340,740 | |
| Cleaning supplies | - | 73,603 | 20,670 | - | - | - | 94,273 | - | 94,273 | |
| Consultants' fees | 60,000 | - | - | - | - | - | 60,000 | - | 60,000 | |
| Food | - | - | 744,288 | - | - | - | 744,288 | - | 744,288 | |
| Insurance | - | - | - | - | - | - | - | 207,712 | 207,712 | |
| Legal and accounting | - | - | - | - | - | - | - | 87,082 | 87,082 | |
| Medical supplies | 65,772 | - | - | - | - | - | 65,772 | - | 65,772 | |
| Nourishments | 16,821 | - | - | - | - | - | 16,821 | - | 16,821 | |
| Office expense | 5,466 | - | 4,419 | - | - | - | 9,885 | 21,681 | 31,566 | |
| Other | 12,939 | - | 6,167 | - | 2,873 | 12,727 | 38,169 | 167,002 | 205,171 | |
| Outside services | - | 39,369 | - | 3,463 | - | 17,470 | 455,903 | 44,508 | 500,411 | |
| Paper supplies | - | - | - | 399,064 | - | - | 44,588 | - | 44,588 | |
| Repairs and maintenance | - | - | 44,588 | 432,798 | - | - | 453,409 | 2,084 | 455,493 | |
| Staff development | - | - | 20,611 | - | - | - | 298 | 8,404 | 8,702 | |
| Supplies | 298 | - | - | 10,568 | 1,231 | 26,821 | 38,620 | - | 38,620 | |
| Software maintenance | 9,891 | - | - | - | - | - | 9,891 | - | 9,891 | |
| Utilities | - | - | - | 560,787 | - | - | 560,787 | - | 560,787 | |
| Total expenses before depreciation | 3,308,611 | 1,114,848 | 2,480,255 | 2,835,332 | 301,030 | 435,843 | 10,475,919 | 1,533,066 | 12,008,985 | |
| Depreciation | - | - | - | 1,297,840 | - | - | 1,297,840 | - | 1,297,840 | |
| Total expenses | \$ 3,308,611 | \$ 1,114,848 | \$ 2,480,255 | \$ 4,133,172 | \$ 301,030 | \$ 435,843 | \$ 11,773,759 | \$ 1,533,066 | \$ 13,306,825 | |

See notes to financial statements.

COVENANT VILLAGE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019

| | Resident Services | | | | | | Support Services | | Totals |
|------------------------------------|-------------------|--------------|--------------|---------------------------|------------|-------------------------|-------------------------|------------------------|---------------|
| | Nursing Services | Housekeeping | Dietary | Operating and Maintenance | Security | Activities and Wellness | Total Resident Services | Management and General | |
| Salaries and wages | \$ 2,361,216 | \$ 667,719 | \$ 1,180,916 | \$ 814,708 | \$ 204,483 | \$ 333,582 | \$ 5,562,624 | \$ 583,726 | \$ 6,146,350 |
| Payroll taxes | 178,129 | 50,315 | 92,217 | 62,794 | 15,871 | 24,954 | 424,280 | 42,792 | 467,072 |
| Employee benefits | 439,726 | 225,817 | 239,591 | 166,056 | 35,450 | 69,109 | 1,175,749 | 68,981 | 1,244,730 |
| Automation and technology | - | - | - | 305,140 | - | - | 305,140 | - | 305,140 |
| Cleaning supplies | - | 72,672 | 24,392 | - | - | - | 97,064 | - | 97,064 |
| Consultants' fees | 60,000 | - | - | - | - | - | 60,000 | - | 60,000 |
| Food | - | - | 721,520 | - | - | - | 721,520 | - | 721,520 |
| Insurance | - | - | - | - | - | - | - | - | - |
| Legal and accounting | - | - | - | - | - | - | - | - | - |
| Medical supplies | 30,459 | - | - | - | - | - | 30,459 | - | 30,459 |
| Nourishments | 18,521 | - | - | - | - | - | 18,521 | - | 18,521 |
| Office expense | 4,016 | - | 1,992 | - | - | - | 6,008 | 17,373 | 23,381 |
| Other | 6,428 | 318 | 8,546 | 4,979 | 2,535 | 7,205 | 30,011 | 50,318 | 80,329 |
| Outside services | - | 38,611 | - | 424,294 | - | 24,435 | 487,340 | 65,100 | 552,440 |
| Paper supplies | - | - | 32,278 | - | - | - | 32,278 | - | 32,278 |
| Repairs and maintenance | - | - | 18,702 | 307,738 | - | - | 326,440 | 1,660 | 328,100 |
| Staff development | - | - | - | - | - | - | 5,249 | 8,643 | 13,892 |
| Supplies | 5,249 | - | - | 56,445 | 1,693 | 29,188 | 87,326 | - | 87,326 |
| Software maintenance | 20,916 | - | - | - | - | - | 20,916 | - | 20,916 |
| Transition expenses | - | - | - | - | - | - | - | 100,686 | 100,686 |
| Bad debts | - | - | - | - | - | - | - | 16,090 | 16,090 |
| Utilities | - | - | - | 580,422 | - | - | 580,422 | - | 580,422 |
| Total expenses before depreciation | 3,124,660 | 1,055,452 | 2,320,154 | 2,722,576 | 260,032 | 488,473 | 9,971,347 | 1,261,301 | 11,232,648 |
| Depreciation | - | - | - | 1,241,968 | - | - | 1,241,968 | - | 1,241,968 |
| Total expenses | \$ 3,124,660 | \$ 1,055,452 | \$ 2,320,154 | \$ 3,964,544 | \$ 260,032 | \$ 488,473 | \$ 11,213,315 | \$ 1,261,301 | \$ 12,474,616 |

See notes to financial statements.

COVENANT VILLAGE, INC.

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 235,615 | \$ (143,591) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 1,297,840 | 1,241,968 |
| Increase in fair market value of investments | (263,748) | (6,193) |
| Loss on disposition of property and equipment | 12,641 | 27,858 |
| Forgiveness of small business administration loan | (150,000) | - |
| (Increase) decrease in accounts receivable | (84,005) | 9,829 |
| (Increase) decrease in inventories | 34,420 | (17,037) |
| (Increase) decrease in other receivables | 8,442 | (3,965) |
| Increase in prepaid expenses | (232) | (11,938) |
| Increase (decrease) in accounts payable | (137,726) | 218,962 |
| Increase in wages and salaries payable | 33,127 | 51,413 |
| Increase (decrease) in accrued vacation payable and holiday | 142,134 | (48,297) |
| Increase in other accrued expenses | 1,924 | 1,943 |
| Increase (decrease) in resident accounts | 1,111 | (7,651) |
| Decrease in room deposits | (20,208) | (11,058) |
| Increase (decrease) in deferred income | (10,919) | 233 |
| Increase (decrease) in refundable entrance fees | (233,614) | 1,006,585 |
| Decrease in deferred entrance fees | (84,546) | (145,176) |
| | <u>782,256</u> | <u>2,163,885</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (740,933) | (182,574) |
| Proceeds from sale of investments | 397,800 | 266,670 |
| Purchase of property and equipment | (1,085,853) | (1,637,390) |
| | <u>(1,428,986)</u> | <u>(1,553,294)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from small business administration loan | 1,578,700 | - |
| Proceeds from long-term borrowings | 700,000 | - |
| Principal payments on long-term borrowings | (200,000) | (200,000) |
| | <u>2,078,700</u> | <u>(200,000)</u> |
| Net cash provided by (used in) financing activities | <u>2,078,700</u> | <u>(200,000)</u> |
| Net increase in cash and cash equivalents | 1,431,970 | 410,591 |
| Cash and cash equivalents at beginning of year | <u>1,339,270</u> | <u>928,679</u> |
| Cash and cash equivalents at end of year | <u>\$ 2,771,240</u> | <u>\$ 1,339,270</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash payments for interest | <u>\$ 44,156</u> | <u>\$ 47,196</u> |

See notes to financial statements.

COVENANT VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

Note A - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Covenant Village, Inc. (the "Village") is a continuing life-care facility located in Gastonia, North Carolina and was organized as a not-for-profit corporation in 1977. The Village is a nonstock, nonprofit corporation organized under the laws of the state of North Carolina. As a nonstock corporation, the Village has no shareholders, and any surplus remains with corporation to build reserves for unforeseen financial needs and repairs and renovations to benefit residents.

A summary of the Village's significant accounting policies follows:

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The standard provides guidance on how certain cash receipts and payments are presented and classified in the statements of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within those annual periods, and requires a retrospective approach. The Village adopted this standard effective October 1, 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The standard requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents (collectively, restricted cash). Therefore, restricted cash should be included with cash when reconciling the beginning of period and end of period total amounts shown on the statements of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2018. The Village adopted this standard effective October 1, 2019 and the adoption did not have a material effect on the Village's financial statements for the year fiscal ended September 30, 2020.

On June 21, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2018-08: *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to assist in determining whether a transaction is a contribution or exchange and for determining when a contribution is conditional. The Village adopted this standard effective October 1, 2019 and the adoption did not have a material effect on the Village's financial statements for the fiscal year ended September 30, 2020.

Basis of Presentation

The financial statements of the Village have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statements are presented in accordance with ASC 958-205, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations".

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note A - Nature of Activities and Summary of Significant Accounting Policies – Continued

Basis of Presentation - Continued

Under these provisions, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Village. The Village's board may designate assets without restrictions for specific operational purposes from time to time. Designated net assets without donor restrictions consist of amounts to be used for the program activities.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Village or by the passage of time. Net assets with donor restrictions whose restrictions are satisfied in the same reporting period in which the contribution was received are reported as unrestricted support.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Village considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivables consist of resident monthly service fees. Residents are not required to provide collateral for services rendered. Management has evaluated and determined all accounts receivable are collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net asset with donor restrictions. When a restriction expires, net asset with donor restrictions is reclassified to net assets without donor restrictions.

The Village uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no promises to give at September 30, 2020 and 2019.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note A - Nature of Activities and Summary of Significant Accounting Policies - Continued

Inventories

Inventories are stated at lower of cost or market and are accounted for on the first-in, first-out method.

Investments

The Village carries investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in accordance with accounting requirements for certain investments held by nonprofit organizations, in the statements of financial position. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in net asset without donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized. Long-term investments consist of debt securities with original maturities greater than twelve months.

Assets Limited as to Use

Investments whose use is limited to maintain an operating reserve as required by North Carolina General Statutes (See Note K).

Property and Equipment

The Village capitalizes property and equipment over \$500. Purchased property and equipment are recorded at cost and include additions and improvements that extend the useful lives of the assets. Expenditures for maintenance, repairs and minor renovations are charged to expense as incurred. Major renovations and improvements are capitalized. Depreciation is provided on a straight-line method over the following estimated useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 15 - 39 years |
| Land improvements | 7 - 39 years |
| Equipment and furnishings | 5 - 10 years |
| Land improvements | 7 - 40 years |
| Motor vehicles | 5 years |

Donations of collectibles and property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Village reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Village reclassifies net assets with donor restrictions to net assets without donor restrictions. Property and equipment are depreciated using the straight-line method.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note A - Nature of Business and Summary of Significant Accounting Policies – Continued

Deferred Revenue

Deferred revenue consists of advanced payments of residential fees.

Contributed Services

No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the Village.

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Advertising Costs

Advertising costs are expensed as incurred. Total costs for the years ending September 30, 2020 and 2019 was approximately \$5,000 and \$14,000, respectively.

Income Taxes

The Village is a not-for-profit association that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the State of North Carolina has granted the Village tax-exempt status.

Accounting principles generally accepted in the United States of America require the Village's management to evaluate tax positions taken by the Village and recognize a tax liability (or asset) if the Village has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Village, and has concluded that as, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Village is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note B - Fair Value Measurement

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There has been no change in the methodologies used at September 30, 2020 and 2019.

Mutual Funds: Valued at the daily closing price as reported by the fund. The mutual funds held by the Village are deemed to be actively traded.

Preferred rate securities: Valued at the daily closing price as reported on active markets.

Endowment Fund: The Endowment Fund is valued based on the underlying investments held by the Endowment. It consists of investments valued at quoted market prices, valued based on fund management's estimates based on certain valuation methods such as cash flow analysis and other valuing methods based on income or other relevant information. The Endowment Fund is with the Community Foundation of Gaston County and is maintained for the purpose of generating and distributing earnings. The entire endowment fund investment is available to the Village upon request by its Board of Directors and approval by the Foundation's Board of Directors.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2020

Note B - Fair Value Measurements – Continued

The following table sets forth by level, within the fair value hierarchy, the Village's fair value measurements at September 30, 2020 and 2019.

| | Assets at Fair Value as of September 30, 2020 | | | |
|---------------------------|---|-------------|------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | \$ 5,527,551 | \$ - | \$ - | \$ 5,527,551 |
| Preferred rate securities | 462,248 | - | - | 462,248 |
| Endowment fund | - | - | 91,325 | 91,325 |
| | <u>\$ 5,989,799</u> | <u>\$ -</u> | <u>\$ 91,325</u> | <u>\$ 6,081,124</u> |

| | Assets at Fair Value as of September 30, 2019 | | | |
|---------------------------|---|-------------|------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | \$ 5,154,891 | \$ - | \$ - | \$ 5,154,891 |
| Preferred rate securities | 233,898 | - | - | 233,898 |
| Endowment fund | - | - | 85,454 | 85,454 |
| | <u>\$ 5,388,789</u> | <u>\$ -</u> | <u>\$ 85,454</u> | <u>\$ 5,474,243</u> |

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended September 30, 2020.

| | Fair Value Measurement Using Significant Unobservable Inputs (Level 3) |
|--|--|
| Opening balance | \$ 85,454 |
| Investment income/increase in market value | 6,852 |
| Less investment fees paid | <u>981</u> |
| Ending balance | <u>\$ 91,325</u> |

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2020

Note C - Property and Equipment

Property and equipment consist of:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|----------------------|----------------------|
| Land | \$ 604,580 | \$ 603,580 |
| Land improvements | 1,162,515 | 1,170,528 |
| Buildings | 20,270,893 | 19,765,910 |
| Cottages | 5,027,160 | 5,026,012 |
| Medical facility | 9,209,066 | 9,209,066 |
| Furniture and fixtures | 1,493,752 | 1,541,750 |
| Equipment | 2,661,882 | 2,118,884 |
| Equipment - medical facility | 431,187 | 391,440 |
| Vehicles | 365,602 | 292,902 |
| Fitness center | 607,729 | 607,729 |
| Collectibles | 25,300 | 25,300 |
| Construction in progress | <u>6,500</u> | <u>224,540</u> |
| | 41,866,166 | 40,977,641 |
| Less accumulated depreciation | <u>27,442,973</u> | <u>26,329,820</u> |
| | <u>\$ 14,423,193</u> | <u>\$ 14,647,821</u> |

Expenses of the Operating Fund include depreciation of \$1,297,840 and \$1,241,968 for the years ended September 30, 2020 and 2019, respectively.

Note D - Unit Deposits

The unit deposits of \$110,000 shown on the statements of financial position represent monies received as advanced entrance fees from individuals who wish to occupy facilities of Covenant Village, Inc. in the future. The Village is paying 6% interest per annum on the unit deposits to the individuals.

Note E - Sale of Units

Sale of units represents income from entrance fees. Entrance fees are amortized to income based on the estimated life of each resident, using a straight-line method based on the 2000 Individual Annuitant Mortality Table - A. During the years ended September 30, 2020 and 2019, the Village recognized \$1,856,260 and \$1,458,583 amortization of the deferred revenue of entrance fees from the sale of units, respectively, and actual cash received was \$1,503,000 and \$2,370,592 for the years ended September 30, 2020 and 2019, respectively.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note F - Note Payable

Note payable at September 30, 2020 and 2019 consists of the following:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Unsecured note payable to a bank with interest payable monthly at 2.89% and annual principal payments of \$200,000. The note matures August 20, 2025. | \$ <u>1,900,000</u> | \$ <u>1,400,000</u> |

Future annual maturities of the note payable at September 30, 2020 are as follows:

| | |
|--------------------|---------------------|
| September 30, 2021 | \$ 200,000 |
| September 30, 2022 | 200,000 |
| September 30, 2023 | 200,000 |
| September 30, 2024 | 200,000 |
| September 30, 2025 | <u>1,300,000</u> |
| | <u>\$ 1,900,000</u> |

Interest expense related to the note payable charged to operations for the years ended September 30, 2020 and 2019 was \$37,497 and \$40,537, respectively.

Note G - Small Business Administration Loan and Forgiveness

On January 30, 2020 The World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”), which posed significant risks to the international community. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on rapid increase in exposure globally. The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings. There has been a significant change in Village operations, including the delivery of instruction and implementation of enhanced safety protocols.

To mitigate the potential negative impact, the Village applied for, and on May 13, 2020, received \$1,578,700 in loan assistance through the Payroll Protection Program (“PPP”) administered by the Small Business Administration (“SBA”) as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The prevailing accounting guidance defines the PPP loans as conditional contributions, with a right of return in the form of an obligation for repayment if a barrier to entitlement is unmet. Per guidance provided by the SBA, the barrier is a requirement that PPP loan funds must maintain compensation costs, employee headcount and other qualifying expenses (mortgage interest, rent and utilities). Application for the loan’s forgiveness will happen in the fiscal year 2021 and include compliance substantiation and certification. As of the date of financial statement issuance, the Village had not received its lender forgiveness.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note G - Small Business Administration Loan and Forgiveness – Continued

If repayment is required, the terms (1% per annum, repayable over a maximum of two years with a seven-month deferral period) are such that the Village has sufficient liquidity to repay the unforgiven portion.

As of September 30, 2020, the Village has satisfied \$150,000 of amounts required for forgiveness of the loan, which is recorded as grant revenue in the accompanying Statements of Activities and Changes in Net Assets for the year ended September 30, 2020. The remaining balance of \$1,428,700 is shown as a small business administration loan at September 30, 2020 in the Statements of Financial Position.

Note H - Retirement Plan

The Village maintains a defined-contribution plan which provides retirement benefits based on the actual value of contributions at the time of retirement. The plan is available to significantly all employees and the Village matches 50% of the contributions made by eligible employees, up to 3% of the employees' annual salary. Contributions to the plan by the Village were \$95,355 and \$79,298 for the years ended September 30, 2020 and 2019, respectively.

Note I - Contingencies

Under the terms of the life-care agreement with the residents, Covenant Village, Inc. is contingently liable for refunds of entrance fees. The refund is applicable to residents whose residency ceases, whether voluntarily or involuntarily, within the first twenty-five months of residency for apartments or fifty months for cottages. Covenant Village, Inc. will refund the payment made by the resident, less \$1,000 for processing and refurbishing charges and 4% and 2% for each calendar month, or portion thereof of residency, for apartment residency and cottage residency, respectively. The refundable entrance fees were \$2,721,231 and \$2,954,845 at September 30, 2020 and 2019, respectively.

Additionally, generally accepted accounting principles require that residence fees must be accounted for ratably over the life expectancy of the residents. The portions of the entrance fees that have not been earned and that are in excess of the contingent refund listed above are reported as deferred entrance fees. The deferred entrance fees were \$8,077,178 and \$8,161,724 at September 30, 2020 and 2019, respectively.

Note J - Concentration of Credit Risk

At September 30, 2020, the Village had deposits in excess of federally insured limits of \$2,520,062 with a national bank. Management believes the financial institution has a strong credit rating and that credit risk related to these deposits is minimal.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note K - Statutory Operating Reserve

Under Section 58-64-33 of the North Carolina General Statutes, which is administered by the North Carolina Department of Insurance, continuing care retirement communities are required to maintain an operating reserve equal to 25% of the total operating costs, as defined, projected for the 12-month period following the period covered by the most recent annual statement filed with the North Carolina Department of Insurance, if occupancy levels are in excess of 90%. If occupancy levels are less than 90%, the operating reserve requirement is 50% of total operating costs, as defined. The Village has historically maintained an occupancy level in excess of 90%. The statutory operating reserve for 2020 and 2019 was \$3,175,389 and \$3,153,327, respectively. Use of the operating reserve by the Village is restricted under Section 58-64-33 of the North Carolina General Statutes. The North Carolina General Statutes do not require the Village to maintain such operating reserve in a separate escrow account.

Note L - Operating Lease

The Village leased 2 copiers and several printers during the year ending September 30, 2016 under an operating lease that was set to expire in December 2021. In July 2020 this lease was terminated and a new lease was signed, for 3 copiers and 29 printers, for a 63-month period ending November 2025, with monthly payments of \$2,849.

The Village also leased a copier during the year ended September 30, 2015 under a 51-month operating lease that expired July 2019. This lease was renewed with 2 additional copiers added during the year ending September 30, 2019. The lease term is a 60-month operating lease that expires April 2024. The payment required by this lease is \$776 per month.

The Village leased iPads during the year ended 2020 under a 36-month operating lease that expires June 26, 2023. The payment required by this lease is \$2,181 per month.

Total lease expense for the year ending September 30, 2020 and 2019 was approximately \$50,000 and \$45,000, respectively.

Minimum future payments required by the operating leases as of September 30, 2020 are as follows:

| | | |
|----------------|----|----------------|
| September 2021 | \$ | 69,677 |
| September 2022 | | 69,677 |
| September 2023 | | 63,129 |
| September 2024 | | 38,844 |
| September 2025 | | 34,188 |
| There after | | <u>2,849</u> |
| | \$ | <u>278,364</u> |

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note M - Related Party Transactions

The Village has an employee loan program. Certain requirements must be met before an employee is granted a loan. Principal payments are made through payroll deduction. As of September 30, 2020 and 2019, there was an outstanding balance on these loans of \$7,677 and \$16,119, respectively. This amount has been included in employee receivables on the statements of financial position.

Note N - Net Assets with Donor Restrictions

Net assets with donor restrictions at September 30, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Operating Fund | | |
| Gifts restricted by donor for employee loans | \$ 27,000 | \$ 27,000 |
| Benevolent Assistance Fund | | |
| Gifts restricted by donor for scholarships | <u>136,828</u> | <u>87,581</u> |
| Total net asset with donor restrictions | <u>\$ 163,828</u> | <u>\$ 114,581</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors are as follows:

| | |
|------------------------------------|-------------------|
| Small business administration loan | \$ 150,000 |
| Scholarships issued | <u>8,400</u> |
| Total restrictions released | <u>\$ 158,400</u> |

Note O - Liquidity and Availability

The Village's financial assets available for general expenditures without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following at September 30, 2020:

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 2,771,240 |
| Receivables | 106,522 |
| Sales tax refunds | 16,800 |
| Investments | <u>6,081,124</u> |
| | <u>\$ 8,975,686</u> |

The Village has certain board designated assets limited to use which are available within one year in the normal course of operations. Accordingly, these assets have been included in the information above for general expenditures within one year.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note P - Benevolent Funds Assistance

For the year ending September 30, 2020 and 2019 \$140,000 and \$175,000, respectively, was transferred to the operating income from the benevolent fund to support residents in financial need.

Note Q - Functional Expenses

The Village provides services to the residents of its facility that include independent living and health care services. Certain categories are attributable to more than one program or supporting function, therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated include salaries and benefits and other operating expenses, which are allocated on a time and effort basis and depreciation which is allocated on estimated basis.

| | |
|--------------------------|----------------------|
| Salaries and benefits | \$ 8,537,068 |
| Depreciation | 1,297,840 |
| Other operating expenses | <u>3,471,917</u> |
| | <u>\$ 13,306,825</u> |

Note R - Reclassifications

Certain items in the financial statements for the year ended September 30, 2019 have been reclassified, with no effect on change in net assets or net assets, to be consistent with the classification adopted for the year ended September 30, 2020.

Note S - Subsequent Events

The Organization has evaluated subsequent events through January 19, 2021, the date on which the financial statements were available to be issued.

In the first quarter of the year ending September 30, 2021 the Village started a Master Planning process that will deliver a campus master plan for the next 3-5 years, 5-10 years, and 10+ years.

The Master Planning process will be comprehensive, that will include both renovation and expansion projects, as well as capital improvements and new Resident-centered programs and service line products. The major initiatives will provide benefits and an expansion of services to both current and future Residents.

Some of the key strategic initiatives to be considered include multiple dining venues, on-site concierge gerontologist clinic, increased and enhanced common areas, at home program, cottage renovations, branded wellness programs and new villa expansion.

COVENANT VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020

Note S - Subsequent Events - Continued

The Master Plan will be reviewed by current and future residents, management and the Board of Directors. The Board of Directors will decide which strategic initiatives to begin considering the benefits to current and future residents.

As of January 19, 2021, the Board of Directors has not acted on any aspects of the Master Plan.

SUPPLEMENTARY INFORMATION

COVENANT VILLAGE, INC.

SCHEDULES OF NURSING SERVICES
 Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|----------------------|---------------------|----------------|---------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 2,533,321 | 76.57% | \$ 2,361,216 | 75.57% |
| Payroll taxes | 183,854 | 5.56% | 178,129 | 5.70% |
| Employee benefits | 420,249 | 12.70% | 439,726 | 14.07% |
| Consultants' fees | 60,000 | 1.81% | 60,000 | 1.92% |
| Medical supplies | 65,772 | 1.99% | 30,459 | 0.97% |
| Nourishments | 16,821 | 0.51% | 18,521 | 0.59% |
| Office expense | 5,466 | 0.17% | 4,016 | 0.13% |
| Other | 12,939 | 0.39% | 6,428 | 0.21% |
| Software maintenance | 9,891 | 0.30% | 20,916 | 0.67% |
| Staff development | 298 | 0.01% | 5,249 | 0.18% |
| | <u>\$ 3,308,611</u> | <u>100.00%</u> | <u>\$ 3,124,660</u> | <u>100.00%</u> |

COVENANT VILLAGE, INC.

SCHEDULES OF HOUSEKEEPING
 Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|--------------------|---------------------|----------------|---------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 698,347 | 62.64% | \$ 667,719 | 63.26% |
| Payroll taxes | 50,280 | 4.51% | 50,315 | 4.77% |
| Employee benefits | 253,249 | 22.72% | 225,817 | 21.40% |
| Cleaning supplies | 73,603 | 6.60% | 72,672 | 6.89% |
| Other | - | 0.00% | 318 | 0.03% |
| Outside services | 39,369 | 3.53% | 38,611 | 3.66% |
| | <u>\$ 1,114,848</u> | <u>100.00%</u> | <u>\$ 1,055,452</u> | <u>100.00%</u> |

COVENANT VILLAGE, INC.

SCHEDULES OF DIETARY
 Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|--------------------|---------------------|----------------|---------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 1,294,356 | 52.19% | \$ 1,180,916 | 50.90% |
| Payroll taxes | 93,457 | 3.77% | 92,217 | 3.97% |
| Employee benefits | 251,699 | 10.15% | 239,591 | 10.33% |
| Cleaning supplies | 20,670 | 0.83% | 24,392 | 1.05% |
| Food | 744,288 | 30.01% | 721,520 | 31.10% |
| Office expense | 4,419 | 0.18% | 1,992 | 0.09% |
| Other | 6,167 | 0.26% | 8,546 | 0.37% |
| Repairs | 20,611 | 0.83% | 18,702 | 0.81% |
| Paper supplies | 44,588 | 1.80% | 32,278 | 1.39% |
| | <u>\$ 2,480,255</u> | <u>100.00%</u> | <u>\$ 2,320,154</u> | <u>100.00%</u> |

COVENANT VILLAGE, INC.

SCHEDULES OF OPERATING AND MAINTENANCE

Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|---------------------------|---------------------|----------------|---------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 856,066 | 20.71% | \$ 814,708 | 20.55% |
| Payroll taxes | 62,436 | 1.51% | 62,794 | 1.58% |
| Employee benefits | 169,410 | 4.10% | 166,056 | 4.19% |
| Automation and technology | 340,740 | 8.24% | 305,140 | 7.70% |
| Other | 3,463 | 0.09% | 4,979 | 0.13% |
| Outside services | 399,064 | 9.66% | 424,294 | 10.70% |
| Repairs and maintenance | 432,798 | 10.47% | 307,738 | 7.76% |
| Supplies | 10,568 | 0.26% | 56,445 | 1.42% |
| Utilities | 560,787 | 13.57% | 580,422 | 14.64% |
| Depreciation | <u>1,297,840</u> | <u>31.40%</u> | <u>1,241,968</u> | <u>31.33%</u> |
| | <u>\$ 4,133,172</u> | <u>100.00%</u> | <u>\$ 3,964,544</u> | <u>100.00%</u> |

COVENANT VILLAGE, INC.

SCHEDULES OF SECURITY
 Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|--------------------|-------------------|----------------|-------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 231,818 | 77.01% | \$ 204,483 | 78.64% |
| Payroll taxes | 17,367 | 5.77% | 15,871 | 6.10% |
| Employee benefits | 47,741 | 15.86% | 35,450 | 13.63% |
| Other | 2,873 | 0.95% | 2,535 | 0.97% |
| Supplies | 1,231 | 0.41% | 1,693 | 0.65% |
| | <u>\$ 301,030</u> | <u>100.00%</u> | <u>\$ 260,032</u> | <u>100.00%</u> |

COVENANT VILLAGE, INC.

SCHEDULES OF ACTIVITIES AND WELLNESS

Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|--------------------|-------------------|----------------|-------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 290,875 | 66.74% | \$ 333,582 | 68.29% |
| Payroll taxes | 20,420 | 4.69% | 24,954 | 5.11% |
| Employee benefits | 67,530 | 15.49% | 69,109 | 14.15% |
| Other | 12,727 | 2.92% | 7,205 | 1.48% |
| Outside services | 17,470 | 4.01% | 24,435 | 5.00% |
| Supplies | 26,821 | 6.15% | 29,188 | 5.98% |
| | <u>\$ 435,843</u> | <u>100.00%</u> | <u>\$ 488,473</u> | <u>100.00%</u> |

COVENANT VILLAGE, INC.

SCHEDULES OF MANAGEMENT AND GENERAL

Years Ending September 30, 2020 and 2019

| | 2020 | | 2019 | |
|-------------------------|---------------------|----------------|---------------------|---------------|
| | Amount | Percent | Amount | Percent |
| Salaries and wages | \$ 829,967 | 54.14% | \$ 583,726 | 46.28% |
| Payroll taxes | 54,091 | 3.53% | 42,792 | 3.39% |
| Employee benefits | 110,535 | 7.21% | 68,981 | 5.47% |
| Insurance | 207,712 | 13.55% | 191,609 | 15.19% |
| Legal and accounting | 87,082 | 5.68% | 114,323 | 9.06% |
| Office expense | 21,681 | 1.41% | 17,373 | 1.38% |
| Other | 167,002 | 10.90% | 50,318 | 3.99% |
| Outside services | 44,508 | 2.90% | 65,100 | 5.16% |
| Repairs and maintenance | 2,084 | 0.14% | 1,660 | 0.13% |
| Staff development | 8,404 | 0.55% | 8,643 | 0.69% |
| Bad debts | - | 0.00% | 16,090 | 1.05% |
| Transitions expenses | - | 0.00% | 100,686 | 6.57% |
| | <u>\$ 1,533,066</u> | <u>100.00%</u> | <u>\$ 1,261,301</u> | <u>98.36%</u> |

SECTION IX

Five Year Projection Statements (Balance Sheet, Statement of Operations, Statement of Cash Flow, and Statement detailing all significant assumptions), including an independent CPA compilation statement.

COVENANT VILLAGE, INC.
COMPILATION OF FINANCIAL FORECAST
FOR THE YEARS ENDING
SEPTEMBER 30, 2021 THROUGH SEPTEMBER 30, 2025

CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT ACCOUNTANT'S COMPILATION REPORT | 1 |
| Statements of forecasted financial position - all funds | 2 |
| Statements of forecasted activities - all funds | 3 |
| Statements of forecasted cash flows – all funds | 4 |
| Summary of significant forecast assumptions and accounting policies | 5-11 |

McCANNON • ROGERS • DRISCOLL
& ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

BENJAMIN P. ALBRIGHT, III, CPA
RANDY G. BOYD, CPA

PARTNERS:

STEPHEN B. DRISCOLL, CPA

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Board of Directors
Covenant Village, Inc.
Gastonia, North Carolina

Management of Covenant Village, Inc. (the "Village") is responsible for the accompanying financial forecast of the Village, which comprises the statements of forecasted financial position as of September 30, 2021, 2022, 2023, 2024, and 2025, and the related statements of forecasted activities and cash flows for each of the years then ending, and the related summaries of significant assumptions and accounting policies in accordance with the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecasted financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by Management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on this forecast.

The forecasted results may not be achieved, as there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecast and this report are intended solely for the information and use of management, the Board of Directors and the North Carolina Department of Insurance (pursuant to the requirements of North Carolina General Statutes, Chapter 58, Article 64 and included in the Village's disclosure statement filing), and is not intended to be and should not be used by anyone other than these specified parties.

McCannon, Rogers, Driscoll & Associates, L.L.P.

Gastonia, North Carolina
January 19, 2021

Covenant Village, Inc

Statements of Forecasted Financial Position - All Funds
See Independent Accountant's Compilation Report

| | September 30, | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Assets | | | | | |
| Cash and cash equivalents | \$ 2,176,034 | \$ 2,494,372 | \$ 2,881,972 | \$ 3,382,718 | \$ 3,970,672 |
| Accounts receivable | 48,000 | 48,000 | 48,000 | 48,000 | 48,000 |
| Inventories | 172,000 | 172,000 | 172,000 | 172,000 | 172,000 |
| Prepaid expenses | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Investments, unrestricted | 3,270,049 | 3,652,202 | 4,052,859 | 4,472,994 | 4,903,315 |
| Total current assets | 5,696,083 | 6,396,574 | 7,184,830 | 8,105,712 | 9,123,987 |
| Property and equipment, net | 14,473,193 | 13,793,193 | 13,093,193 | 12,393,193 | 11,743,193 |
| Operating reserves as required by North Carolina General Statutes | 3,251,075 | 3,328,422 | 3,407,740 | 3,489,078 | 3,582,805 |
| | <u>17,724,268</u> | <u>17,121,615</u> | <u>16,500,933</u> | <u>15,882,271</u> | <u>15,325,998</u> |
| Total assets | \$ 23,420,351 | \$ 23,518,189 | \$ 23,685,764 | \$ 23,987,984 | \$ 24,449,986 |
| Liabilities | | | | | |
| Notes payable, current | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 |
| Accounts payable | 214,000 | 214,000 | 214,000 | 214,000 | 214,000 |
| Accrued expenses | 600,000 | 600,000 | 600,000 | 600,000 | 600,000 |
| Room Deposits | 60,608 | 60,608 | 60,608 | 60,608 | 60,608 |
| Residents accounts | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Total current liabilities | 1,124,608 | 1,124,608 | 1,124,608 | 1,124,608 | 1,124,608 |
| Escrows and deposits | 28,000 | - | - | - | - |
| Deferred revenue | | | | | |
| Deferred credits long-term | 10,707,409 | 10,621,409 | 10,539,409 | 10,461,409 | 10,387,409 |
| Note payable, less current portion | 1,500,000 | 1,300,000 | 1,100,000 | 900,000 | 700,000 |
| | <u>12,235,409</u> | <u>11,921,409</u> | <u>11,639,409</u> | <u>11,361,409</u> | <u>11,087,409</u> |
| Total liabilities | 13,360,017 | 13,046,017 | 12,764,017 | 12,486,017 | 12,212,017 |
| Net assets | | | | | |
| Without donor restrictions | 9,889,665 | 10,294,319 | 10,736,351 | 11,308,651 | 12,036,338 |
| With donor restrictions | 170,669 | 177,853 | 185,396 | 193,315 | 201,631 |
| | <u>10,060,334</u> | <u>10,472,172</u> | <u>10,921,747</u> | <u>11,501,967</u> | <u>12,237,969</u> |
| Total net assets | \$ 23,420,351 | \$ 23,518,189 | \$ 23,685,764 | \$ 23,987,984 | \$ 24,449,986 |

See summary of significant forecast assumptions and accounting policies.

Covenant Village, Inc

Statements of Forecasted Activities - All Funds
See Independent Accountant's Compilation Report

| | Years Ending September 30, | | | | |
|---|----------------------------|--------------|--------------|--------------|--------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Revenues without donor restrictions | | | | | |
| Revenue | | | | | |
| Entrance fees | \$ 1,866,000 | \$ 1,700,000 | \$ 1,696,000 | \$ 1,692,000 | \$ 1,688,000 |
| Interest and investment income | 390,000 | 409,500 | 429,975 | 451,474 | 474,047 |
| Residential | 7,137,215 | 7,351,331 | 7,571,871 | 7,799,028 | 8,032,998 |
| Health care | 4,201,756 | 4,327,809 | 4,457,643 | 4,591,372 | 4,729,113 |
| Contributions | 80,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Other revenues | 177,400 | 260,000 | 267,800 | 275,834 | 284,109 |
| Total unrestricted revenue | 13,852,371 | 14,098,640 | 14,473,289 | 14,859,708 | 15,258,268 |
| Expenses | | | | | |
| Nursing service | 3,287,782 | 3,369,977 | 3,454,226 | 3,540,582 | 3,629,096 |
| Housekeeping | 1,126,011 | 1,154,161 | 1,183,015 | 1,212,591 | 1,242,905 |
| Dietary | 2,436,072 | 2,496,974 | 2,559,398 | 2,623,383 | 2,688,968 |
| Operating and maintenance | 2,627,549 | 2,693,238 | 2,760,569 | 2,829,583 | 2,900,322 |
| Activities & wellness | 457,668 | 469,110 | 480,837 | 492,858 | 505,180 |
| Security | 335,454 | 343,840 | 352,436 | 361,247 | 370,278 |
| Human resources | 229,888 | 235,635 | 241,526 | 247,564 | 253,753 |
| Technology | 471,918 | 483,716 | 495,809 | 508,204 | 520,909 |
| Management and general | 1,293,133 | 1,325,461 | 1,368,598 | 1,392,563 | 1,427,377 |
| Depreciation | 1,400,000 | 1,430,000 | 1,450,000 | 1,450,000 | 1,400,000 |
| Benevolence expense | 28,000 | 28,840 | 29,705 | 30,596 | 31,514 |
| Interest, unit deposits | 1,680 | - | - | - | - |
| Interest, long-term debt | 46,400 | 43,350 | 37,570 | 31,790 | 26,010 |
| Total expenses | 13,741,555 | 14,074,302 | 14,403,690 | 14,720,961 | 14,996,314 |
| Change in net assets without donor restrictions | 110,816 | 24,338 | 69,599 | 138,746 | 261,955 |
| Paycheck Protection Program Grant Income | 1,428,700 | - | - | - | - |
| Change in net assets | \$ 1,539,516 | \$ 24,338 | \$ 69,599 | \$ 138,746 | \$ 261,955 |

See summary of significant forecast assumptions and accounting policies.

Covenant Village, Inc.

Statements of Forecasted Cash Flows - All Funds
See Independent Accountant's Compilation Report

| | Years Ending September 30, | | | | |
|--|----------------------------|--------------|--------------|--------------|--------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Increase in net assets | \$ 1,539,516 | \$ 24,338 | \$ 69,599 | \$ 138,746 | \$ 261,955 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities | | | | | |
| Depreciation | 1,400,000 | 1,430,000 | 1,450,000 | 1,450,000 | 1,400,000 |
| Decrease (increase) in operating assets | | | | | |
| Accounts receivable | 75,322 | - | - | - | - |
| Inventories | (33,801) | - | - | - | - |
| Prepaid expenses | 12,069 | - | - | - | - |
| Investments, long-term | (50,000) | (50,000) | (50,000) | (50,000) | (50,000) |
| Increase (decrease) in operating liabilities | | | | | |
| Accounts payable | (80,748) | - | - | - | - |
| Accrued expenses | (183,391) | - | - | - | - |
| Unit deposits | (82,000) | (50,000) | (50,000) | (10,000) | - |
| Deferred income | (1,428,700) | - | - | - | - |
| Resident accounts | (22,473) | - | - | - | - |
| Deferred credits | (91,000) | (86,000) | (82,000) | (78,000) | (74,000) |
| Net cash provided by operating activities | 1,054,794 | 1,268,338 | 1,337,599 | 1,450,746 | 1,537,955 |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | | | | |
| Purchase of property and equipment | (1,450,000) | (750,000) | (750,000) | (750,000) | (750,000) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | | | | |
| Principle payments on note payable | (200,000) | (200,000) | (200,000) | (200,000) | (200,000) |
| Increase (decrease) in cash and cash equivalents | (595,206) | 318,338 | 387,599 | 500,746 | 587,955 |
| Cash and cash equivalents at the beginning of the year | 2,771,240 | 2,176,034 | 2,494,372 | 2,881,972 | 3,382,718 |
| Cash and cash equivalents at the end of the year | \$ 2,176,034 | \$ 2,494,372 | \$ 2,881,972 | \$ 3,382,718 | \$ 3,970,672 |

See summary of significant forecast assumptions and accounting policies.

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025

See Independent Accountant's Compilation Report

Note A - Summary of Significant Forecast Assumptions

Basis of Presentation

The accompanying financial forecast, presents to the best of the knowledge and belief of management ("Management") of Covenant Village, Inc. (the "Village") the expected financial position, results of operations and changes in net assets, and cash flows of the Village as of and for each of the five years ending September 30, 2025 (the "Forecast" or the "Forecast period"). Accordingly, the accompanying forecast reflect Management's judgment as of January 19, 2021, the date of this forecast, of the expected conditions and its expected course of action during the forecast period. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Management's purpose in releasing this financial forecast is for inclusion in the Village's annual Disclosure Statement in accordance with the North Carolina General Statutes, Chapter 58 article 64. Accordingly, this report should not be used for any other purpose. The assumptions disclosed herein are those that Management believes are significant to the prospective financial statements. The Village recognized that there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected, and those differences may be material

The prospective financial statements included in the forecast have been prepared in accordance with the accounting principles generally accepted in the United States of America. Significant accounting policies are described in the appropriate assumptions and notes to the prospective financial statements. The assumptions described are not all-inclusive.

Background of the Village

Covenant Village, Inc. is a continuing life-care facility located in Gastonia, North Carolina and was organized as a not-for-profit corporation in 1977. The Village is a nonstock, nonprofit corporation organized under the laws of the state of North Carolina. As a nonstock corporation, the Village has no shareholders, and any surplus remains with the corporation to build reserves for unforeseen financial needs and repairs and renovations to benefit residents.

Covenant Village, Inc. is currently operating 130 apartments, 42 cottages and a 72-bed health center.

Strategic Visioning

In the first quarter of the year ending September 30, 2021 the Village started a Master Planning process that will deliver a campus master plan for the next 3-5 years, 5-10 years, and 10+ years.

The Master Planning will be a comprehensive process that will include both renovation and expansion projects, as well as capital improvements, new Resident-centered programs and service line products. The major initiatives will provide benefits and an expansion of services to both current and future Residents.

Some of the key strategic initiatives to be considered include multiple dining venues, on-site concierge gerontologist clinic, increased and enhanced common areas, an at home program, cottage renovations, branded wellness programs and new villa expansion.

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025
See Independent Accountant's Compilation Report

Note A - Summary of Significant Forecast Assumptions – Continued

Strategic Visioning – Continued

The Master Plan will be reviewed by current and future residents, management and the Board of Directors. The Board of Directors will decide which strategic initiatives to begin considering the benefits to current and future residents.

Sale of units

Sale of units represents income from entrance fees. Entrance fees are amortized to income based on the estimated life of each resident, using a straight-line method based on the 2000 Individual Annuitant Mortality Table-A. Additionally, turnover due to mortality is expected to be 10% per year.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net asset with donor restrictions. When a restriction expires, net asset with donor restrictions is reclassified to net assets without donor restrictions.

Residential

Residential income includes monthly fee payments made by residents in apartments and cottages. A 3% increase in monthly fees is projected for each year. The census assumptions are as follows:

| Type of Unit | Actual Number of Units | Budget Number of Units | Percent of Occupancy |
|------------------------|------------------------|------------------------|----------------------|
| Cottages | 42 | 40.50 | 96% |
| 2 nd person | | 21.50 | |
| Two-bedroom | 14 | 13.00 | 93% |
| 2 nd person | | 5.00 | |
| One-bedroom | 56 | 53.00 | 95% |
| 2 nd person | | 7.00 | |
| Single room | 60 | 57.50 | 96% |
| 2 nd person | | 2.00 | |

Health care

Health Care income assumes 89% occupancy of the 72 bed Health Center. Income is calculated at \$134.00 per day for 45 residents with life care contracts and \$289.00 per day for 19 full pay residents in nursing care. A full pay resident is also required to make a \$20,000 non-refundable entrance fee upon entering Covenant Village Health Care. An annual fee increase of 3% is projected.

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025
See Independent Accountant's Compilation Report

Note A - Summary of Significant Forecast Assumptions – Continued

COVID-19 Pandemic

On January 30, 2020 The World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”), which posed significant risks to the international community. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on rapid increase in exposure globally. The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings. There has been a significant change in Village operations, including the delivery of instruction and implementation of enhanced safety protocols.

To mitigate the potential negative impact, the Village applied for, and on May 13, 2020, received \$1,578,700 in loan assistance through the Payroll Protection Program (“PPP”) administered by the Small Business Administration (“SBA”) as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). Management has included proceeds of \$1,428,700 from the PPP Grant in its forecast for fiscal year 2021 but has not estimated any additional impact of COVID-1 for the remainder of the forecast period.

Other revenues

Other revenues include barber and beauty shop earnings, employee meals, guest meals and lodging, medical supplies charged to residents, laundry fees and cable TV.

Interest and investment income

Income is the investment earnings from the Benevolent Fund/operating reserve and other operating funds with an average balance of \$6,000,000. It is assumed that approximately \$50,000 will be added to these funds each year. The investment rate was calculated at 5%.

Departmental expenses

Operating expenses including the nursing, housekeeping, dietary, maintenance, activities and wellness, security, human resources, technology and management and general were calculated based on actual results from the year ended September 30, 2020 for the forecasted period ending September 30, 2021. All future years are based on a 2.5% annual increase.

Renovation expenses

The expenses associated with refurbishing Health Center rooms, cottages and apartments when they turnover is included in the forecast under operating and maintenance. These expenses were approximately \$550,000 in 2020 and \$749,000 was used for the forecast.

Marketing expenses

Covenant Village, Inc. relies on word-of-mouth to maintain occupancies. Expenses related to this are minimal and included in the budget for Administration. There are no paid advertising budget or paid staff positions for marketing.

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025

See Independent Accountant's Compilation Report

Note A - Summary of Significant Forecast Assumptions – Continued

Depreciation

This non-cash expense represents the allocation of costs associated with expenditures for property and equipment which are capitalized at cost; the fair market value of donated property and equipment is similarly capitalized. Depreciation is provided over the estimated useful life of assets, computed on the straight-line method.

Interest expense future residents

Interest expense is the interest paid to future apartment residents with entrance fees on deposit. Interest is paid at an annual rate of 6%.

Interest on long-term debt

Interest on long term debt is the interest that will be paid on \$1,900,000 borrowed to finance the Health Center addition and renovations and the purchase of 12.9 acres known as the Smyre property. The debt matures in August 2025. An interest rate of 2.89% and a \$200,000 per year principal reduction is assumed for these projections. It is also assumed the debt will be refinanced in August 2025 for the same terms currently in effect.

Equipment replacement and building renovations

This amount is based on experiences and reflects the amount needed to replace equipment and refurbishing. It is assumed approximately \$750,000 in additions of equipment and renovations will be added yearly to property and equipment.

Land purchase

During year ending September 30, 2021 the Smyre property was purchased for \$700,000.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The Village maintains its accounting and financial records according to the accrual basis of accounting, recognizing revenues when earned and expenses when incurred. The Village's financial forecast has been presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants.

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025
See Independent Accountant's Compilation Report

Note B - Summary of Significant Accounting Policies - Continued

Basis of Accounting

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time. Designated net assets without donor restrictions consist of amounts to be used for the program activities.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Net assets with donor restrictions whose restrictions are satisfied in the same reporting period in which the contribution was received are reported as unrestricted support.

Use of Estimates

The preparation of forecasted financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the forecasted financial statements. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Village considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivables consist of resident monthly service fees. Residents are not required to provide collateral for services rendered. Management has evaluated and determined all accounts receivable are collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made.

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025
See Independent Accountant's Compilation Report

Note B - Summary of Significant Accounting Policies – Continued

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Village that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Village uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Inventories

Inventories are stated at cost and are accounted for on the first-in first-out method.

Investments

The Village carries investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in accordance with accounting requirements for certain investments held by nonprofit organizations, in the statements of financial position. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in net asset without donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized. Long-term investments consist of debt securities with original maturities greater than twelve months.

Property and Equipment

The Village capitalizes property and equipment over \$500. Purchased property and equipment are recorded at cost and include additions and improvements that extend the useful lives of the assets. Expenditures for maintenance, repairs and minor renovations are charged to expense as incurred.

Property and Equipment

Major renovations and improvements are capitalized. Depreciation is provided on a straight-line method over the following estimated useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 15 - 39 years |
| Land improvements | 7 - 39 years |
| Equipment and furnishings | 7 - 10 years |
| Motor vehicles | 5 years |

COVENANT VILLAGE, INC.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS AND ACCOUNTING POLICIES

September 30, 2021, 2022, 2023, 2024 and 2025
See Independent Accountant's Compilation Report

Note B - Summary of Significant Accounting Policies – Continued

Property and Equipment - Continued

Donations of collectibles and property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Village reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Village reclassifies net assets with donor restrictions to net assets without donor restrictions. Property and equipment are depreciated using the straight-line method.

Income taxes

The Village is a not-for-profit association that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the State of North Carolina has granted the Village tax-exempt status.

Accounting principles generally accepted in the United States of America require the Village's management to evaluate tax positions taken by the Village and recognize a tax liability (or asset) if the Village has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Village, and has concluded that as of September 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Village is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2017.

Assets Limited as to Use

Operating reserve under Section 58-64-33 of the North Carolina General Statutes, which is administered by the North Carolina Department of Insurance, requires that all continuing care retirement communities maintain an operating reserve equal to 25% of the total operating costs, as defined, forecasted for the twelve-month period following the period covered by the most recent annual statement filed with the North Carolina Department of Insurance, if occupancy levels are in excess of 90%. If occupancy levels are less than 90%, the operating reserve requirement is 50% of total operating costs, as defined. The Village has historically maintained an occupancy level in excess of 90%. Use of the operating reserve by the Village is restricted under Section 58-64-33 of the North Carolina General Statutes. The North Carolina General Statutes do not require the Village to maintain such operating reserve in a separate escrow account.

ATTACHMENT 3

RESIDENT'S AGREEMENT / CONTRACTS

LIFE CARE AGREEMENT
COVENANT VILLAGE, INC.
MAIN BUILDING APARTMENTS

THIS AGREEMENT is made this ____ **day of** _____ by and between Covenant Village, Inc., a North Carolina non-profit corporation, hereinafter called the "Covenant Village" and _____ hereinafter called "Resident" (if husband and wife, or two other persons enter into this Agreement, the word "Resident" shall apply to them collectively unless the context otherwise requires.)

WHEREAS, Covenant Village owns and operates a life care retirement community located on 1351 Robinwood Road in Gastonia, North Carolina, and,

WHEREAS, Resident is desirous of becoming a resident of Covenant Village and of living in an Apartment and using the facilities, programs and services provided by Covenant Village subject to the terms and conditions of the Agreement;

NOW, THEREFORE, Resident and Covenant Village agree as follows:

I. ACCOMMODATIONS AND SERVICES

Subject to the terms and conditions set forth in this Agreement, Covenant Village agrees to provide Resident the living accommodations, programs and services at Covenant Village described as follows:

A. **Living Accommodation.** “ ” type of unit located in the main building of Covenant Village (hereinafter referred to as the "Apartment"). Resident has the exclusive right to occupy and use the Apartment subject to the terms and conditions set forth in this Agreement.

B. **Utilities.** Covenant Village will furnish electricity, gas, water, sewer, trash removal and municipal services. Resident is responsible for any charges related to telephone, cable television and wireless internet services outside of Covenant Village's bundling services.

C. **Furnishings.** Covenant Village will provide: wall-to-wall carpeting except in the kitchen and bathrooms where sheet vinyl will be provided; interior walls will be painted sheetrock; tubs and showers of molded acrylic or fiberglass with grab bars; heat and air conditioning with individual thermostat; emergency call devices and automatic fire alarm to summon assistance, overhead heat lamp and a mirror in each bathroom; lever door hardware; sound insulation between apartments; mail boxes and an apartment number for each apartment; and, cable television and telephone pre-wiring. All furniture, furnishings, decorations, accessories, bed and bath linens and other personal property shall be provided by Resident.

D. **Meals.** Three nutritionally well-balanced meals will be available to Residents each day, which will be served in the central dining room. Special diets will be provided when ordered by Resident's physician. A provision for credit for uneaten meals during a Resident's absence from Covenant Village will be made in accordance with the policies of Covenant Village, which currently call for credits to begin after seven consecutive days of absence from Covenant Village. Meals for guests will be available for an additional charge.

E. **Housekeeping Services.** Covenant Village provides weekly housekeeping services including vacuum cleaning, dusting, cleaning of baths and kitchens and trash removal.

F. **Laundry.** Covenant Village will change and launder Resident's bed and bath linens on a weekly basis.

G. **Maintenance and Repairs.** Covenant Village will maintain and keep in repair its improvements, furnishings and equipment. Resident will be responsible for the cost of repairing damage to property of Covenant Village caused by the negligence of Resident or any guest of Resident, ordinary wear and tear excepted. Any structural or physical change or redecoration of any kind within the Apartment will require the approval of Covenant Village. The cost of any change or cost of redecoration will be paid by Resident. Any such improvement or change will become property of Covenant Village upon termination of this Agreement.

H. **Groundskeeping.** Covenant Village will furnish basic groundskeeping service for all the grounds of Covenant Village, including lawn, tree and shrubbery care. Subject to approval by Covenant Village, Resident may plant certain areas designated for such purpose by Covenant Village. Resident is responsible for maintenance of such plantings.

I. **Parking.** Covenant Village will provide parking areas for Resident's personal vehicles.

J. **Common Facilities.** Common facilities provided by Covenant Village for the use and benefit of Resident are: a central dining room, living room, lounges, sitting areas, library, arts and crafts room, lobbies, beauty parlor, chapel, laundry rooms, and outdoor walkways and gardening areas.

K. **Activities.** Social, spiritual, educational, cultural activities, arts and crafts, exercise and health programs will be available to Residents.

L. **Usual Health Service of Covenant Village Health Center.** Covenant Village will provide Resident with nursing and health care in the Covenant Village Health Center, as well as 24-hour nursing and professional staff for consultation, assistance and emergency needs.

II. FINANCIAL ARRANGEMENTS

A. **Entrance Fee.** In consideration for the living accommodations, services, and programs offered hereunder, Resident agrees to pay an Entrance Fee of \$_____ less \$_____ in consideration of the application fee paid. Upon signing this agreement, Resident will pay a deposit of 10% of the Entrance Fee, \$_____. The balance of the entrance fee of \$_____ is due in sixty days from the date of signing this agreement and Resident agrees that occupancy and monthly charges begin on this date. Resident further agrees to forfeit the deposit of 10% of the Entrance Fee if the balance of the entrance fee and monthly charges are not paid within sixty days from the date of this agreement, except as provided herein below in Section VI.

B. **Monthly Charge.** In addition to the Entrance Fee, Resident agrees to pay a Monthly Charge during the term of this Agreement which shall be payable in advance by the tenth day of each month. As of the date of this Agreement, Covenant Village estimates that the monthly charge associated with the Apartment will be \$_____ per month plus an additional \$_____ per month if a second Resident occupies the Apartment and \$_____ per day for a private room in the Covenant Village Health Center. The charges may be adjusted by Covenant Village prior to occupancy of the Apartment by Resident. The charges are also subject to change during the term of this Agreement as described in Paragraph C. below.

C. **Adjustments in the Charge.** The charges are assessed to provide the facilities, programs, and services described in this Agreement and are intended to meet the cost associated with the establishment, operation and management of Covenant Village. Covenant Village shall have the authority to adjust the charges from time-to-time during the term of this Agreement as Covenant Village in its discretion deems necessary in order to reflect changes in such costs of providing such facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. Any such

increases in the charges may be made by Covenant Village upon thirty (30) days written notice to Resident. Covenant Village also reserves the right to revise and amend the basis of all charges. Adjustments are not made in the charges if Resident is absent from the facility, except as may be determined, from time-to-time, by Covenant Village

D. Monthly Statements. Covenant Village will furnish Resident, upon request, a monthly statement showing the total amount of fees and other charges owed by Resident, which shall be payable by the tenth day of the month. Covenant Village may charge interest on any unpaid balance owed by Resident thirty (30) days after the monthly statement is furnished.

E. Charges in the Covenant Village Health Center. Should Resident qualify for nursing services in the Covenant Village Health Center, it is understood that Resident will be charged the published rate for a private room and will be charged an amount equal to the single person Monthly Charge in the accommodation occupied by Resident at the time of the transfer for temporary stays in semi-private rooms. In addition, charges may be made at the sole discretion of Covenant Village for extraordinary care, drugs, and supplies. Resident is responsible for the cost of prescription and non-prescription medications; surgical, dental and optical services; physical examinations and any medical service beyond that available in the Covenant Village Health Center; dry-cleaning service and personal laundry service; and, wheelchairs and other medical equipment used exclusively by Resident. Also, any professional services (medical or otherwise) contracted by Resident or in behalf of Resident shall be billed directly to Resident.

F. Care in Other Institutions. Should Resident require care that requires transfer to another institution, all expenses, which will result from such transfer, and care shall be borne entirely by Resident.

III. ADMISSION

The admission requirements for residency with Covenant Village are nondiscriminatory except as to age. Covenant Village is open to both married and single men and women of all races, religions and without regard to place of former residence. The Resident is required to meet the following standards prior to admission to Covenant Village:

A. Resident must be 65 years of age or older, except that in the case of a married couple in which one spouse is 65 years of age or older, the other spouse may be as young as 62 years of age.

B. Resident shall submit for review by the Covenant Village Admissions Committee an Application for Admission, a Personal Health History and a Confidential Financial Statement, all on forms furnished by Covenant Village at the time of application.

C. Resident shall have an interview with a representative from Covenant Village prior to acceptance at Covenant Village. After reviewing all information required to be furnished herein, additional personal interviews may be required by Covenant Village.

D. Resident shall submit a report of a physical examination of Resident made by a physician selected by Resident within thirty (30) days of the projected occupancy date. Such report shall include a statement by such physician that Resident is in good health, is ambulatory or can move about independently and is able to take care of himself or herself in normal living activities. Covenant Village may require Resident to have another physical examination by the Medical Director or by another physician approved by Covenant Village. If the health of Resident as disclosed by such physical examination differs materially from that disclosed in Resident's Application for Admission and Personal Health History, Covenant Village shall have the right to decline admission of Resident and to terminate this Agreement or, in the discretion of Covenant Village, to permit Resident to take occupancy of accommodations at Covenant Village suitable to the needs of Resident.

E. Resident understands and agrees that the first ninety (90) days of occupancy will be known as a probationary period during which Resident will be required to live independently in the Apartment in order to qualify to receive nursing services in the Covenant Village Health Center at the reduced rate residents with life care contracts. At the end of the initial ninety (90) day probationary period, the Admissions Committee may review Resident's ability to maintain an independent life-style. Residents who are unable to live in the Apartment at the time of the ninety (90) day review will be admitted to the Covenant Village Health Center, when space permits, at the full non-resident rate for nursing care. It is understood that the determination of the Admissions Committee will be final.

F. It is understood that Covenant Village through its Admissions Committee has the right to reject any application for admission to Covenant Village.

G. The Resident affirms that the representations made in the Application for Admission, Personal Health History and Confidential Financial Statement are true and correct and may be relied upon by Covenant Village as a basis for entering into this Agreement.

IV. TERMS OF RESIDENCY

A. **Rights of Resident.** Resident has the right to occupy and enjoy the Apartment initially occupied during Resident's lifetime unless this Agreement is terminated as provided herein. It is understood that this Agreement does not transfer or grant any interest in the real or personal property owned by Covenant Village other than the right to use and occupy the Apartment or an accommodation in the Covenant Village Health Center in accordance with the terms hereof. Resident agrees that the rights of

Resident under this Agreement are subject to and subordinate to the rights of a lender under any mortgage or deed of trust now or hereafter executed by Covenant Village creating a lien on any property of Covenant Village.

B. Rules and Regulations. Resident will abide by Covenant Village's rules and regulations and such reasonable amendments, modifications and changes of the rules and regulations as may hereafter be adopted by Covenant Village. It is understood that Covenant Village has the right to make exception to the rules and regulations when deemed necessary by the Board of Directors or the management of Covenant Village.

C. Changes in the Apartment. Covenant Village has the right to change the Apartment to meet requirements of any applicable statute, law or regulation. The Apartment may not be used in any manner in violation of any zoning ordinances or other governmental law or regulation.

D. Visitors. Except for short-term visitors or guests, no person other than Resident may reside in the Apartment without the approval of Covenant Village.

E. Loss of Property. Covenant Village shall not be responsible for the loss of any property belonging to Resident due to theft, mysterious disappearance, fire or any other cause. It is understood that Resident will have the responsibility of providing any desired insurance protection covering any such loss.

F. Occupancy by Two Persons. In the event that two persons occupy an Apartment under the terms of this Agreement, upon the permanent transfer to the Covenant Village Health Center or the death of one of such persons, or in the event of the termination of this Agreement with respect to one of such persons, the agreement shall continue in effect as to the remaining or surviving Resident who shall have the option to retain the same Apartment. The remaining or surviving Resident will thereafter pay the Monthly Charge for one person associated with the Apartment occupied by Resident, as illustrated in Paragraph II.B.

G. Medical Insurance. Resident shall maintain Medicare Part A, Medicare Part B and one supplemental health insurance policy or equivalent insurance coverage acceptable to Covenant Village and shall furnish Covenant Village with evidence of such coverage upon request.

H. Personal Damages. Except for matters of gross negligence on the part of Covenant Village, Resident agrees to assume all risks or personal damages by reason of any accident or injury while a resident of Covenant Village or by reason of the termination of resident in Covenant Village for misconduct or violation of Covenant Village's policies governing residents, or for any other reason.

I. **Right of Entry.** Covenant Village has the right to enter the Apartment to perform routine maintenance, for purposes of inspection and to assist Resident in an emergency. Covenant Village will make every effort to preserve Resident's rights to privacy.

J. **Occupancy.** The Apartment is considered to be occupied by Resident the date monthly charges commence and/or while Resident's personal effects are in the Apartment.

V. TRANSFERS OR CHANGES ON LEVELS OF CARE

A. It is understood that Covenant Village has the right to make or change living accommodation assignments if necessary, in order to best serve the needs of Resident and Covenant Village.

B. Resident agrees that Covenant Village shall have authority to determine when or if Resident should be transferred from Resident's Apartment to the Covenant Village Health Center or from one level of care to another level of care within the Covenant Village Health Center. Such determination shall be based on the professional opinion of the Medical Director and the Chief Executive Officer of Covenant Village and shall be made only after consultation to the extent practical with Resident, a representative of Resident's family or the sponsor of Resident and Resident's attending physician.

C. If it is determined by the Medical Director and the Chief Executive Officer that Resident needs care beyond that which can be provided by the facility and personnel of Covenant Village, Resident may be transferred to a hospital, center or institution equipped to give such care, which care will be at the expense of Resident. Such transfer of Resident will be made only after consultation with Resident to the extent possible, a representative of Resident's family or the sponsor of Resident, and Resident's attending physician.

D. If a determination is made by Covenant Village that any transfer described in Paragraph V. is probably not temporary in nature, Resident agrees to surrender the Apartment or the accommodation in the Health Center within thirty (30) days after Resident has been notified by Covenant Village. If Covenant Village subsequently determines upon the opinion of the Medical Director and the Chief Executive Officer that Resident can resume occupancy in accommodations comparable to those occupied by Resident prior to such transfer, Resident shall have priority to such accommodations as soon as they become available. If the living accommodation is not vacated within thirty (30) days, the Resident agrees to pay additional Monthly Charges.

VI. TERMINATION AND REFUND PROVISIONS

A. Resident may rescind this agreement within thirty days of the latter of the execution date of this contract or the receipt of the disclosure statement, with no penalty. Resident is not required to move into the unit before the expiration of the 30-day period. If Resident dies before occupying the apartment, or if, on account of illness, injury, or incapacity, a resident is precluded from occupying the apartment and such condition is certified in writing by a physician, then in either event the contract shall be deemed immediately cancelled. Any refund under this paragraph will be paid within sixty (60) days after written notice has been received by Covenant Village. Resident or Resident's legal representative shall receive a refund of all money or property transferred to Covenant Village, less monthly fees specified in the Contract for the period of time unit was actually occupied by Resident, less non-standard costs specifically incurred by Covenant Village at the request of the Resident and described in the Contract or any Contract amendment signed by Resident, and less a \$1,000 administrative fee. The entrance fee will be refunded without amortization reductions as specified herein below during the 30-day rescission period.

B. After taking occupancy and becoming a resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident provided, however, that if such cessation of residency occurs within the first twenty-five (25) months of residency, Covenant Village will refund the Entrance Fee, less four percent (4%) thereof for each calendar month, or portion thereof of residency, and less one thousand dollars (\$1,000) as an administrative and refurbishing charge. Payment of any refund due Resident under this paragraph will be made when Covenant Village receives full payment of the Entrance Fee from a qualified substitute resident.

C. No Entrance Fee refund will be made after twenty-five (25) months of residency and no refund will be made, at any time, for a resident transferring to Covenant Village's Health Center facilities.

D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules or regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund of the Entrance Fee paid by Resident determined in accordance with the same manner provided in Paragraph VI., A. or VI., B. above.

D. At the effective date of termination of this Agreement, Resident shall vacate the Apartment and shall leave it in good condition except for normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Apartment to good condition except for normal wear and tear. Monthly Fees will be continued until all personal effects have been removed from Covenant Village.

VII. GENERAL

A. **Assignment.** The rights and privileges of Resident under this Agreement are personal to Resident and may not be transferred or assigned. If Resident marries, the new spouse does not become a Resident for purpose of this Agreement. In order for the new spouse to be admitted to Covenant Village, the new spouse would need to be approved by the Admissions Committee. The new spouse would be required to pay an Entrance Fee for the unit occupied, and Resident and the new spouse would pay the two-person Monthly Fee if they occupy the same living unit.

B. **Tax Status and Ownership.** Covenant Village is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. It is owned and operated by a non-profit corporation governed by a Board of Directors whose members are selected by local churches. The churches are in no way responsible for the financial or contractual obligations of Covenant Village, Inc. Covenant Village is managed by its Board of Directors and its administrators at the direction of the Board of Directors.

C. **Entire Agreement.** This Agreement constitutes the entire contract between Covenant Village and Resident. Covenant Village shall not be liable or bound in any manner by any statements, representations or promises made by any person representing or assuming to represent Covenant Village, unless such statements, representations or promises are set forth in this Agreement.

D. **Successors and Assigns.** Except as set forth herein, this Agreement shall bind and inure to the benefit of the successors and assigns of Covenant Village and the heirs, executors, administrators and assigns of Resident.

E. **Power of Attorney.** Resident is required to have a written Power of Attorney and an executed copy must be given to the Director of Covenant Village.

F. **Guardianship.** If Resident becomes legally incompetent or is unable properly to care for himself or herself or his or her property without having designated a person or legal entity to serve as his or her guardian, the Resident agrees that Covenant Village or its designee may initiate legal proceedings relating to Resident's competence and may act as Resident's legal guardian when qualified according to law. Resident agrees to pay to Covenant Village and its designee any attorneys' fees and other expenses incurred in connection with any such guardianship.

G. **Will.** Resident is strongly encouraged to have a will providing for the disposition of his or her real personal property and provision for proper burial at his or her own expense. Resident agrees to notify the Director of Covenant Village as to the location of this will and the Executor.

H. **Transfer of Property.** Resident agrees not to make any gift or other transfer of property for less than adequate consideration for the purpose of evading Resident's obligations under this Agreement or if such gift or transfer would render such Resident unable to meet such obligations.

I. **Inability to Pay.** Resident will not be discharged by reason of poverty provided Covenant Village has the capability of meeting the Resident's needs.

J. **Governing Law.** This Agreement shall be governed by the laws of the State of North Carolina.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year above written.

ATTEST:

COVENANT VILLAGE, INC.

Witness:

Chief Executive Officer

Witness:

Resident (Seal)

Witness:

Resident (Seal)

LIFE CARE AGREEMENT
COVENANT VILLAGE, INC.
COTTAGE

THIS AGREEMENT is made this _____ day of _____ by and between Covenant Village, Inc., a North Carolina non-profit corporation, hereinafter called the "Covenant Village " and _____, hereinafter called "Resident" (if husband and wife, or two other persons enter into this Agreement, the word "Resident" shall apply to them collectively unless the context otherwise requires).

WHEREAS, Covenant Village owns and operates a life care retirement community located on 1351 Robinwood Road in Gastonia, North Carolina; and,

WHEREAS, Resident is desirous of becoming a resident of Covenant Village and of living in a Cottage and using the facilities, programs and services provided by Covenant Village subject to the terms and conditions of the Agreement;

NOW THEREFORE, Resident and Covenant Village agree as follows:

I. ACCOMMODATIONS AND SERVICES

Subject to the terms and conditions set forth in this Agreement, Covenant Village agrees to provide Resident the living accommodations, services and programs at Covenant Village described as follows:

- A. **Living Accommodation.** A cottage located at _____ in Covenant Village (hereinafter referred to as the "Cottage"). Resident has the exclusive right to occupy and use the Cottage subject to the terms and conditions set forth in this Agreement.

- B. **Utilities.** Covenant Village will furnish water, sewer, trash removal and municipal services. Resident is responsible for any charges related to gas and electric. Resident is also responsible for any changes related to cable television, telephone and wireless internet outside of Covenant Village's bundling services.

- C. **Furnishings.** Covenant Village will provide: wall-to-wall carpeting except in the kitchen and bathrooms where sheet vinyl will be provided; interior walls will be painted sheetrock except for kitchens and bathrooms where walls will be prepared for wallpaper; lighting fixtures and bulbs in each closet, the carport or garage, the bathrooms and kitchen, with an additional light over the kitchen sink, a vanity light in each bathroom, an overhead light in the entry foyer and exterior light near the main entrance but any hanging or other light fixture in the dining areas must be provided by Resident; tubs and showers of molded acrylic or fiberglass with built-in seats, grab bars and adjustable hand-held shower heads; central heat and air conditioning with individual thermostat; electric meter for each cottage; emergency call devices and automatic fire alarm to summon assistance from the Covenant Village main building; kitchen appliances including sink with sprayer, range with oven, dishwasher, disposal; overhead heat lamp or an electric heater; fan and a mirror in each bathroom; lever door hardware; gutters and downspouts; sound insulation between cottages; mail boxes and a cottage number for each cottage; crown moldings in living and dining rooms and each bedroom or study; cable television and telephone pre-wiring; washer-dryer hookups and adequate street lighting for cottage area. All furniture, furnishings, decorations, accessories, bed and bath linens and other personal property shall be provided by Resident.
- D. **Meals.** Covenant Village will make three nutritionally well balanced meals available to Residents each day, which will be served in the central dining room. The cost of one meal each day is included in the monthly fee. Other meals may be purchased for an additional fee. Special diets will be provided when ordered by Resident's physician. A provision for credit for uneaten meals during a Resident's absence from Covenant Village will be made in accordance with the policies of Covenant Village, which currently call for credits to begin after seven consecutive days of absence from Covenant Village.
- E. **Housekeeping Services.** Covenant Village will provide weekly housekeeping services including vacuum cleaning, dusting, cleaning of baths and kitchens and trash removal.
- F. **Laundry.** Covenant Village will change and launder Resident's bed and bath linens on a weekly basis.
- G. **Maintenance and Repairs.** Covenant Village will maintain and keep in repair its improvements, furnishings and equipment. Resident will be responsible for the cost of repairing damage to property of Covenant Village caused by the negligence of Resident or any guest of Resident, ordinary wear and tear excepted. Any structural or physical change or redecoration of any kind within the Cottage will require the approval of Covenant Village. The cost of any change or cost of redecoration will be paid by Resident. Any such improvement or change will become property of Covenant Village upon termination of this Agreement.

- H. **Groundskeeping.** Covenant Village will furnish basic groundskeeping service for all the grounds of Covenant Village including lawn, tree and shrubbery care for Resident. Subject to approval by Covenant Village, Resident may plant certain areas designated for such purpose by Covenant Village. Resident is responsible for maintenance of such plantings.
- I. **Parking.** Covenant Village will provide parking areas for Resident's personal vehicles.
- J. **Common Facilities.** Common facilities provided by Covenant Village for the use and benefit of Resident are: a central dining room, living room, lobbies, beauty parlor, chapel, outdoor walkways and gardening areas.
- K. **Wellness Center for Cottages and Main Building.** The residents of Covenant Village enjoy the 9,700 square foot Wellness Center. Exercise on our new, state-of-the-art cardio or strength equipment while watching your favorite program on one of the three 46" flat screen televisions, or enjoy the comforts and benefits of the indoor swimming pool, or relax in the spa. If you like the social aspect of exercise, join in one of our many instructor-led group exercise classes and have a blast! If more individual guidance is needed, then set an appointment with our Director of Wellness for an evaluation and custom exercise program tailored just for you. For your convenience, there are locker rooms with shower facilities. Massage services are also available by appointment.
- L. **Activities.** Any social, spiritual, educational, cultural activities, arts and crafts, provided by Covenant Village will be available to Residents.
- M. **Access to Apartments.** Covenant Village will provide Resident access to the apartments in the main buildings and to the Covenant Village Health Center when the Resident has a demonstrated need for such a move. Residents moving to apartments will be subject to Covenant Village's policies for apartment residents including the prohibition of private duty sitters and personal attendants.
- N. **Usual Health Services of Covenant Village Health Center.** Covenant Village will provide Resident with nursing and health care in the Covenant Village Health Center as well as 24-hour nursing and professional staff for consultation, assistance and emergency needs.

II. FINANCIAL AGREEMENTS

- A. **Entrance Fee.** In consideration for the living accommodations, services, and programs offered hereunder, Resident agrees to pay an Entrance Fee of \$ _____ (as provided in Exhibit I) less **\$1,000.00** in consideration of the application fee paid. Upon signing this agreement, Resident will pay a deposit of

10% of the Entrance Fee, \$ _____. The balance of the entrance fee of \$ _____ is due in sixty days from the date of signing this agreement and Resident agrees that occupancy and monthly charges begin on this date. Resident further agrees to forfeit the deposit of 10% of the Entrance Fee if the balance of the entrance fee and monthly charges are not paid within sixty days from the date of this agreement, except as provided herein below in Section VI.

- B. **Monthly Charge.** In addition to the Entrance Fee, Resident agrees to pay a Monthly Charge during the term of this Agreement which shall be payable in advance by the tenth day of each month. As of the date of this Agreement, Covenant Village estimates that the monthly charge associated with the Cottage will be \$ _____ per month plus an additional \$ _____ per month if a second Resident occupies the Cottage and \$ _____ per day for a private room in the Covenant Village Health Center. The charges may be adjusted by Covenant Village prior to occupancy of the Cottage by Resident. The charges are also subject to change during the term of this Agreement as described in Paragraph C. below.
- C. **Adjustments in the Monthly Charge.** The Monthly Charge is assessed to provide the facilities, programs, and services described in this Agreement and is intended to meet the costs associated with the establishment, operation and management of Covenant Village. Covenant Village shall have the authority to adjust the Monthly Charge from time-to-time during the term of this Agreement as Covenant Village in its discretion deems necessary in order to reflect changes in such costs of providing such facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. Any such increases in the Monthly Charge or other charges may be made by Covenant Village upon thirty (30) days written notice to Resident. Covenant Village also reserves the right to revise and amend the basis of all charges. Adjustments are not made in the Monthly Charge if Resident is absent from the facility, except as may be determined, from time to time, by Covenant Village
- D. **Monthly Statements.** Covenant Village will furnish Resident with a Monthly Statement showing the total amount of fees and other charges owed by Resident, which shall be payable by the tenth day of the month. Covenant Village may charge interest on any unpaid balance owed by Resident 30 days after the Monthly Statement is furnished.
- E. **Charges in the Covenant Village Health Center.** Should Resident qualify for nursing services in the Covenant Village Health Center, it is understood that Resident will be charged the published rate for a private room and will be charged an amount equal to the single person Monthly Charge in the accommodation occupied by Resident at the time of the transfer for temporary stays in semi-

private rooms. In addition, charges may be made at the sole discretion of Covenant Village for extraordinary care, drugs, and supplies. Resident is responsible for the cost of prescription and non-prescription medications; surgical, dental, and optical services; physical examinations, and any medical service beyond that available in the Covenant Village Health Center; dry-cleaning service and personal laundry service; and, wheelchairs and other medical equipment used exclusively by Resident. Also, any professional services (medical or otherwise) contracted by Resident or in behalf of Resident shall be billed directly to Resident.

- F. **Care in Other Institutions.** Should Resident require care that requires transfer to another institution, all expenses which will result from such transfer and care shall be borne entirely by Resident.

III. ADMISSION

The admission requirements for residency with Covenant Village are nondiscriminatory except as to age. Covenant Village is open to both married and single men and women of all races and religions and without regard to place of former residence. The Resident is required to meet the following standards prior to admission to Covenant Village:

- A. Resident must be 65 years of age or older, except that in the case of a married couple in which one spouse is 65 years of age or older, the other spouse may be as young as 62 years of age.
- B. Resident shall submit for review by the Covenant Village Admissions Committee an Application for Admission, a Personal Health History and Confidential Financial Statement, all on forms furnished by Covenant Village at the time of application.
- C. Resident shall have an interview with a representative from Covenant Village prior to acceptance at Covenant Village. After reviewing all information required to be furnished herein, additional personal interviews may be required by Covenant Village.
- D. Resident shall submit a report of a physical examination of Resident made by a physician selected by Resident. Such report shall include a statement by such physician that Resident is in good health, is ambulatory or can move about independently and is able to take care of himself or herself in normal living activities. Covenant Village may require Resident to have another physical examination by the Medical Director or by another physician approved by Covenant Village. If the health of Resident as disclosed by such physical examination differs materially from that disclosed in Resident's Application for Admission and Personal Health History, Covenant Village shall have the right to

decline admission of Resident and to terminate this Agreement, or in the discretion of Covenant Village, to permit Resident to take occupancy of accommodations at Covenant Village suitable to the needs of Resident.

- E. Resident understands and agrees that the first ninety (90) days of occupancy will be known as a probationary period during which Resident will be required to live independently in the Cottage in order to qualify to receive nursing services in the Covenant Village Health Center at the reduced rate for residents with life care contracts. At the end of the initial ninety (90) day probationary period, the Admissions Committee may review Resident's ability to maintain an independent life-style. Residents who are unable to live in the Cottage at the time of the ninety (90) day review will be admitted to the Covenant Village Health Center, when space permits, at the full non-resident rate for nursing care. It is understood that the determination of the Admissions Committee will be final.
- F. It is understood that Covenant Village through its Admissions Committee has the right to reject any application for admission to Covenant Village.
- G. The Resident affirms that the representations made in the Application for Admission, Personal Health History and Confidential Financial Statement are true and correct and may be relied upon by Covenant Village as a basis for entering into this Agreement.

IV. TERMS OF RESIDENCY

- A. **Rights of Resident.** Resident has the right to occupy and enjoy the Cottage described in Paragraph I. A. of this Agreement during Resident's lifetime unless this Agreement is terminated as provided herein. It is understood that this Agreement does not transfer or grant any interest in the real or personal property owned by Covenant Village other than the right to use and occupy the Cottage, some other available residential unit or an accommodation in the Covenant Village Health Center in accordance with the terms hereof. Resident agrees that the rights of Resident under this Agreement are subject to and subordinate to the rights of a lender under any mortgage or deed of trust now or hereafter executed by Covenant Village creating a lien on any property of Covenant Village.
- B. **Rules and Regulations.** Resident will abide by Covenant Village's rules and regulations and such reasonable amendments, modifications and changes of the rules and regulations as may hereafter be adopted by Covenant Village. It is understood that Covenant Village has the right to make exception to the rules and regulations when deemed necessary by the Board of Directors or the management of Covenant Village.

- C. **Changes in the Cottage.** Covenant Village has the right to change the Cottage to meet requirements of any applicable statute, law or regulation. The Cottage may not be used in any manner in violation of any zoning ordinances or other governmental law or regulations.
- D. **Visitors.** Except for short term visitors or guests, no person other than Resident may reside in the Cottage without the approval of Covenant Village.
- E. **Loss of Property.** Covenant Village shall not be responsible for the loss of any property belonging to Resident due to theft, mysterious disappearance, fire or any other cause. It is understood that Resident will have the responsibility of providing any desired insurance protection covering any such loss.
- F. **Occupancy by Two Persons.** In the event that two persons occupy a Cottage under the terms of this Agreement, upon the permanent transfer to the Covenant Village Health Center or the death of one of such persons, or in the event of the termination of this Agreement with respect to one of such persons, the Agreement shall continue in effect as to the remaining or surviving Resident who shall have the option to retain the same Cottage in which event there will be no refund of the Entrance Fee. The remaining or surviving Resident will thereafter pay the Monthly Charge for one person associated with the Cottage occupied by Resident.
- G. **Medical Insurance.** Resident shall maintain Medicare Part A, Medicare Part B and one supplemental health insurance policy or equivalent insurance coverage acceptable to Covenant Village and shall furnish Covenant Village with evidence of such coverage upon request.
- H. **Personal Damages.** Except for matters of gross negligence on the part of Covenant Village, Resident agrees to assume all risks of personal damages by reason of any accident or injury while a resident of Covenant Village or by reason of the termination of residence in Covenant Village for misconduct or violation of Covenant Village's policies governing residents, or for any other reason.
- I. **Right of Entry.** Covenant Village has the right to enter the Cottage to perform routine maintenance, for purposes of inspection and to assist Resident in an emergency. Covenant Village will make every effort to preserve Resident's rights to privacy.

V. TRANSFERS OR CHANGES IN LEVELS OF CARE

- A. It is understood that Covenant Village has the right to make or change living accommodation assignments if necessary, in order to best serve the needs of Resident and Covenant Village.

- B. Resident agrees that Covenant Village shall have authority to determine when or if Resident should be transferred from Resident's Cottage to the Covenant Village Health Center or from one level of care to another level of care within the Covenant Village Health Care Center. Such determination shall be based on professional opinion of the Medical Director and the Chief Executive Officer of Covenant Village and shall be made only after consultation to the extent practical with Resident, a representative of Resident's family or the sponsor of Resident, and Resident's attending physician.
- C. If it is determined by the Medical Director and the Chief Executive Officer that Resident needs care beyond that which can be provided by the facility and personnel of Covenant Village, Resident may be transferred to a hospital, center or institution equipped to give such care, which care will be at the expense of Resident. Such transfer of Resident will be made only after consultation with Resident to the extent possible, a representative of Resident's family or the sponsor of Resident, and Resident's attending physician.
- D. If a determination is made by Covenant Village that any transfer described in Paragraph V. is probably not temporary in nature, Resident agrees to surrender the Cottage, apartment or the accommodation in the Health Center within thirty (30) days after Resident has been notified by Covenant Village. If Covenant Village subsequently determines upon the opinion of the Medical Director and the Chief Executive Officer that Resident can resume occupancy in accommodations comparable to those occupied by Resident prior to such transfer, Resident shall have priority to such accommodations as soon as they become available. If the living accommodation is not vacated within thirty (30) days, the Resident agrees to pay additional Monthly Charges.

VI. TERMINATION AND REFUND PROVISIONS

- A. Resident may rescind this agreement within thirty days of the latter of the execution date of this contract or the receipt of the disclosure statement, with no penalty. Resident is not required to move into the unit before the expiration of the 30-day period. If Resident dies before occupying the cottage, or if, on account of illness, injury, or incapacity, a resident is precluded from occupying the cottage and such condition is certified in writing by a physician, then in either event the contract shall be deemed immediately cancelled. Any refund under this paragraph will be paid within sixty (60) days after written notice has been received by Covenant Village. Resident or Resident's legal representative shall receive a refund of all money paid to Covenant Village, less monthly fees specified in the Contract for the period of time unit was actually occupied by Resident, less non-standard costs specifically incurred by Covenant Village at the request of the Resident and described in the Contract or any Contract amendment signed by

Resident, and less a \$1,000 administrative fee. The entrance fee will be refunded without amortization reductions as specified herein below during the 30-day rescission period.

- B. After taking occupancy and becoming a Resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident provided, however, that if such cessation of residency occurs within the first fifty (50) months of residency, Covenant Village will refund the Entrance Fee less two percent (2%) thereof for each calendar month or portion thereof of residency and one thousand dollars (\$1,000) as an administrative and refurbishing charge. Payment of any refund due Resident under this paragraph will be made when Covenant Village receives full payment of the Entrance Fee from a qualified substitute Resident.
- C. In the event Resident should transfer to an apartment in the main building of Covenant Village during the first fifty (50) months of residency, a refund of the difference in Entrance Fees between the Cottage and the apartment will be made to Resident less two percent (2%) of the cottage entrance fee for each calendar month or portion thereof of residency. No refund will be made if the transfer occurs after fifty (50) months of residency and no refund will be made, at any time, for a Resident transferring to Covenant Village's Health Center facilities.
- D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules and regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund if the Entrance Fee paid by Resident determined in accordance with the same manner provided in Paragraph VI. A., or VI. B., above.
- E. At the effective date of termination of this Agreement, Resident shall vacate the Cottage and shall leave it in good condition except for the normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Cottage to good condition except for normal wear and tear. Monthly fees will be continued until all personal effects have been removed from the Cottage.

VII. GENERAL

- A. **Assignment.** The rights and privileges of Resident under this Agreement are personal to Resident and may not be transferred or assigned. If Resident marries, the new spouse does not become a Resident for purpose of this Agreement. In order for the new spouse to be admitted to Covenant Village, the new spouse would need to be approved by the Admissions Committee. The new spouse would be required to pay an Entrance Fee for the unit occupied, and Resident and the new spouse would pay the two-person Monthly Fee if they occupy the same living unit.
- B. **Tax Status and Ownership.** Covenant Village is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. It is owned and operated by a non-profit corporation governed by a Board of Directors whose members are selected from local churches. The churches are in no way responsible for the financial or contractual obligations of Covenant Village, Inc. Covenant Village is managed by its Board of Directors and its administrators at the direction of the Board of Directors.
- C. **Entire Agreement.** This Agreement with any Exhibits constitutes the entire contract between Covenant Village and resident. Covenant Village shall not be liable or bound in any manner by any statements, representations or promises made by any person representing or assuming to represent Covenant Village, unless such statements, representations or promises are set forth in this Agreement.
- D. **Successors and Assigns.** Except as set forth herein, this Agreement shall bind and inure to the benefit of the successors and assigns of Covenant Village and the heirs, executors, administrators and assigns of Resident.
- E. **Power of Attorney.** Resident is required to have a written Power of Attorney and an executed copy must be given to the CEO of Covenant Village.
- F. **Guardianship.** If Resident becomes legally incompetent or is unable properly to care for himself or herself or his or her property without having designated a person or legal entity to serve as his or her guardian, then Resident agrees that Covenant Village or its designee may initiate legal proceedings relating to Resident's competence and may act as Resident's legal guardian when qualified according to law. Resident agrees to pay to Covenant Village and its designee any attorney's fees and other expenses incurred in connection with any such guardianship.
- G. **Will.** Resident is strongly encouraged to have a will providing for the disposition of his or her real and personal property and provision for proper burial at his or

her own expense. Resident agrees to notify the CEO of Covenant Village as to the location of this will and the Executor.

- H. Transfer of Property. Resident agrees not to make any gift or other transfer for less than adequate consideration for the purpose of evading Resident's obligations under this Agreement or if such gift or transfer would render such Resident unable to meet such obligations.
- I. Inability to Pay. The Board of Directors is committed to fulfilling the policy that no resident will be discharged by reason of inability to pay monthly fees provided the resident has not impaired his or her ability to meet obligations by transfer of assets below market value or sale of assets and the organization has the capability of meeting needs of the resident.
- J. Governing Law. This Agreement shall be governed by the laws of the State of North Carolina.

IN WITNESS WHEREOF, the parties have executed this agreement as of the day and year above written.

ATTEST:

COVENANT VILLAGE, INC.

WITNESS

CHIEF EXECUTIVE OFFICER

WITNESS

Resident (Seal)

WITNESS

Resident (Seal)

Exhibit 1
Entrance Fee

Cottage Address:

The Entrance Fee is Payable as Follows: \$ _____

Entrance Fee Cottage \$ _____

Second Person Entrance Fee \$ _____

Garage \$ _____

Fireplace \$ _____

Total \$ _____

Less \$ _____

TOTAL ENTRANCE FEE \$ _____

Monthly fee \$ _____ 1st

\$ _____ 2nd

Total \$ _____

AGREEMENT

COVENANT VILLAGE, INC.

DIRECT ADMISSION TO THE HEALTH CENTER

THIS AGREEMENT is made this _____ by and between Covenant Village, Inc., a North Carolina non-profit corporation, hereinafter called "Covenant Village" and _____, hereinafter called "Resident".

WHEREAS, Covenant Village owns and operates a life care retirement community located at 1351 Robinwood Road in Gastonia, North Carolina, and,

WHEREAS, Resident is desirous of becoming a Resident of Covenant Village and of living in the Health Center and using the facilities, programs and services provided by Covenant Village subject to the terms and conditions of the Agreement;

NOW, THEREFORE, Resident and Covenant Village agree as follows:

I. ACCOMMODATIONS AND SERVICES

Subject to the terms and conditions set forth in this Agreement, Covenant Village agrees to provide Resident the living accommodations, services and programs at Covenant Village described as follows:

- A. **Living Accommodation.** A **private room** located in the Health Center of Covenant Village (hereinafter referred to as the "Room"). Resident has the right to occupy and use the Room subject to the terms and conditions set forth in this Agreement.
- B. **Utilities.** Covenant Village will furnish electricity, gas, water, sewer, trash removal and municipal services. Resident is responsible for any charges related to telephone and cable television services.
- C. **Furnishings.** Covenant Village will provide; bed and bath linens, window curtains, a hospital type bed, and a bedside table. All other furniture, decorations and accessories are provided by the Resident.

- D. **Meals.** Three nutritionally well-balanced meals will be available to Residents each day which will be served in the central Dining Room. Tray service is provided for those unable to eat in the Dining Room. Special diets will be provided when ordered by Resident's physician. A provision for credit for uneaten meals during a Resident's absence from Covenant Village will be made in accordance with the policies of Covenant Village, which currently call for credits to begin after seven consecutive days of absence from Covenant Village. Meals for guests will be available for an additional charge.
- E. **Housekeeping Services.** Covenant Village will provide housekeeping services as needed including vacuum cleaning, dusting, cleaning of bathrooms and trash removal.
- F. **Laundry.** Covenant Village will change and launder bed and bath linens as needed. Laundry services for personal clothing are available.
- G. **Maintenance and Repairs.** Covenant Village will maintain and keep in repair its improvements, furnishings and equipment. Resident will be responsible for the cost of repairing damage to property of Covenant Village caused by the negligence of Resident or any guest of Resident, ordinary wear and tear excepted. Any structural or physical change or redecoration of any kind within the Room will require the approval of Covenant Village. The cost of any change or cost of redecoration will be paid by Resident. Any such improvement or change will become property of Covenant Village upon termination of this Agreement.
- H. **Groundskeeping.** Covenant Village will furnish basic groundskeeping service for all the grounds of Covenant Village, including lawn, tree and shrubbery care. Subject to approval by Covenant Village, Resident may plant certain areas designated for such purpose by Covenant Village. Resident is responsible for maintenance of such plantings.
- I. **Parking.** Covenant Village will provide parking areas for Resident's personal vehicles.
- J. **Common Facilities.** Common facilities provided by Covenant Village for the use and benefit of Resident are a central Dining Room, Living Room, lounges, sitting areas, Library, arts and crafts room, lobbies, beauty parlor, Chapel, laundry rooms and outdoor walkways and gardening areas.
- K. **Activities.** Social, spiritual, educational, cultural activities, arts and crafts, exercise and health programs will be available to Residents.
- L. **Usual Health Services of Covenant Village Health Center.** Covenant Village will provide Resident with nursing and health care in the Covenant Village Health Center, as well as 24-hour nursing and professional staff for consultation, assistance and emergency needs.

II. FINANCIAL ARRANGEMENTS

- A. **Deposit.** In consideration for the living accommodations, services and programs offered hereunder, Resident agrees to pay a onetime non-refundable Entrance Fee of \$_____.
- B. **Daily Charge.** In addition to the deposit Resident agrees to pay a Daily Charge during the term of this Agreement which shall be payable in advance by the 10th day of each month. As of the date of this Agreement, Covenant Village estimates that the Daily Charge will be \$_____ per day for Rooms in the licensed area. The Daily Charge may be adjusted by Covenant Village prior to occupancy of the Room by Resident. The Daily Charge is also subject to change during the term of this Agreement as described in Paragraph C below.
- C. **Adjustments in the Daily Charge.** The Daily Charge is assessed to provide the facilities, programs and services described in this Agreement and is intended to meet the cost associated with the establishment, operation and management of Covenant Village. Covenant Village shall have the authority to adjust the Daily Charge from time to time during the term of this Agreement as Covenant Village in its discretion deems necessary in order to reflect changes in such costs of providing such facilities, programs and services described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. Any such increases in the Daily Charge or other charges may be made by Covenant Village upon thirty (30) days written notice to Resident. Covenant Village also reserves the right to revise and amend the basis of all charges.
- D. **Monthly Statements.** Covenant Village will furnish Resident, upon request, a monthly statement showing the total amount of fees and other charges owed by Resident, which shall be payable by the 10th day of the month. Covenant Village may charge interest on any unpaid balance owed by Resident thirty (30) days after the monthly statement is furnished.
- E. **Charges in The Covenant Village Health Center.** In addition to the Daily Charge, charges may be made by Covenant Village for extraordinary care, drugs and supplies. Resident is responsible for the cost of prescription and non-prescription medications; surgical, dental and optical services; physical examinations and any medical service beyond that available in Covenant Village Health Center; dry-cleaning service and personal laundry service except in the H.A. licensed area; and, wheelchairs and other medical equipment used exclusively by Resident. Also, any professional services (medical or otherwise) contracted by Resident or in behalf of Resident shall be billed directly to Resident.

- F. **Care in Other Institutions.** Should Resident require care that requires transfer to another institution, all expenses which will result from such transfer and care shall be borne entirely by Resident.

III. ADMISSION

The Admission requirements for residency with Covenant Village are nondiscriminatory except as to age. Covenant Village is open to both married and single men and women of all races and religions and without regard to place of former residence. The Resident is required to meet the following standards prior to admission to Covenant Village:

- A. Resident must be 65 years of age or older, except that in the case of a married couple in which one spouse is 65 years of age or older, the other spouse may be as young as 62 years of age.
- B. Resident shall submit for review by the Covenant Village Admissions Committee an Application for Admission, a Personal Health History and a Confidential Financial Statement, all on forms furnished by Covenant Village at the time of application.
- C. Resident shall have an interview with a representative from Covenant Village prior to acceptance at Covenant Village. After reviewing all information required to be furnished herein, additional personal interviews may be required by Covenant Village.
- D. Resident shall submit a report of a physical examination of Resident made by a physician selected by Resident. Such report shall include a statement by such physician of the level of care required by the Resident, orders for ongoing care, current medical findings, diagnosis, rehabilitation potential and summary of hospital stay if Resident is being transferred from a hospital. Covenant Village may require Resident to have another physical examination by the Medical Director or by another physician approved by Covenant Village. If the health of Resident as disclosed by such physical examination differs materially from that disclosed in Resident's Application for Admission and Personal Health History, Covenant Village shall have the right to decline admission of Resident and to terminate this Agreement, or in the discretion of Covenant Village, to permit Resident to take occupancy of accommodations at Covenant Village suitable to the needs of Resident.
- E. It is understood that Covenant Village through its Admissions Committee has the right to reject any application for admission to Covenant Village.

- F. The Resident affirms that the representations made in the Application for Admission, Personal Health History and Confidential Financial Statement are true and correct and may be relied upon by Covenant Village as a basis for entering into this Agreement.

IV. TERMS OF RESIDENCY

- A. **Rights of Resident.** Resident has the right to occupy and enjoy the Room unless this Agreement is terminated as provided herein. It is understood that this Agreement does not transfer or grant any interest in the real or personal property owned by Covenant Village other than the right to use and occupy the Room or other accommodation in the Covenant Village Health Center in accordance with the terms hereof. Resident agrees that the rights of Resident under this Agreement are subject to and subordinate to the rights of a lender under any mortgage or deed of trust now or hereafter executed by Covenant Village creating a lien on any property of Covenant Village. Resident also agrees that the rights of Resident under this Agreement are subject to and subordinate to the rights of Residents of Covenant Village with life care agreements.
- B. **Rules and Regulations.** Resident will abide by Covenant Village's rules and regulations and such reasonable amendments, modifications and changes of the rules and regulations as may hereafter be adopted by Covenant Village, including the prohibition of private duty nurses and sitters. It is understood that Covenant Village has the right to make exception to the rules and regulations when deemed necessary by the Board of Directors or the management of Covenant Village.
- C. **Changes in the Room.** Covenant Village has the right to change the Room to meet requirements of any applicable statute, law or regulation. The Room may not be used in any manner in violation of any zoning ordinances or other governmental law or regulation.
- D. **Visitors.** Except for short term visitors or guests, no person other than Resident may reside in the Room without the approval of Covenant Village.
- E. **Loss of Property.** Covenant Village shall not be responsible for the loss of any property belonging to Resident due to theft, mysterious disappearance, fire or any other cause. It is understood that Resident will have the responsibility of providing any desired insurance protection covering any such loss.
- F. **Medical Insurance.** Resident shall maintain Medicare Part A, Medicare Part B and one supplemental health insurance policy or equivalent insurance coverage acceptable to Covenant Village and shall furnish Covenant Village with evidence of such coverage upon request.

- G. **Personal Damages.** Except for matters of gross negligence on the part of Covenant Village, Resident agrees to assume all risks of personal damages by reason of any accident or injury while a resident of Covenant Village or by reason of the termination of residence in Covenant Village for misconduct or violation of Covenant Village's policies governing residents or for any other reason.
- H. **Right of Entry.** Covenant Village has the right to enter the Room to deliver usual and customary care, to perform routine maintenance, for purposes of inspection and to assist Resident in an emergency. Covenant Village will make every effort to preserve Resident's right to privacy.
- I. **Physician Services.** Resident shall arrange for services of a personal physician. Resident shall notify the Health Services Administrator of Covenant Village as to the name of the physician.

V. TRANSFERS OR CHANGES IN LEVELS OF CARE

- A. It is understood that Covenant Village has the right to make or change living Resident and Covenant Village. Every effort will be made to minimize moves and changes, but it is understood that Covenant Village may need to make changes in room assignments and to convert private rooms into semi-private rooms.
- B. Resident agrees that Covenant Village shall have authority to determine when or if Resident should be transferred from one level of care to another level of care within the Covenant Village Health Center. Such determination shall be based on the professional opinion of the Medical Director and the Executive Director of Covenant Village and shall be made only after consultation to the extent practical with Resident, a representative of Resident's family or the sponsor of Resident and Resident's attending physician.
- C. If it is determined by the Medical Director and the Health Services Administrator that Resident needs care beyond that which can be provided by the facility and personnel of Covenant Village, Resident may be transferred to a hospital, center or institution equipped to give such care, which care will be at the expense of the Resident. Such transfer of Resident will be made only after consultation with Resident to the extent possible, a representative of Resident's family or the sponsor of Resident and Resident's attending physician.
- D. If a determination is made by Covenant Village that any transfer described in Paragraph V. is probably not temporary in nature, Resident agrees to surrender the Room within thirty (30) days after Resident has been notified by Covenant Village. If the room is not vacated within thirty (30) days, the resident agrees to pay additional daily charges until such time as the Room is vacated.

VI. TERMINATION AND REFUND PROVISIONS

- A. Resident may rescind this Agreement for up to thirty (30) days following execution, with no penalty. Any refund due Resident under this paragraph will be paid within sixty (60) days after the written notice has been received by Covenant Village.
- B. After taking occupancy and becoming a resident of Covenant Village, should residency for any reason cease, whether voluntarily or involuntarily, Covenant Village shall be under no obligation to make a refund to Resident. Payment of any refund due Resident under this paragraph may be made after Covenant Village is satisfied that all outstanding charges have been paid.
- C. It is understood that Covenant Village has certain contractual obligations to provide care in the Health Center to residents with life care contracts and the rights of Resident under this agreement are subject to and subordinate to the rights of life care residents. Covenant Village may terminate this agreement at any time upon thirty (30) days notice to Resident, in order to make space available for life care residents.
- D. Covenant Village may terminate this Agreement at any time if there has been a material misrepresentation or omission made by Resident in Resident's Application for Admission, Personal Health History or Confidential Financial Statement; if a material change in Resident's health takes place before occupancy; if Resident fails to make payment to Covenant Village of any fees or charges due Covenant Village within sixty (60) days of the date when due; or if Resident fails to abide by the rules and regulations adopted by Covenant Village or breaches any of the terms and conditions of this Agreement. In the event of termination for any of such causes, Resident shall be entitled to an appropriate refund of the deposit paid by Resident determined in accordance with the same manner provided in Paragraph VI. A. or VI. B. above.
- E. At the effective date of termination of this Agreement, Resident shall vacate the Room and shall leave it in good condition except for normal wear and tear. Resident shall be liable to Covenant Village for any cost incurred in restoring the Room to good condition except for normal wear and tear. Daily charges will be continued until all personal effects have been removed from Covenant Village.

VII. GENERAL

- A. **Assignment.** The rights and privileges of Resident under this Agreement are personal to Resident and may not be transferred or assigned.
- B. **Tax Status and Ownership.** Covenant Village is a tax-exempt organization under Section 503 (c) (3) of the Internal Revenue Code of 1986. It is owned and operated by a non-profit corporation governed by a Board of Directors whose members are selected by local churches. The churches are in no way responsible for the financial or contractual obligations of Covenant Village, Inc. Covenant Village is managed by its Board of Directors and its administrators at the direction of the Board of Directors.
- C. **Entire Agreement.** This Agreement constitutes the entire contract between Covenant Village and Resident. Covenant Village shall not be liable or bound in any manner by any statements, representations or promises made by any person representing or assuming to represent Covenant Village, unless such statements, representations or promises are set forth in this Agreement.
- D. **Successors and Assigns.** Except as set forth herein, this Agreement shall bind and inure to the benefit of the successors and assigns of Covenant Village and the heirs, executors, administrators and assigns of Resident.
- E. **Power of Attorney.** Resident is required to have a written General Power of Attorney in which a third party is named attorney-in-fact. An executed copy must be given to the Director of Covenant Village, within 30 days of admission.
- F. **Guardianship.** If Resident becomes legally incompetent or is unable properly to care for himself or herself or his or her property without having designated a person or legal entity to serve as his or her guardian, then Resident agrees that Covenant Village or its designee may initiate legal proceedings relating to Resident's competence and may act as Resident's legal guardian when qualified according to law. Resident agrees to pay to Covenant Village and its designee any attorney's fees and other expenses incurred in connection with any such guardianship.
- G. **Will.** Resident is strongly encouraged to have a will providing for the disposition of his or her real and personal property and provision for proper burial at his or her own expense. Resident agrees to notify the Health Services Administrator of Covenant Village as to the location of this will and the Executor.
- H. **Transfer of Property.** Resident agrees not to make any gift or other transfer of property for less than adequate consideration for the purpose of evading Resident's obligations under this Agreement or if such gift or transfer would render such Resident unable to meet such obligations.

I. **Governing Law.** This Agreement shall be governed by the laws of the State of North Carolina.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year above written.

ATTEST:

COVENANT VILLAGE, INC.

Witness

BY: _____
Chief Executive Officer

Witness

_____(SEAL)
Resident

Witness

_____(SEAL)
Resident

Current Address

City, State, Zip Code

Telephone