# Covenant Retirement Communities, Inc.

Consolidated Financial Statements as of and
for the Years Ended January 31, 2013 and 2012,
Additional Consolidating Information as of and for the
Year Ended January 31, 2013, and
Independent Auditor's Reports

## COVENANT RETIREMENT COMMUNITIES, INC.

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Independent Auditor's Report



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

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Covenant Retirement Communities, Inc. (an affiliate of The Evangelical Covenant Church (see Note 2)) (the "Organization") which comprise the consolidated balance sheet as of January 31, 2013 and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant Retirement Communities, Inc. as of January 31, 2013 and the results of its operations, changes in net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

***Emphasis of Matter***

As discussed in Note 3 to the consolidated financial statements, the consolidated financial statements include investments valued at $61,914,000 and $60,421,000 as of January 31, 2013 and 2012, respectively, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the fund managers or general partners.

***Report on Prior Year Consolidated Financial Statements and Restatement***

The consolidated financial statements of Covenant Retirement Communities, Inc. as of and for the year ended January 31, 2012 were audited by other auditors, whose report dated May 29, 2012 expressed an unqualified opinion on those statements, prior to the restatement described in Note 20.

As part of our audit of the 2013 consolidated financial statements, we also audited the adjustments described in Note 20 that were applied to restate the 2012 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 consolidated financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 consolidated financial statements as a whole.

Plante & Moran, PLLC

May 29, 2013

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## AS OF JANUARY 31, 2013 AND 2012
## (In thousands)

| ASSETS | 2013 | 2012 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 6,316 | $ 10,031 |
| Restricted cash (Note 5) | 2,746 | 3,588 |
| Assets whose use is limited, including beneficial interest in investment pool (Notes 3, 6, 9, and 11): | | |
| Board designated | 33,861 | 28,354 |
| Restricted under debt agreements | 3,655 | 6,506 |
| Accounts receivable — net | 19,137 | 15,278 |
| Prepaid expenses and other assets | 5,009 | 4,537 |
| Total current assets | 70,724 | 68,294 |
| ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL (Notes 3, 6, 9, and 11): | | |
| Board designated | 133,608 | 140,645 |
| Restricted under state and debt agreements | 53,662 | 39,977 |
| Endowment | 6,537 | 5,964 |
| Total assets whose use is limited, including beneficial interest in investment pool | 193,807 | 186,586 |
| OTHER ASSETS (Notes 7 and 14) | 33,592 | 34,591 |
| INTEREST IN IRREVOCABLE TRUSTS (Note 17) | 4,465 | 5,170 |
| PROPERTY AND EQUIPMENT — Net (Notes 8, 11, and 13) | 509,152 | 488,159 |
| TOTAL | $ 811,740 | $ 782,800 |

| LIABILITIES | 2013 | 2012 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable — trade | $ 10,413 | $ 10,171 |
| Accounts payable — contractors (Note 13) | 2,750 | 363 |
| Accrued salaries and wages | 7,435 | 7,174 |
| Accrued interest | 2,390 | 2,479 |
| Advance deposits | 2,352 | 1,628 |
| Current maturities of long-term debt (Notes 3 and 11) | 8,920 | 7,300 |
| Deferred revenue subject to refund (Note 2) | 63,163 | 61,291 |
| Refundable contract liabilities (Note 2) | 49,830 | 47,062 |
| Other current liabilities | 10,376 | 11,508 |
| Total current liabilities | 157,629 | 148,976 |
| LONG-TERM DEBT — Less current maturities (Notes 3 and 11) | 359,370 | 341,834 |
| PAYABLE TO COVENANT INSTITUTIONS (Notes 10 and 14) | 12,600 | 9,596 |
| OTHER LIABILITIES (Notes 2, 11, and 12) | 65,555 | 59,352 |
| DEFERRED REVENUE FROM ENTRANCE FEES (Note 2) | 162,959 | 162,741 |
| Total liabilities | 758,113 | 722,499 |
| NET ASSETS: | | |
| Unrestricted | 41,803 | 49,203 |
| Temporarily restricted (Note 17) | 5,280 | 5,134 |
| Permanently restricted — endowment | 6,544 | 5,964 |
| Total net assets | 53,627 | 60,301 |
| TOTAL | $ 811,740 | $782,800 |

See notes to consolidated financial statements.

COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012
(In thousands)

| | 2013 | 2012 (As Restated Note 20) | 2012 (As Previously Stated) |
|---|---|---|---|
| OPERATING REVENUES: | | | |
| Routine resident services | $ 156,699 | $ 155,986 | $ 159,325 |
| Ancillary services | 30,477 | 27,185 | 27,518 |
| Amortization of deferred entrance fees | 31,338 | 30,672 | 30,672 |
| Net assets released from restriction for operations | 1,583 | 1,791 | 1,812 |
| Other | 5,535 | 6,091 | 6,190 |
| Total operating revenues | 225,632 | 221,725 | 225,517 |
| EXPENSES: | | | |
| Routine nursing services | 47,895 | 47,079 | 49,035 |
| Ancillary services | 13,299 | 11,541 | 11,812 |
| Resident benefits | 10,147 | 10,119 | 10,335 |
| Dining services | 28,408 | 27,924 | 28,455 |
| Laundry | 1,312 | 1,320 | 1,382 |
| Housekeeping | 6,497 | 6,282 | 6,466 |
| Maintenance | 16,178 | 16,493 | 16,706 |
| Utilities | 9,463 | 9,839 | 9,951 |
| Administrative and general | 37,052 | 36,750 | 37,348 |
| Interest (Note 11) | 15,477 | 17,326 | 17,561 |
| Property taxes | 2,910 | 3,229 | 3,229 |
| Insurance | 4,278 | 4,902 | 4,996 |
| Marketing and promotion | 10,940 | 10,047 | 10,079 |
| Depreciation | 32,165 | 30,419 | 30,471 |
| Amortization | 582 | 518 | 567 |
| Other | 913 | 959 | 959 |
| Total expenses (Note 19) | 237,516 | 234,747 | 239,352 |
| OPERATING LOSS | (11,884) | (13,022) | (13,835) |
| NONOPERATING REVENUE (EXPENSE): | | | |
| Contributions: | | | |
| Gifts and bequests — net of related expenses | (201) | 557 | 557 |
| Net assets released from restriction — distributions from trusts | 225 | 176 | 176 |
| Total contributions | 24 | 733 | 733 |
| Loss on extinguishment of debt (Note 11) | (6,746) | (1,399) | (1,399) |
| Other nonoperating expense — net | (558) | (2,576) | (2,645) |
| Investment return, including beneficial interest in investment pool: | | | |
| Interest and dividend income | 3,548 | 3,431 | 3,436 |
| Realized gains on fixed income and equity securities — net | 1,647 | 5,935 | 5,947 |
| Unrealized gains (losses) on fixed income and equity securities — net (Note 2) | 6,871 | (10,901) | (10,901) |
| Alternative investment income — including net realized gains (losses) of $4,805 and ($7,627 ) in 2013 and 2012, respectively | 8,649 | 348 | 348 |
| Total investment return (loss), including beneficial interest in investment pool | 20,715 | (1,187) | (1,170) |
| Unrealized gains (losses) on derivative instruments (Note 12) | 6,293 | (26,871) | (26,871) |
| Interest expense on interest rate swaps (Note 12) | (1,863) | | |
| Loss on swap termination (Note 12) | (11,912) | | |
| Total nonoperating revenue (expense) | 5,953 | (31,300) | (31,352) |
| LOSS - Before results related to discontinued operations | (5,931) | (44,322) | (45,187) |
| Results related to discontinued operations (Note 20) | (1,604) | (865) | |
| LOSS | (7,535) | (45,187) | (45,187) |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS | | | |
| Net assets released from restriction for capital purchases | 135 | 63 | 63 |
| Total other changes in unrestricted net assets | 135 | 63 | 63 |
| DECREASE IN UNRESTRICTED NET ASSETS | $ (7,400) | $ (45,124) | $ (45,124) |

See notes to consolidated financial statements.

## COVENANT RETIREMENT COMMUNITIES, INC.

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
### FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012
### (In thousands)

| | 2013 | 2012 |
|---|---|---|
| UNRESTRICTED NET ASSETS: | | |
| Loss | $ (7,535) | $ (45,187) |
| Other changes in unrestricted net assets: | | |
| Net assets released from restriction for capital purchases | 135 | 63 |
| Decrease in unrestricted net assets | (7,400) | (45,124) |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions | 1,769 | 2,890 |
| Net assets released from restriction for capital purchases | (135) | (63) |
| Net assets released from restriction for operations | (1,583) | (1,812) |
| Irrevocable trusts: | | |
| Net additions — present value of new trusts received (Note 17) | 212 | 168 |
| Net assets released from restriction — distributions from trusts — net | (225) | (176) |
| Transfer to permanently restricted net assets | (62) | (962) |
| Change in present value discount | 170 | 724 |
| Increase in temporarily restricted net assets | 146 | 769 |
| PERMANENTLY RESTRICTED-ENDOWMENTS | | |
| Contributions | | 1,076 |
| Transfer from temporarily restricted net assets | 62 | 962 |
| Income restricted for reinvestment | 518 | 21 |
| Increase in permanently restricted net assets | 580 | 2,059 |
| DECREASE IN NET ASSETS | (6,674) | (42,296) |
| NET ASSETS — Beginning of year | 60,301 | 102,597 |
| NET ASSETS — End of year | $ 53,627 | $ 60,301 |

See notes to consolidated financial statements.

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012
## (In thousands)

| | 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from residents: | | |
| Resident care fees | $ 190,253 | $ 190,794 |
| Nonrefundable entrance fees collected | 35,957 | 38,795 |
| Nonrefundable entrance fees refunded due to early termination | (2,757) | (1,779) |
| Cash paid to: | | |
| Suppliers | (74,542) | (76,694) |
| Employees | (116,950) | (112,006) |
| Interest paid, including interest on derivatives | (17,538) | (17,517) |
| Contributions received (excluding endowment and capital contributions) | 3,393 | 3,046 |
| Investment income received | 208 | 1,065 |
| Net cash provided by operating activities (Note 18) | 18,024 | 25,704 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Major capital project expenditures | (9,959) | (2,659) |
| Routine property and equipment expenditures | (41,462) | (27,613) |
| Additions to bond project funds | (19,910) | (6,401) |
| Withdrawals from bond project funds | 9,217 | 3,595 |
| Net change in assets whose use is limited, including beneficial interest in pooled investments | 21,400 | 20,495 |
| Proceeds from sale of real estate | | 20 |
| Net change in other assets | (272) | 402 |
| Net cash used in investing activities | (40,986) | (12,161) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from borrowings, including original issue premium | 166,321 | 59,165 |
| Early termination of debt | (131,220) | (60,700) |
| Payment of debt issuance costs | (2,448) | (894) |
| Net additions to funds restricted by debt agreements | (1,388) | |
| Payment of debt | (5,830) | (7,725) |
| Payment of borrowings with Covenant Institutions | | (4,000) |
| Swap termination payment | (13,059) | |
| Proceeds from swap transaction | 6,985 | |
| Refundable entrance fees collected | 6,738 | 7,148 |
| Refundable entrance fees refunded | (6,018) | (5,018) |
| Changes in advances to Covenant institutions | (834) | 386 |
| Net cash provided by (used in) financing activities | 19,247 | (11,638) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (3,715) | 1,905 |
| CASH AND CASH EQUIVALENTS — Beginning of year | 10,031 | 8,126 |
| CASH AND CASH EQUIVALENTS — End of year | $ 6,316 | $ 10,031 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Capitalized interest — net of interest earned: 2013 — $0; 2012 — $0 | $ 355 | $ 299 |
| Capital expenditures incurred but not paid | $ 1,981 | $ 363 |

### 1. MISSION STATEMENT

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Consolidation** — Covenant Retirement Communities, Inc., an Illinois not-for-profit corporation, and its consolidated facilities (together, the "Retirement Communities") are responsible for operating retirement, assisted living, skilled care facilities, and home and community-based services. Covenant Retirement Communities, Inc. operates as an affiliate of Covenant Ministries of Benevolence (CMB), which is administered by the Board of Benevolence of The Evangelical Covenant Church and the consolidated facilities operate as wholly owned subsidiaries of Covenant Retirement Communities, Inc.

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

In June 2012, the Retirement Communities divested of Bethany Covenant Home (see Note 20).

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

Covenant Retirement Communities, Inc. accounts for its share of ownership in Health Resource Alliance, Inc. (HRA) using the equity method. The investment is included in other assets of the consolidated statement of financial position.

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

The Retirement Communities recognize in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. The Retirement Communities do not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date, but before financial statements are issued; however, such events may be required to be recognized as a disclosure. For these purposes, the Retirement Communities have evaluated events occurring subsequent to the balance sheet date through May 29, 2013, the date the financial statements were issued. The Retirement Communities have not evaluated events occurring after May 29, 2013 in these financial statements.

**Industry** — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Retirement Communities are in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 24% and 22% of the Retirement Communities' routine resident and ancillary services revenue for the years ended January 31, 2013 and 2012, respectively.

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

**New Accounting Pronoucements** — During the year ended January 31, 2013, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2012-01, *Health Care Entities (Topic 954) Continuing Care Retirement Communities-Refundable Advance Fees*. The amendments in the ASU change the classification of specific refundable entrance fees on an entity's balance sheet. Refundable entrance fees that are contingent upon re-occupancy by a subsequent resident but are not limited to the proceeds of re-occupancy are to be accounted for as refundable entrance fee liabilities under this ASU. Windsor Park is the only facility effected by this change and currently classifies the refundable portion of certain entrance fee contracts as deferred revenue prior to adoption of this ASU. Windsor Park will be required to adopt and implement this accounting update as of and for the year ending January 31, 2014. Management has not yet assessed the effect of this accounting standards update on the consolidated financial statements including the effect on any potential future service obligation.

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

**Assets Whose Use is Limited, Including Interest in Investment Pool** — Assets whose use is limited are classified as trading and are recorded at fair value. See Note 3 for more information regarding the methods used to estimate fair value. See Note 6 for details regarding the composition of assets whose use is limited.

Board designated assets are invested in a Combined Investment Fund that aggregates investments of all Board of Benevolence institutions. While these funds are held and invested by Covenant Ministries of Benevolence, the Retirement Communities retain the benefits of ownership of its proportional interest in the Combined Investment Fund. This ownership interest in the Combined Investment Fund is reported as an interest in investment pool in the accompanying financial statements (see Note 6). The Retirement Communities recognize its interest in the Combined Investment Fund equal to the amounts contributed, less amounts withdrawn, and adjusts the balance for its share of the changes in the fair values of the underlying investments in the combined investment fund. Realized gains and losses from sales of investments and unrealized gains and losses on investments are determined using the average cost method. Interest, dividends, realized gains and losses, and unrealized gains and losses are recorded as nonoperating revenue.

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

**Accounts Receivable** - Accounts receivable from residents, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Retirement Communities' ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts totaled $1,076 and $826 at January 31, 2013 and 2012, respectively.

Overpayments from third-party payors on residents' accounts receivable balances have been included in other current liabilities on the balance sheet.

The Retirement Communities provide services without collateral to its residents, most of whom are local residents and are insured under third-party agreements. The mix of receivables from residents and third-party payors for the year ended January 31, 2013 was 48 % from private payors, 20 % from Medicare, and 32 % from Medicaid. The mix of receivables from residents and third-party payors for the year ended January 31, 2012 was 38 % from private payors, 25 % from Medicare, and 37 % from Medicaid.

**Derivative Instruments** — All derivative instruments, specifically interest rate swaps, are recorded on the statement of financial position at their fair value. The Retirement Communities use interest rate swaps to reduce volatility in cash flow arising from its variable rate borrowings. Management has elected not to pursue hedge accounting. Therefore, the change in the fair value of derivative instruments is reflected in nonoperating expense in the accompanying consolidated statements of operations and changes in unrestricted net assets (see Note 12).

**Fair Value of Financial Instruments** – The carrying values of financials instruments, including cash, accounts receivable, accounts payable and debt, approximate fair value. Investments are recorded at fair value under generally accepted accounting principles.

**Benevolent Care Fund** — The Retirement Communities have adopted a policy requiring amounts received from unrestricted wills and bequests through Covenant Estate Planning Services, net of assessments for Covenant Estate Planning Services operating expenses, to be placed into the Benevolent Care Fund. The earnings from the Benevolent Care Fund are used to offset charity care costs (see Notes 4 and 6).

**Unamortized Debt Expense (see Note 7)** — Underwriting fees and expenses related to the procurement of debt are deferred and amortized on the bonds outstanding method. Unamortized debt expense, which is reported as a component of other assets, is shown net of accumulated amortization of $2,210 and $4,697 at January 31, 2013 and 2012, respectively.

**Property and Equipment** — Property and equipment are recorded at cost and depreciated using the straight-line method over the expected useful lives of the assets, which are:

| | **Years** |
|---|---|
| Land improvements | 5–20 |
| Buildings and improvements | 10–50 |
| Furniture and equipment | 3–20 |

Certain apartment refurbishing costs are expensed as incurred whereas significant renewals and betterments are capitalized. Maintenance expense includes refurbishing costs of $1,542 and $1,605 in 2013 and 2012, respectively.

Interest costs are capitalized during periods of active construction for qualified expenditures based upon interest rates in place during the construction period until construction is substantially complete. Capitalized interest costs are amortized over the lives consistent with the constructed assets. Capitalized interest costs were $355 and $299 for the years ended January 31, 2013 and 2012, respectively.

During the years ended January 31, 2013 and 2012, the Retirement Communities recorded the retirement of certain fully-depreciated property and equipment having an original cost of approximately $16 million and $30 million, respectively, which were physically disposed of in prior years.

**Long-Lived Assets** — Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the analysis indicates that an asset group is not recoverable from the estimated future cash flows from use, the fair value of the asset group is determined. If the carrying amount of the asset group is in excess of the estimated fair value, an impairment is recorded to reduce the carrying amount to fair value.

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

**Routine Resident and Ancillary Service Revenues** — Resident service fees are charged monthly and are recognized as revenue during the month to which the fees relate. Ancillary service revenues are recognized when the related service is provided to the resident.

**Entrance Fees** — In addition to monthly service fees, entrance fees are one-time payments made by residents of the Retirement Communities entitling them admission to and use of the retirement community facilities. Nonrefundable entrance fees are recorded as deferred revenue and are amortized into income based on expected future costs using the actuarial life of each resident.

The Retirement Communities also offer 90%, 75%, and, on a limited basis, 50% refundable contracts (approximately 5% of contract residents have chosen these three options). Included in refundable contract liabilities and other long-term liabilities on the consolidated balance sheet are $58,961 and $56,937 at January 31, 2013 and 2012, respectively, for refundable entrance fees.

Under the terms of most residents' agreements, a pro rata refund of a resident's entrance fee will be made in the event the resident leaves a retirement community within the first 50 or 60 months of residency. The Retirement Communities also have an early death refund policy which provides for a pro rata refund of the entrance fee should a resident expire within the first 25 months of residency. Included in deferred revenue at January 31, 2013 and 2012 are $63,163 and $61,291, respectively, of deferred entrance fees subject to the above refund provisions.

Entrance fee refunds under all programs were $8,775 and $6,797 in 2013 and 2012, respectively. Although a portion of refundable contract liabilities and deferred revenue is classified as current liabilities, the actual payment of these total liabilities within one year is remote based on the Retirement Communities' experience.

Certain of Windsor Park's current resident agreements are lifecare agreements that include a 55% refund of the entrance fee (payable at the date of resale of the apartment) to the resident's estate. Under this agreement, the one-time entrance fee is treated entirely as deferred revenue (unearned entrance fees) and is allocated on a 55% facility-based and 45% resident-based split. Because the 55% facility-based amount is refundable only from reoccupancy proceeds, Windsor Park recognizes the 55% facility-based amount as income ratably over the estimated remaining useful life of the facility, which is approximately 20 years at January 31, 2013. Included in deferred revenue from entrance fees at January 31, 2013 and 2012 are $2,422 and $2,853, respectively, of deferred facility-based entrance fees. Included in other liabilities are $1,772 and $2,947 at January 31, 2013 and 2012, respectively, for refunds due to residents' estates. Windsor Park recognizes the 45% resident-based amount as income ratably over the estimated remaining life expectancy of each resident, which is reevaluated annually. The 55% refundable lifecare agreement is not currently being offered to new residents.

**Obligation to Provide Future Services** — Annually, the Retirement Communities calculate the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities were to exceed the deferred revenue from entrance fees, a liability (obligation to provide future services) would be recorded with the corresponding charge to income. No such obligation was required to be recorded at January 31, 2013 and 2012.

**Charity Care** — Under the terms of the residents' agreements, the Retirement Communities are not required to maintain those residents who are unable to pay their entire monthly service fees. However, as a matter of policy, such residents generally have remained in the facilities. Funds to support these residents are derived primarily from contributions, public aid, and earnings from the Benevolent Care Fund (see Note 4).

**Loss (Performance Indicator)** - Loss reports the results of operations of the entire Retirement Communities. In addition to the income from resident care operations, loss includes investment income, realized gains and losses on investments, unrealized gains and losses on investments, and other items. Changes in unrestricted net assets, which are excluded from loss, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods (net asset transfer to support benevolent care) and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

**Temporarily and Permanently Restricted Endowment Net Assets** — Temporarily restricted net assets comprise irrevocable trusts, which are not available for use until assets are distributed from the trusts, and contributions restricted for a particular purpose. Permanently restricted endowment net assets have been restricted by donors to be maintained in perpetuity.

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Retirement Communities and recognize a tax liability if the Retirement Communities have taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Retirement Communities and has concluded that as of January 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Retirement Communities are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Retirement Communities believe they are no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2010.

## 3. FAIR VALUE MEASUREMENTS

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

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Retirement Communities. Unobservable inputs are inputs that reflect the Retirement Communities' assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

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

*Level 1* — Valuations are based on quoted prices in active markets for identical assets or liabilities that the Retirement Communities have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

*Level 2* — Valuations are not based on quoted prices for identical assets or liabilities, but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third-party pricing services for comparable assets or liabilities.

*Level 3* — Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities. Management's estimates of the fair values of the alternative investments in hedge funds, limited partnerships, and private equity funds are based on information provided by the fund managers or general partners, which in turn is based on the most recent information available to the fund manager for the underlying investments.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Retirement Communities' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

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

**Fair Value of Financial Instruments Carried at Fair Value** — The following are categories of assets and liabilities measured at fair value on a recurring basis during the years ended January 31, 2013 and 2012, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

| | Fair Value as of Reporting Date | | | |
|---|---|---|---|---|
| **Description** | **January 31, 2013** | **Quoted Prices in Active Markets for (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Assets whose use is limited: | | | | |
| Equity investment funds: | | | | |
| Domestic equity | $ 61,189 | $ 60,879 | $ 310 | $ - |
| International equity | 16,228 | 16,228 | | |
| Covenant Trust Endowment | 2,086 | | 2,086 | |
| Fixed income securities | 31,137 | 17,934 | 13,203 | |
| Alternative investment funds: | | | | |
| Domestic equity | 8,215 | | | 8,215 |
| International equity | 13,056 | | 13,056 | |
| Hedge funds | 21,683 | | | 21,683 |
| Private equity | 9,704 | | | 9,704 |
| International real estate | 3,422 | | | 3,422 |
| Mortgages | 5,918 | | | 5,918 |
| Puts and calls | (84) | 441 | (525) | |
| Cash and short-term investments | 1,452 | 1,445 | 7 | |
| Restricted Under State and Debt Agreements: | | | | |
| Cash and money market securities | 10,564 | 10,564 | | |
| Fixed income securities | 46,753 | | 46,753 | |
| | $231,323 | $107,491 | $ 74,890 | $ 48,942 |
| Investments held for insurance obligations: | | | | |
| International equity | $ 2,993 | $ - | $ 2,993 | $ - |
| Fixed income securities | 11,313 | 96 | 11,217 | |
| Alternative investment funds | 118 | | | 118 |
| | $ 14,424 | $ 96 | $ 14,210 | $ 118 |
| Interest in irrevocable trusts | $ 4,465 | | | $ 4,465 |
| Derivatives — interest rate swaps (Note 12) | $ 43,241 | | $ 43,241 | |

| Description | January 31, 2012 | Fair Value as of Reporting Date<br>Quoted Prices in Active Markets for (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets whose use is limited: | | | | |
| Equity investment funds: | | | | |
| Domestic equity | $ 58,584 | $ 58,584 | $ - | $ - |
| International equity | 25,941 | 25,941 | | |
| Covenant Trust Endowment | 1,956 | | 1,956 | |
| Fixed income securities | 27,674 | 14,753 | 12,921 | |
| Alternative investment funds: | | | | |
| Domestic equity | 6,807 | | | 6,807 |
| International equity | 11,093 | | 11,093 | |
| Hedge funds | 28,417 | | | 28,417 |
| Private equity | 7,761 | | | 7,761 |
| International real estate | 4,342 | | | 4,342 |
| Mortgages | 2,064 | | | 2,064 |
| Puts and calls | (63) | | (63) | |
| Cash and short-term investments | 387 | 387 | | |
| Restricted Under State and Debt Agreements: | | | | |
| Cash and money market securities | 8,758 | 8,758 | | |
| Fixed income securities | 37,725 | | 37,725 | |
| | $221,446 | $108,423 | $63,632 | $49,391 |
| Investments held for insurance obligations: | | | | |
| International equity | $ 2,744 | $ - | $ 2,744 | $ - |
| Fixed income securities | 10,154 | 153 | 10,001 | |
| Alternative investment funds | 105 | | | 105 |
| | $ 13,003 | $ 153 | $12,745 | $ 105 |
| Interest in irrevocable trusts | $ 5,170 | | | $ 5,170 |
| Derivatives — interest rate swaps (Note 12) | $ 42,549 | | $42,549 | |

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

A reconciliation of the beginning and ending balances for the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended January 31, 2013 and 2012 is as follows:

| | Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| **Activity** | **Board Designated and Endowment** | **Interest in Irrevocable Trusts** | **Held for Insurance Obligations** | **Total** |
| Beginning balance — February 1, 2012 | $ 49,391 | $ 5,170 | $ 105 | $ 54,666 |
| Assets whose use is limited: | | | | |
| Net deposits and withdrawals | (7,756) | (621) | | (8,377) |
| Income | 125 | | | 125 |
| Realized gains | 4,363 | | | 4,363 |
| Unrealized gains | 2,819 | (84) | 13 | 2,748 |
| Ending balance — January 31, 2013 | $ 48,942 | $ 4,465 | $ 118 | $ 53,525 |

| | Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| **Activity** | **Board Designated and Endowment** | **Interest in Irrevocable Trusts** | **Held for Insurance Obligations** | **Total** |
| Beginning balance — February 1, 2011 | $45,463 | $ 5,932 | $103 | $51,498 |
| Assets whose use is limited: | | | | |
| Net deposits and withdrawals | 2,764 | (1,388) | | 1,376 |
| Income | 56 | | | 56 |
| Realized gains | 169 | | | 169 |
| Unrealized gains | 939 | 626 | 2 | 1,567 |
| Ending balance — January 31, 2012 | $49,391 | $ 5,170 | $105 | $54,666 |

**Fair Value of Financial Instruments Not Carried at Fair Value** — The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, noncurrent accounts, notes receivable, accounts payable, and payables to Covenant institutions are reasonable estimates of their fair value. Assets whose use is limited are carried at fair value (see Note 6). The carrying amounts of the notes payable under the Retirement Communities' revolving line of credit arrangements reflect their fair value, as the amounts are borrowed at current market rates.

Based on borrowing rates estimated to be available to the Retirement Communities, for bonds with similar terms and maturities, the fair value of the fixed-rate long-term debt was $293,469 and $260,835 at January 31, 2013 and 2012, respectively, compared to the carrying amounts of $279,460 and $264,000 at January 31, 2013 and 2012, respectively.

The carrying amounts of the variable rate bonds reflect fair value, due to the fact that the rate is reset weekly. The carrying amounts of the variable rate demand bonds at January 31, 2013 and 2012 are $84,325 and $86,665, respectively.

## 4. CHARITY AND OTHER UNREIMBURSED CARE

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

Records are maintained to identify and monitor the level of charity care provided. Unreimbursed costs foregone for charity care were $5,220 and $5,061 in 2013 and 2012, respectively. Charitable gifts received to offset costs were $3,617 and $4,527 in 2013 and 2012, respectively. The Retirement Communities use a cost per resident day amount to determine unreimbursed costs.

In addition to charity care, the Retirement Communities provide care to residents under governmental programs which reimburse the Retirement Communities at rates less than their cost. The Retirement Communities provided partially reimbursed care in 2013 and 2012 as follows:

| | 2013 | 2012 |
|---|---|---|
| Estimated cost of Medicaid services provided | $20,949 | $22,553 |
| Less government reimbursement | 13,914 | 13,990 |
| Unreimbursed care — based on estimated cost | $ 7,035 | $ 8,563 |

## 5. RESTRICTED CASH

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

## 6. ASSETS WHOSE USE IS LIMITED, INCLUDING INTEREST IN INVESTMENT POOL

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

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

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

*Endowment* — Assets permanently restricted by the donor as an endowment fund.

Assets whose use is limited, including interest in investment pool at January 31, 2013 and 2012, consisted of the following funds:

| **Fund** | **2013** | **2012** |
|---|---|---|
| Beneficial interest in investment pool: | | |
| Board designated: | | |
| Benevolent care fund | $ 43,881 | $ 38,672 |
| Capital reserve fund | 29,629 | 46,367 |
| Property replacement fund | 27,263 | 24,913 |
| Reserve for refundable contracts | 46,086 | 39,703 |
| Other | 19,158 | 18,016 |
| Total Board designated | 166,017 | 167,671 |
| Endowment — Brandel fund | 4,451 | 4,008 |
| Total beneficial interest in investment pool | 170,468 | 171,679 |
| Endowment — Covenant Trust | 2,086 | 1,956 |
| Board designated investments — other | 1,452 | 1,328 |
| Restricted under state and debt agreements: | | |
| Bond interest and sinking fund | 3,655 | 3,761 |
| Bond project fund | 13,401 | 2,745 |
| Debt service reserve fund | 32,100 | 31,868 |
| State-required reserves | 8,161 | 8,109 |
| Total restricted under state and debt agreements | 57,317 | 46,483 |
| Total | $231,323 | $221,446 |

| Fund | 2013 | 2012 |
|---|---|---|
| Equity securities: | | |
| Board designated | $ 75,549 | $ 82,779 |
| Brandel Endowment | 1,868 | 1,746 |
| Covenant Trust Endowment | 2,086 | 1,956 |
| Total equity securities | 79,503 | 86,481 |
| Fixed income securities: | | |
| Board designated | 30,398 | 27,147 |
| Restricted under state and debt agreements | 46,753 | 37,725 |
| Endowment | 739 | 527 |
| Total fixed income securities | 77,890 | 65,399 |
| Alternative investments: | | |
| Board designated: | | |
| International equity | 12,667 | 10,776 |
| Hedge funds | 21,470 | 27,601 |
| Private equity | 8,982 | 7,538 |
| International real estate | 3,320 | 4,217 |
| Mortgages | 5,742 | 2,005 |
| Domestic equity | 7,970 | 6,610 |
| Puts and calls | (81) | (61) |
| Endowment: | | |
| International equity | 389 | 319 |
| Hedge funds | 213 | 816 |
| Private equity | 722 | 223 |
| International real estate | 102 | 125 |
| Mortgages | 176 | 59 |
| Domestic equity | 245 | 195 |
| Puts and calls | (3) | (2) |
| Total alternative investments | 61,914 | 60,421 |
| Cash and short-term investments: | | |
| Board designated | 1,452 | 387 |
| Restricted under state and debt agreements | 10,564 | 8,758 |
| Total cash and short-term investments | 12,016 | 9,145 |
| Total | $231,323 | $221,446 |

The following includes additional information on investments within the combined investment fund that do not have a readily determinable market value. The investment pool includes those investments in which the value is estimated based on the net asset value per share (or its equivalent).

| | Fair Value as of January 31, 2013 | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|
| International Equity (a) | $ 13,056 | Monthly and Daily | 30 days |
| Hedge Funds (b) | 21,683 | Quarterly and Semiannual | 45 to 65 days |
| Private Equity (c) | 9,704 | Quarterly | 90 days |
| International Real Estate (d) | 3,422 | Daily | 1 day |
| Puts and calls (e) | (84) | Daily | 1 day |
| Domestic Equity (f) | 8,215 | Quarterly | 1 day |
| Mortgages (g) | 5,918 | See below | -- |
| Total | $ 61,914 | | |

(a) This category includes four private investment funds that primarily invest in equity securities of companies ordinarily located in any country other than the United States and Canada.

(b) This category includes eight hedge funds that pursue a number of investment strategies. One of the funds in this category is in liquidation. The fair market value recorded reflects the amount expected to be received as the fund liquidates. One fund is in lock up. For the other funds, the redemption frequency is quarterly or semiannually, depending on the fund.

(c) This category includes four private equity funds that invest in a diversified portfolio of venture capital, buyout and special situations partnerships, and other limited liability vehicles. For three of the funds, an unfunded commitment of $8,750 will be funded by all the institutions within the Combined Investment Fund. The Retirement Communities' portion of the unfunded commitment is not determinable. Withdrawals are not currently allowed. For the fourth fund, the redemption frequency is quarterly.

(d) This category includes one real estate fund. The majority of assets in the fund are invested in securities of companies engaged in real estate and real estate-related activities outside of the United States.

(e) This category includes one hedge fund that is designed to protect the market value of designated equity holdings from losses attributable to the declines in the equity market.

(f) This category includes one investment fund. Investment positions primarily consist of equity and equity-related securities.

(g) This category includes one limited partnership that primarily invests in debt and equity securities. Funds cannot be withdrawn until after five to seven years.

## 7. OTHER ASSETS

Other assets at January 31, 2013 and 2012 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Unamortized debt issuance and deferred marketing costs | $ 5,402 | $ 6,939 |
| Investment in real estate, net | 8,328 | 9,133 |
| Investments held for insurance obligations by CIIC | 14,424 | 13,003 |
| Other | 5,438 | 5,516 |
| Total | $33,592 | $34,591 |

Included in other assets is $14,424 and $13,003 of investments held by CIIC primarily for the purpose of funding insurance obligations as of January 31, 2013 and 2012, respectively (see Note 3).

Included in other assets of the consolidated statements of financial position is $1,194 and $1,137, representing Covenant Retirement Communities, Inc.'s share of ownership in HRA as of January 31, 2013 and 2012, respectively.

## 8. PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2013 and 2012 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Land and land improvements | $ 41,202 | $ 40,486 |
| Buildings and improvements | 668,411 | 651,990 |
| Furniture and equipment | 103,753 | 99,255 |
| Construction in progress (Note 13) | 28,881 | 14,103 |
| Property and equipment — at cost | 842,247 | 805,834 |
| Less accumulated depreciation | 333,095 | 317,675 |
| Property and equipment — net | $509,152 | $488,159 |

## 9. CONTINUING CARE REQUIREMENTS

Under the provisions of various state regulations, the Retirement Communities are required to maintain escrow accounts to cover defined portions of debt service and annual operating expenses. Management believes the Retirement Communities were in compliance with all such state regulations at January 31, 2013.

## 10. LINE OF CREDIT

Covenant Retirement Communities, Inc. has a secured bank line of credit for a maximum of $9,500, reduced by certain outstanding letters of credit which total $7,817 (of which $6,878 relates to other affiliated Covenant institutions) at January 31, 2013. Borrowings under the line bear interest at the prime rate. The line has no compensating balance arrangement, but requires a commitment fee equal to 1/4 of 1% per annum on the average daily unused portion, payable quarterly. There were no outstanding balances on the line during the years 2013 or 2012 and no balance outstanding at January 31, 2013 or 2012. The line expires September 1, 2014.

## 11. LONG-TERM DEBT

Long-term debt at January 31, 2013 and 2012 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Master indenture obligations: | | |
| Tax-exempt revenue bonds and certificates of participation: | | |
| California Statewide Communities Development Authority variable rate certificates of participation, series 1992, due 2022, interest rate adjusted weekly, .07% at January 31, 2013 | 11,700 | 12,600 |
| California Statewide Communities Development Authority variable rate certificates of participation, Series 1995, due 2025, interest rate adjusted weekly, .07% at January 31, 2013 | 14,100 | 14,900 |
| Illinois Health Facilities Authority revenue refunding bonds series 1998, due 2015, interest at 5.125% | | 2,880 |
| City of Plantation Health Facilities Authority revenue refunding bonds series 1998, due 2022, interest at 4.700% to 5.125% | 6,005 | 6,295 |
| Connecticut Development Authority revenue refunding bonds series 1998, due 2012, interest at 3.750% to 5.000% | | 780 |
| City of Golden Valley, Minnesota, revenue bonds, series 1999A, due 2029, interest at 5.500% | | 28,160 |
| Illinois Health Facilities Authority revenue refunding bonds, series 2001, due 2031, interest at 5.875% | | 22,000 |
| Illinois Health Facilities Authority revenue refunding bonds, series 2002A, due 2032, interest at 5.241%–5.625% | | 23,830 |
| Illinois Health Facilities Authority revenue refunding bonds, series 2002B, due 2028, interest at 6.125% | | 6,890 |
| Colorado Health Facilities Authority revenue bonds, series 2002A, due 2033, interest at 5.500% | | 22,765 |
| Colorado Health Facilities Authority revenue bonds, series 2002B, due 2033, interest at 4.100%–6.125% | | 24,695 |
| Colorado Health Facilities Authority revenue bonds, series 2005, due 2035, interest at 4.500%–5.250% | 123,285 | 125,705 |
| Illinois Finance Authority revenue refunding direct placement bonds, series 2011A, due 2030, interest rate adjusted weekly, 1.86% at January 31, 2013 | 15,830 | 15,830 |
| Illinois Finance Authority revenue refunding direct placement bonds, series 2011B, due 2030, interest rate adjusted weekly, 2.12% at January 31, 2013 | 42,695 | 43,335 |
| Colorado Health Facilities Authority revenue bonds, series 2012A due 2034, interest at 4.500%–5.000% | 104,205 | |
| Colorado Health Facilities Authority revenue bonds, series 2012B due 2027, interest at 4.000%–5.000% | 22,905 | |
| Colorado Health Facilities Authority revenue bonds, series 2012B due 2023, interest at 2.000%–5.000% | 23,060 | |
| Total long-term debt | 363,785 | 350,665 |
| Less current maturities | 8,920 | 7,300 |
| Plus (Less) unamortized original issue discount — net of unamortized original issue premium | 4,505 | (1,531) |
| Total long-term debt — less current maturities | $359,370 | $341,834 |

**Master Indenture Obligations** — The Retirement Communities, excluding Covenant Retirement Services and its affiliates, are members of the Obligated Group, as defined, under the Master Indenture. As members, each community is jointly and severally liable as guarantors for the repayment of the Master Indenture Bonds. The Master Indenture obligations are secured by mortgages on substantially all real estate, personal property (equipment and fixtures), and accounts receivable of the Obligated Group. Members of the Obligated Group make monthly interest and principal deposits into Bond Interest and Sinking Funds controlled by the bond trustees. The Master Indenture and related agreements require the maintenance of minimum debt service coverage and days cash on hand ratios, as defined; require the maintenance of minimum debt service reserve funds; and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the Obligated Group was in compliance with these requirements at January 31, 2013.

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

In September 2012, the Retirement Communities issued $150,170 of tax exempt revenue refunding bonds, Series 2012 A, B, and C, through the Colorado Health Facilities Authority ("Series 2012 bonds"). Proceeds from the Series 2012 bonds, along with funds available from the retired bond trustee held funds, were used to pay the Illinois Finance Authority 1998, 2001, 2002A, and 2002B bonds with a combined balance of $55,600; the Colorado Health Facilities Authority 2002A and 2002B bonds with a combined balance of $47,460; and the City of Golden Valley, Minnesota 1999A bonds with a balance of $28,160. The remaining proceeds were used to fund a capital project fund, fund the Series 2012 debt service reserve fund, and pay the costs of issuance. The Retirement Communities recognized a loss on extinguishment of debt of $6,746, representing the write-off of deferred debt costs, original issued discount and premium payments to early extinguish the aforementioned bonds, which is recorded as a loss on extinguishment of debt in the consolidated statement of operations at January 31, 2013.

In December 2011, the Retirement Communities issued $59,165 of tax exempt revenue refunding direct placement bonds, Series 2011 A and B, with the Illinois Finance Authority ("Series 2011 A and B bonds"). Proceeds from the Series 2011 A and B bonds, along with funds available from the retired bonds trustee held funds, were used to pay the Michigan State Hospital Finance Authority 1999A variable rate bonds with a balance of $9,430; the Illinois Finance Authority 2004 variable rate bonds with a balance of $15,915; and the Colorado Health Facilities 1999A and 2006 variable rate bonds with a balance of $12,900 and $15,040, respectively. The remaining proceeds were used to fund a capital project fund and pay the costs of issuance. The Retirement Communities recognized a loss of $1,399 on extinguishments, representing the write-off of deferred debt fees, which is recorded as a loss on extinguishment of debt in the consolidated statement of operations at January 31, 2012.

The Series 1992 and Series 1995 Certificates of Participation previously secured by separate irrevocable letters of credit issued by Bank of America, N.A. were replaced in December 2011 by separate irrevocable letters of credit issued by JP Morgan Chase, N.A. The Series 1992 letter of credit in an amount equal to $12,807 and the Series 1995 letter of credit in an amount equal to $15,145 will expire on February 1, 2017 unless previously extended or renewed.

Any amounts drawn on the letters of credit are repayable in 36 equal monthly installments commencing 13 months following the draw. No amounts were drawn at either January 31, 2013 or 2012. The letter of credit agreements require the maintenance of minimum debt service coverage ratios and funded debt ratios, and place restrictions on the incurrence of additional debt and advances to entities outside of the Obligated Group, all as defined in the agreements. Management believes the Retirement Communities were in compliance with these requirements at January 31, 2013.

In December 2000, Covenant Village of Portland, Limited Partnership ("Portland"), an affiliate of Covenant Ministries of Benevolence, issued $8,200 State of Oregon Housing and Community Service Department Housing Development Revenue Bonds 2000 Series A. The Retirement Communities guarantee payment of the bonds by Portland. Such debt outstanding amounted to $6,515 at January 31, 2013. Portland continues to service its debt as it comes due and therefore, the Retirement Communities do not expect to make payments under this guarantee.

In 2013, Covenant Place of Lenexa ("Lenexa") secured a construction loan with First Merit Bank, N.A. for construction and development of a rental continuing care retirement community. The loan allows for maximum borrowing of $13,000 and bears interest at LIBOR plus 200 basis points. Interest-only payments are due for the first two years and monthly principal and interest payments thereafter amortized over 25 years. The loan matures in 2020. The Retirement Communities have guaranteed the credit facility with an option to reduce the guarantee to 50% upon Lenexa receiving a certificate of occupancy. The balance of the loan is $7,755 as of January 31, 2013 and is included in other liabilities on the consolidated balance sheet.

The weighted-average interest rate on all outstanding borrowings was approximately 4.50% at January 31, 2013.

**Total Long-Term Debt** — Contractual maturities of long-term debt, excluding original issue discount, for years subsequent to January 31, 2013 are as follows:

| **Years Ending January 31** | |
|---|---|
| 2014 | $ 8,920 |
| 2015 | 9,255 |
| 2016 | 9,640 |
| 2017 | 10,070 |
| 2018 | 10,515 |
| 2019 and thereafter | 315,385 |
| Total | $ 363,785 |

The tax-exempt Revenue Bond indentures require certain funds to be held in accounts controlled by the bond trustees. The funds are primarily invested in fixed income securities and cash and short-term investments. The total trustee-held funds, which are included in assets whose use is limited, including interest in investment pool as "restricted under state and debt agreements," at January 31, 2013 and 2012, are as follows:

| **Fund** | **2013** | **2012** |
|---|---|---|
| Bond Interest and Sinking Fund | $ 3,655 | $ 3,761 |
| Debt Service Reserve Fund | 32,100 | 31,868 |
| Bond Project Fund | 13,401 | 2,745 |
| Subtotal | 49,156 | 38,374 |
| Less amounts classified as current | 3,655 | 6,506 |
| Trustee-held funds — noncurrent | $ 45,501 | $ 31,868 |

## 12. DERIVATIVE INSTRUMENTS

The Retirement Communities entered into interest rate swap agreements to manage their debt structure and lessen interest rate risk, which had fair values aggregating to $(43,241) and $(42,550) at January 31, 2013 and 2012, respectively, and are recorded in other liabilities. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are contracts to exchange variable rate for fixed rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. The Retirement Communities have three interest rate swap agreements with Wells Fargo Bank, N.A. and one agreement with Deutche Bank AG at January 31, 2013.

During the year ended January 31, 2013, the Retirement Communities had the following interest rate swaps in effect:

| Counterparty | Notional Amount | Maturity Date | Rate Paid | Rate Received | Market Value as of January 31, 2013 | Market Value as of January 31, 2012 |
|---|---|---|---|---|---|---|
| Wells Fargo Bank, N.A. | $15,915 | 12/1/2034 | 3.59% | 67% of 1M LIBOR | ($3,236) | ($2,525) |
| Wells Fargo Bank, N.A. | $15,040 | 12/1/2025 | 3.49% | 67% of 1M LIBOR | ($2,192) | ($2,398) |
| Wells Fargo Bank, N.A. | $86,906 | 6/1/2043 | 5.18% | SIFMA Index | ($31,427) | ($36,627) |
| Deutsche Bank AG | $97,483 | 6/1/2014 | 5.18% | SIFMA Index | ($6,386) | |
| | | | | | ($43,241) | ($41,550) |

On November 27, 2012, the Retirement Communities and Wells Fargo Bank, N.A. entered into an Amended and Restated Confirmation (the "Amendment") related to one of the swaps which reduced the notional amount to $86,906. This swap has an effective date of June 1, 2014 and as a result, there are no exchanges of interest payments on this swap or agreement. The Amendment terminated certain notional amounts and introduced a Credit Support Annex (collateral arrangement) between the Retirement Communities and Wells Fargo Bank, N.A. whereby the Retirement Communities will observe a collateral posting threshold amount of $40,000. Additionally, if the Retirement Communities fall below 250 days cash on hand, the threshold amount will fall to $30,000. Simultaneous with the execution of the Amendment, the Retirement Communities paid an amount of $13,059 to Wells Fargo Bank, N.A.. Of this amount, $11,912 was recorded as a loss on swap termination at January 31, 2013. The remainder amount of $1,147 was recorded to prepaid expenses at January 31, 2013 and will be amortized to expense. All payment obligations by the Retirement Communities under the Amendment are considered general unsecured obligations.

The Wells Fargo Bank, N.A. ISDA contains an Additional Termination Event. If the long-term unsecured, unenhanced senior debt rating falls below certain thresholds, it triggers an Additional Termination Event. The Retirement Communities have three remedies available in lieu of termination, including collateral posting. No collateral was required to be posted at either January 31, 2013 or January 31, 2012.

Additionally, in November 2012, the Retirement Communities and Deutsche Bank AG entered into an interest rate swap (the "Replacement Swap") with an effective date of December 1, 2012 and termination date of June 1, 2014. The Replacement Swap has a notional amount of $97,483. The Deutsche Bank AG ISDA includes termination events. Additionally, the Retirement Communities have a Credit Support Annex (collateral arrangement) with Deutsche Bank AG with a Threshold Amount of $10,000 based on the Retirement Communities' current credit rating. As of January 31, 2013, there is no collateral requirement by the Retirement Communities under the Replacement Swap. As a result of the execution of the Replacement Swap, Deutsche Bank AG paid an amount of $6,985 to the Retirement Communities in November 2012. The proceeds of such amount were used by the Retirement Communities to pay Wells Fargo Bank, N.A. for purposes of the Amendment described above. All payment obligations by the Retirement Communities under the Replacement Swap are considered general unsecured obligations.

The net amount paid in 2013 and 2012 to Wells Fargo Bank, N.A. and Deutsche Bank AG under the interest rate swap agreements is $1,863 and $1,078, respectively. The expense is recorded as interest expense on interest rate swaps and interest expense in 2013 and 2012, respectively.

The change in the fair market value of the swaps of $6,293 and $(26,871) is recorded as a component of nonoperating revenue in the consolidated statements of operations for the years ended January 31, 2013 and 2012, respectively.

## 13. CONSTRUCTION IN PROGRESS

The construction-in-progress balance of $28,881 at January 31, 2013 relates to various projects across the communities. All of the projects are for the purpose of improving or expanding resident facilities and are in accordance with Covenant Retirement Communities' not-for-profit tax status. Sufficient funds to complete all projects are available from bond project funds and Board designated reserves.

## 14. RELATED-PARTY TRANSACTIONS

a. Included in assets whose use is limited, including interest in investment pool classified as noncurrent at January 31, 2013 and 2012, are $963 and $932, respectively, of National Covenant Properties certificates of deposit. Interest income earned on the National Covenant Properties certificates of deposit was $40 and $57 in 2013 and 2012, respectively.

b. Included in other assets and amounts payable to Covenant Institutions is $193 and $(596) of amounts due from/(to) Covenant Ministries of Benevolence as of January 31, 2013 and 2012, respectively.

c. Included in administrative and general expense are management fees paid to Covenant Ministries of Benevolence of $2,071 and $2,013 in 2013 and 2012, respectively.

d. Certain costs, which relate to trust contributions, are incurred by the Retirement Communities in connection with the Covenant Estate Planning Services of The Evangelical Covenant Church, which assists certain residents and non-residents in managing assets, establishing trusts, and other related activities. Amounts paid to the Covenant Estate Planning Services were $1,378 and $1,427 in 2013 and 2012, respectively.

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

f. On September 27, 2010, CRC Holdings One entered into a revolving line of credit with National Covenant Properties with an available credit of $4,000. During the year ended January 31, 2011, CRC Holdings One borrowed $4,000 on the line of credit. As of January 31, 2013 and 2012, the outstanding balance on the line is $4,000. The line of credit bears interest at the prime rate or a minimum of 4%, due monthly. The principal amount borrowed is due no later than 20 years from the date of first disbursement of loan funds.

g. In February 2012, Lenexa entered into a revolving line of credit with National Covenant Properties with an available credit of $5,000. As of January 31, 2013, the outstanding balance on the line is $3,600. The line of credit bears interest at the prime rate or a minimum of 4%, due monthly. The principal amount borrowed is due no later than 5 years from the date of first disbursement of loan funds. The Retirement Communities guarantee payment of the balance.

## 15. PENSION PLAN

Substantially all full-time employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning January 1, 2013, the Retirement Communities will match contributions to a defined contribution plan, based on eligibility, made by employees up to 3% of each employees' salary. The Retirement Communities recorded expense of $215 for the match in 2013.

Pension expense, representing the Retirement Communities' required contribution to the Plan, was $3,244 and $2,848 in 2013 and 2012, respectively. The contributions made by the Retirement Communities represented more than 5% of the total contributions made to the Plan in 2013 and 2012, respectively. To the extent the Plan is underfunded, future contributions to the Plan may increase.

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

Contributions from all employers to the Plan for December 31, 2012 and December 31, 2011, respectively, are as follows:

| Pension Fund | FEIN | Total Contributions to Plan for the Year Ended December 31, 2012 | Total Contributions to Plan for the Year Ended December 31, 2011 |
|---|---|---|---|
| Evangelical Covenant Church Retirement Plan | 36-2167730 | $ 4,619 | $ 10,318 |

As of December 31, 2011, net assets of the Plan were $246,641 and the actuarial present value of accumulated plan benefits was $293,505. This information is not yet available for the year ended December 31, 2012.

The fair value of Plan assets as of December 31, 2012 and December 31, 2011 was $270,864 and $246,889, respectively.

## 16. EMPLOYEE MEDICAL BENEFIT PLAN

The Retirement Communities sponsor a medical benefit plan which is available to full-time and eligible part-time employees and their dependents. The medical benefit expense is based on actual medical, dental, and prescription claims paid, administration fees, and the provision for unpaid and unreported claims at year-end. At January 31, 2013 and 2012, the liability recorded for unpaid and unreported claims was $1,735 and $1,858, respectively, and is reported in other current liabilities. The medical benefit expense was $9,807 and $8,576 for the years ended January 31, 2013 and 2012, respectively.

## 17. BENEFICIAL INTEREST OF GIFT INSTRUMENTS

A source of funds to the Retirement Communities is in the form of bequests from The Evangelical Covenant Church members, residents of the Retirement Communities, and other parties. The Office of Covenant Estate Planning Services (CEPS) of The Evangelical Covenant Church maintains information as to the estimated values of certain of the Retirement Communities' share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal values (where available) for real property, and other reasonable estimates made by the trustees for specific assets. The Retirement Communities have recorded their interest in irrevocable trusts as of 2013 and 2012 at fair value.

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

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

During 2012, the Retirement Communities recorded their interest in three endowment accounts funded by distributions from irrevocable trusts. The endowment accounts are managed by CEPS and are to be held in perpetuity. Income on the endowment funds is paid to the Retirement Communities quarterly and increases temporarily restricted net assets until the funds are spent for the designated purpose. The value of the endowment accounts at January 31, 2013 and 2012 is $2,086 and $1,956, respectively, and is recorded in assets whose use is limited and permanently restricted net assets in the statement of financial position.

## 18. SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

This schedule represents the reconciliation for the years ended January 31, 2013 and 2012 of the change in net assets to net cash flows provided by operating activities:

| | 2013 | 2012 |
|---|---|---|
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | $ (6,674) | $ (42,296) |
| Adjustments to reconcile change in net assets to net cash flows provided by operating activities: | | |
| Amortization of deferred entrance fees | (31,338) | (30,672) |
| Depreciation | 32,312 | 30,597 |
| Amortization | 582 | 567 |
| Net accretion of original issue discount and premiums | 283 | (49) |
| Provision for uncollectible amounts, including related-party notes receivable | 983 | 1,142 |
| Net realized and unrealized (gain) loss on investments | (20,520) | 2,302 |
| Net change in temporarily restricted net assets | 745 | 758 |
| Endowment income restricted for reinvestment | (518) | (21) |
| Contributions and transfers to Endowment | (62) | (2,038) |
| Loss on extinguishment of debt | 6,746 | 1,399 |
| Realized loss on derivative instruments | 11,912 | |
| Loss on disposal of fixed assets | 1,378 | 898 |
| Net unrealized (gain) loss on derivative instruments | (6,293) | 26,871 |
| Nonrefundable entrance fees collected | 35,957 | 38,795 |
| Nonrefundable entrance fees refunded | (2,757) | (1,779) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (3,928) | (2,374) |
| Other assets | (481) | (475) |
| Accounts payable | 266 | 1,062 |
| Accrued interest | (89) | 44 |
| Accrued salaries | 261 | 827 |
| Other liabilities | (741) | 146 |
| Total | $ 18,024 | $ 25,704 |

## 19. FUNCTIONAL EXPENSES

Expenses by function, including discontinued operations, for the years ended January 31, 2013 and 2012 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Retirement community services | $223,593 | $223,007 |
| Management and general | 15,858 | 16,345 |
| Total | $239,451 | $239,352 |

The Retirement Communities include the salary, benefits, and direct costs of the accounting department, vice presidents, and information services, excluding campus-related information services costs, as well as expenses for legal, consulting, service agreements, and CMB management fees as part of management and general expenses.

## 20. RESULTS FROM DISCONTINUED OPERATIONS

In February 2012, the Retirement Communities signed an asset purchase agreement to sell Bethany Covenant Home. The sale was completed on June 4, 2012. Proceeds of $17 were received. The sale resulted in a net loss of approximately $761 after closing costs and other related expenses. Bethany Covenant Home owed $6,337 to Covenant Retirement Communities which was written off upon the sale. The write-off was treated as an interfacility transfer which had no impact on the consolidated financial statements.

The sale transaction qualified the operations of the aforementioned facility to be disclosed as discontinued operations during the year ended January 31, 2013 and as a result the net results of operations of the aforementioned facility are included in the consolidated statement of operations as "results related to discontinued operations" for the year ended January 31, 2013. The consolidated statement of operations for the year ended January 31, 2012 has been restated to retrospectively apply the classification of the net results of operations for the facility as "results related to discontinued operations." The summary results of the facility are as follows:

| | 2013 | 2012 |
|---|---|---|
| OPERATING REVENUES: | | |
| Routine resident services | $ 965 | $ 3,339 |
| Ancillary services | 77 | 333 |
| Net assets released from restriction for operations | 16 | 21 |
| Other | 32 | 99 |
| Total operating revenues | 1,090 | 3,792 |
| EXPENSES: | | |
| Routine nursing services | 694 | 1,956 |
| Ancillary services | 85 | 271 |
| Resident benefits | 70 | 216 |
| Dining services | 184 | 531 |
| Laundry | 18 | 62 |
| Housekeeping | 47 | 184 |
| Maintenance | 111 | 213 |
| Utilities | 32 | 112 |
| Administrative and general | 550 | 598 |
| Interest | 108 | 235 |
| Insurance | | 94 |
| Marketing and promotion | 13 | 32 |
| Depreciation | 23 | 52 |
| Other | | 49 |
| Total expenses | 1,935 | 4,605 |
| OPERATING LOSS | (845) | (813) |
| NONOPERATING REVENUE (EXPENSE): | | |
| Loss on sale | (761) | |
| Other nonoperating expense | (5) | (69) |
| Investment return, including beneficial interest in investment pool: | | |
| Interest and dividend income | 3 | 5 |
| Realized gains on fixed income and equity securities — net | 4 | 12 |
| Total investment return, including beneficial interest in investment pool | 7 | 17 |
| Total nonoperating expense | (759) | (52) |
| LOSS | (1,604) | (865) |

* * * * *

# ADDITIONAL CONSOLIDATING INFORMATION

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Independent Auditor's Report on Additional Consolidating Information

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

We have audited the consolidated financial statements of Covenant Retirement Communities, Inc. as of and for the year ended January 31, 2013. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

May 29, 2013

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
## AS OF JANUARY 31, 2013
## (In thousands)

| ASSETS | Consolidated | Eliminations | Covenant Retirement Services | Obligated Group | Eliminations | Covenant Retirement Communities | Eastern Campuses | Western Campuses |
|---|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | $ 6,316 | $ - | $ 1,917 | $ 4,399 | $ - | $ 4,118 | $ 209 | $ 72 |
| Restricted cash | 2,746 | - | - | 2,746 | - | 468 | 1,665 | 613 |
| Assets whose use is limited, including beneficial interest in investment pool: | | | | | | | | |
| Board designated | 33,861 | - | 49 | 33,812 | - | 398 | 18,086 | 15,328 |
| Restricted under debt agreements | 3,655 | - | - | 3,655 | - | 427 | 2,296 | 932 |
| Accounts receivable - net | 19,137 | (297) | 3,536 | 15,898 | - | 616 | 10,829 | 4,453 |
| Prepaid expenses and other assets | 5,009 | - | 24 | 4,985 | - | 3,748 | 799 | 438 |
| Total current assets | 70,724 | (297) | 5,526 | 65,495 | - | 9,775 | 33,884 | 21,836 |
| ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL: | | | | | | | | |
| Board designated | 133,608 | - | - | 133,608 | - | 12,915 | 74,792 | 45,901 |
| Restricted under state and debt agreements | 53,662 | - | - | 53,662 | - | 17,019 | 26,685 | 9,958 |
| Endowment | 6,537 | - | - | 6,537 | - | 4,450 | 2,042 | 45 |
| Total assets whose use is limited, including beneficial interest in investment pool | 193,807 | - | - | 193,807 | - | 34,384 | 103,519 | 55,904 |
| OTHER ASSETS | 33,592 | (24,222) | 882 | 56,932 | (76) | 45,073 | 7,749 | 4,186 |
| INTEREST IN IRREVOCABLE TRUSTS | 4,465 | - | - | 4,465 | - | 21 | 2,406 | 2,038 |
| PROPERTY AND EQUIPMENT - Net | 509,152 | (834) | 23,698 | 486,288 | 68 | 33,524 | 282,714 | 169,982 |
| TOTAL | $ 811,740 | $ (25,353) | $ 30,106 | $ 806,987 | $ (8) | $ 122,777 | $ 430,272 | $ 253,946 |

(Continued)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
## AS OF JANUARY 31, 2013
## (In thousands)

| | Consolidated | Eliminations | Covenant Retirement Services | Obligated Group | Eliminations | Covenant Retirement Communities | Eastern Campuses | Western Campuses |
|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS (DEFICITS)** | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable - trade | $ 10,413 | $ (257) | $ 208 | $ 10,462 | $ 69 | $ 9,138 | $ 770 | $ 485 |
| Accounts payable - contractors | 2,750 | - | 1,827 | 923 | - | - | 845 | 78 |
| Accrued salaries and wages | 7,435 | - | 778 | 6,657 | - | 735 | 3,638 | 2,284 |
| Accrued interest | 2,390 | - | 14 | 2,376 | - | 283 | 1,590 | 503 |
| Advance deposits | 2,352 | - | - | 2,352 | - | 412 | 1,234 | 706 |
| Current maturities of long-term debt | 8,920 | - | - | 8,920 | - | 864 | 5,464 | 2,592 |
| Deferred revenue subject to refund | 63,163 | - | - | 63,163 | - | (1) | 33,774 | 29,390 |
| Refundable contract liabilities | 49,830 | - | - | 49,830 | - | - | 27,968 | 21,862 |
| Other current liabilities | 10,376 | - | 1,215 | 9,161 | - | 4,211 | 2,688 | 2,262 |
| Total current liabilities | 157,629 | (257) | 4,042 | 153,844 | 69 | 15,642 | 77,971 | 60,162 |
| LONG-TERM DEBT - Less current maturities | 359,370 | - | - | 359,370 | - | 36,943 | 215,214 | 107,213 |
| PAYABLE TO (FROM) COVENANT INSTITUTIONS - | | | | | | | | |
| Notes and advances | 12,600 | (24,222) | 36,822 | - | (77) | (4,481) | 72,649 | (68,091) |
| OTHER LIABILITIES | 65,555 | - | 7,766 | 57,789 | (1,622) | 50,689 | 8,655 | 67 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 162,959 | - | - | 162,959 | - | 10,122 | 82,031 | 70,806 |
| Total liabilities | 758,113 | (24,479) | 48,630 | 733,962 | (1,630) | 108,915 | 456,520 | 170,157 |
| NET ASSETS (DEFICITS): | | | | | | | | |
| Unrestricted | 41,803 | (874) | (18,524) | 61,201 | 1,622 | 9,025 | (30,289) | 80,843 |
| Temporarily restricted | 5,280 | - | - | 5,280 | - | 380 | 1,999 | 2,901 |
| Permanently restricted - endowment | 6,544 | - | - | 6,544 | - | 4,457 | 2,042 | 45 |
| Total net assets (deficits) | 53,627 | (874) | (18,524) | 73,025 | 1,622 | 13,862 | (26,248) | 83,789 |
| TOTAL | $ 811,740 | $ (25,353) | $ 30,106 | $ 806,987 | $ (8) | $ 122,777 | $ 430,272 | $ 253,946 |

See accompanying note to consolidating statement of financial position and consolidating statement of operations and changes in unrestricted net assets information.

(Continued)

## COVENANT RETIREMENT COMMUNITIES, INC.

### CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION FOR THE YEAR ENDED JANUARY 31, 2013 (In thousands)

| | Consolidated | Eliminations | Covenant Retirement Services | Obligated Group | Eliminations | Covenant Retirement Communities | Eastern Campuses | Western Campuses |
|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | | | | |
| Routine resident services | $ 156,699 | $ - | $ 502 | $ 156,197 | $ - | $ 2,008 | $ 90,062 | $ 64,127 |
| Ancillary services | 30,477 | (7) | 11,507 | 18,977 | - | (1) | 11,393 | 7,585 |
| Amortization of deferred entrance fees | 31,338 | - | - | 31,338 | - | 899 | 16,981 | 13,458 |
| Net assets released from restriction for operations | 1,583 | - | - | 1,583 | - | (45) | 1,059 | 569 |
| Other | 5,535 | (2,179) | 3,304 | 4,410 | (129) | 443 | 2,433 | 1,663 |
| Total operating revenues | 225,632 | (2,186) | 15,313 | 212,505 | (129) | 3,304 | 121,928 | 87,402 |
| EXPENSES: | | | | | | | | |
| Routine nursing services | 47,895 | (123) | 6,219 | 41,799 | (220) | 40 | 25,563 | 16,416 |
| Ancillary services | 13,299 | (6) | 2,026 | 11,279 | (17) | - | 6,748 | 4,548 |
| Resident benefits | 10,147 | (2) | 368 | 9,781 | (42) | 40 | 5,766 | 4,017 |
| Dietary | 28,408 | - | 6 | 28,402 | (135) | 24 | 17,355 | 11,158 |
| Laundry | 1,312 | - | - | 1,312 | (6) | 3 | 725 | 590 |
| Housekeeping | 6,497 | - | 24 | 6,473 | (42) | 103 | 3,522 | 2,890 |
| Maintenance | 16,178 | - | 305 | 15,873 | (40) | 359 | 9,630 | 5,924 |
| Utilities | 9,463 | - | 71 | 9,392 | - | 265 | 5,433 | 3,694 |
| Administrative and general | 37,052 | (2,007) | 7,511 | 31,548 | 399 | (22) | 18,495 | 12,676 |
| Interest | 15,477 | (978) | 1,256 | 15,199 | (7,085) | (1,515) | 16,606 | 7,193 |
| Property taxes | 2,910 | - | 177 | 2,733 | - | 344 | 2,171 | 218 |
| Insurance | 4,278 | - | 237 | 4,041 | - | (1,098) | 2,987 | 2,152 |
| Marketing and promotion | 10,940 | (2) | 827 | 10,115 | (22) | 229 | 6,409 | 3,499 |
| Depreciation | 32,165 | - | 373 | 31,792 | - | 2,449 | 18,925 | 10,418 |
| Amortization | 582 | - | 59 | 523 | - | 62 | 312 | 149 |
| Other | 913 | - | 55 | 858 | - | (765) | 1,033 | 590 |
| Total expenses | 237,516 | (3,118) | 19,514 | 221,120 | (7,210) | 518 | 141,680 | 86,132 |
| OPERATING (LOSS) INCOME | (11,884) | 932 | (4,201) | (8,615) | 7,081 | 2,786 | (19,752) | 1,270 |

(Continued)

## COVENANT RETIREMENT COMMUNITIES, INC.

### CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
### FOR THE YEAR ENDED JANUARY 31, 2013
### (In thousands)

| | Consolidated | Eliminations | Covenant Retirement Services | Obligated Group | Eliminations | Covenant Retirement Communities | Eastern Campuses | Western Campuses |
|---|---|---|---|---|---|---|---|---|
| OPERATING (LOSS) INCOME | $ (11,884) | $ 932 | $ (4,201) | $ (8,615) | $ 7,081 | $ 2,786 | $ (19,752) | $ 1,270 |
| NONOPERATING REVENUE (EXPENSE): | | | | | | | | |
| Contributions: | | | | | | | | |
| Gifts and bequests - net | (201) | - | 9 | (210) | 4 | (419) | (218) | 423 |
| Net assets released from restriction - distributions from trusts | 225 | - | - | 225 | - | 12 | 73 | 140 |
| **Total contributions** | 24 | - | 9 | 15 | 4 | (407) | (145) | 563 |
| Loss on extinguishment of debt | (6,746) | - | - | (6,746) | - | (1,083) | (4,107) | (1,556) |
| Other nonoperating (expense) income - net | (558) | (1) | 3 | (560) | - | 26 | (479) | (107) |
| Investment return, including beneficial interest in investment pool: | | | | | | | | |
| Interest and dividend income | 3,548 | (977) | (6) | 4,531 | (7,085) | 2,889 | 5,109 | 3,618 |
| Realized gains (losses) on fixed income and equity securities - net | 1,647 | - | - | 1,647 | - | (2,457) | 2,374 | 1,730 |
| Unrealized gains (losses) on fixed income and equity securities - net | 6,871 | - | - | 6,871 | - | 4,977 | 1,077 | 817 |
| Alternative investment income (loss) | 8,649 | - | - | 8,649 | - | 8,649 | - | - |
| Total investment return (loss), including beneficial interest in investment pool | 20,715 | (977) | (6) | 21,698 | (7,085) | 14,058 | 8,560 | 6,165 |
| Unrealized gains (losses) on derivative instruments | 6,293 | - | - | 6,293 | (7,407) | 13,700 | - | - |
| Interest expense on interest rate swaps | (1,863) | | | (1,863) | | (1,863) | | |
| Loss on swap termination | (11,912) | - | - | (11,912) | - | (11,912) | - | - |
| Total nonoperating revenue (expense) | 5,953 | (978) | 6 | 6,925 | (14,488) | 12,519 | 3,829 | 5,065 |
| Results related to discontinued operations | (1,604) | | | (1,604) | | | (1,604) | |
| (LOSS) INCOME | (7,535) | (46) | (4,195) | (3,294) | (7,407) | 15,305 | (17,527) | 6,335 |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | | | |
| Net assets released from restriction for capital purchases | 135 | - | - | 135 | - | - | 85 | 50 |
| Net asset transfer to related organization | - | | - | - | | (6,624) | 6,624 | |
| Contributions to support benevolent care | - | - | | - | - | (950) | 950 | - |
| Total other changes in unrestricted net assets | 135 | - | - | 135 | - | (7,574) | 7,659 | 50 |
| (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS | $ (7,400) | $ (46) | $ (4,195) | $ (3,159) | $ (7,407) | $ 7,731 | $ (9,868) | $ 6,385 |

See accompanying note to consolidating statement of fiancnial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - EASTERN CAMPUSES
## AS OF JANUARY 31, 2013
## (In thousands)

| ASSETS | Consolidated | Covenant Village of Florida | Covenant Village of Cromwell | Covenant Village of Great Lakes | Covenant Village of Golden Valley | Bethany Covenant Village | Covenant Village of Northbrook | The Holmstad Inc. | Covenant Home of Chicago | Windsor Park |
|---|---|---|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | | | | |
| Cash and cash equivalents | $ 209 | $ 14 | $ 9 | $ 11 | $ 20 | $ - | $ 18 | $ 10 | $ 113 | $ 14 |
| Restricted cash | 1,665 | 4 | 194 | 777 | 225 | - | 376 | 3 | 15 | 71 |
| Assets whose use is limited, including beneficial interest in investment pool: | | | | | | | | | | |
| Board designated | 18,086 | 559 | 1,302 | 2,081 | 1,200 | - | 8,405 | 4,539 | - | - |
| Restricted under debt agreements | 2,296 | 296 | - | 343 | 225 | - | 766 | 667 | - | (1) |
| Accounts receivable - net | 10,829 | 2,506 | 1,034 | 1,333 | 1,377 | 89 | 1,663 | 1,950 | 134 | 743 |
| Prepaid expenses and other assets | 799 | 73 | 367 | 23 | 41 | 2 | 38 | 96 | 3 | 156 |
| Total current assets | 33,884 | 3,452 | 2,906 | 4,568 | 3,088 | 91 | 11,266 | 7,265 | 265 | 983 |
| ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL: | | | | | | | | | | |
| Board designated | 74,792 | 5,407 | 6,564 | 178 | 4,663 | - | 28,212 | 15,075 | 3,478 | 11,215 |
| Restricted under state and debt agreements | 26,685 | 9,314 | 1,516 | 3,594 | 2,795 | - | 3,060 | 6,405 | - | 1 |
| Endowment | 2,042 | - | - | - | - | - | - | 366 | - | 1,676 |
| Total assets whose use is limited, including beneficial interest in investment pool | 103,519 | 14,721 | 8,080 | 3,772 | 7,458 | - | 31,272 | 21,846 | 3,478 | 12,892 |
| OTHER ASSETS | 7,749 | 303 | 1,166 | 1,278 | 526 | - | 1,256 | 1,203 | - | 2,017 |
| INTEREST IN IRREVOCABLE TRUSTS | 2,406 | 593 | 882 | 44 | 307 | - | 69 | 203 | 219 | 89 |
| PROPERTY AND EQUIPMENT - Net | 282,714 | 35,206 | 24,377 | 35,868 | 29,376 | - | 54,844 | 59,930 | 5,056 | 38,057 |
| TOTAL | $ 430,272 | $ 54,275 | $ 37,411 | $ 45,530 | $ 40,755 | $ 91 | $ 98,707 | $ 90,447 | $ 9,018 | $ 54,038 |

(Continued)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - EASTERN CAMPUSES
## AS OF JANUARY 31, 2013
## (In thousands)

| | Consolidated | Covenant Village of Florida | Covenant Village of Cromwell | Covenant Village of Great Lakes | Covenant Village of Golden Valley | Bethany Covenant Village | Covenant Village of Northbrook | The Holmstad Inc. | Covenant Home of Chicago | Windsor Park |
|---|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS (DEFICITS)** | | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | | |
| Accounts payable - trade | $ 770 | $ 58 | $ 174 | $ 7 | $ 45 | $ - | $ 153 | $ 234 | $ 9 | $ 90 |
| Accounts payable - contractors | 845 | - | - | - | - | - | - | 505 | - | 340 |
| Accrued salaries and wages | 3,638 | 436 | 497 | 297 | 559 | - | 641 | 646 | 71 | 491 |
| Accrued interest | 1,590 | 245 | - | 307 | 225 | - | 253 | 529 | - | 31 |
| Advance deposits | 1,234 | 55 | 134 | 41 | 75 | - | 542 | 107 | 75 | 205 |
| Current maturities of long-term debt | 5,464 | 305 | - | 533 | - | - | 3,097 | 926 | - | 603 |
| Deferred revenue subject to refund | 33,774 | 4,189 | 4,661 | 7,330 | 2,808 | - | 8,528 | 6,258 | - | - |
| Refundable contract liabilities | 27,968 | 1,868 | 1,977 | 2,815 | 2,148 | - | 12,567 | 6,593 | - | - |
| Other current liabilities | 2,688 | 201 | 332 | 119 | 79 | - | 226 | 875 | - | 856 |
| Total current liabilities | 77,971 | 7,357 | 7,775 | 11,449 | 5,939 | - | 26,007 | 16,673 | 155 | 2,616 |
| LONG-TERM DEBT - Less current maturities | 215,214 | 28,080 | - | 45,311 | 29,077 | - | 29,551 | 66,687 | - | 16,508 |
| PAYABLE TO (FROM) COVENANT INSTITUTIONS - Notes and advances | 72,649 | 13,938 | 9,944 | 4,563 | 14,073 | 91 | (17,404) | 9,380 | 4,031 | 34,033 |
| OTHER LIABILITIES | 8,655 | 36 | 5 | - | 1 | - | 24 | - | - | 8,589 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 82,031 | 9,427 | 11,543 | 8,349 | 7,987 | - | 16,392 | 13,568 | 16 | 14,749 |
| Total liabilities | 456,520 | 58,838 | 29,267 | 69,672 | 57,077 | 91 | 54,570 | 106,308 | 4,202 | 76,495 |
| NET ASSETS (DEFICITS): | | | | | | | | | | |
| Unrestricted | (30,289) | (4,960) | 7,615 | (24,270) | (16,595) | - | 44,010 | (16,416) | 4,615 | (24,288) |
| Temporarily restricted | 1,999 | 397 | 529 | 128 | 273 | - | 127 | 189 | 201 | 155 |
| Permanently restricted - endowment | 2,042 | - | - | - | - | - | - | 366 | - | 1,676 |
| Total net assets (deficits) | (26,248) | (4,563) | 8,144 | (24,142) | (16,322) | - | 44,137 | (15,861) | 4,816 | (22,457) |
| TOTAL | $ 430,272 | $ 54,275 | $ 37,411 | $ 45,530 | $ 40,755 | $ 91 | $ 98,707 | $ 90,447 | $ 9,018 | $ 54,038 |

See accompanying note to consolidating statement of financial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION - EASTERN CAMPUSES FOR THE YEAR ENDED JANUARY 31, 2013 (In thousands)

| | Consolidated | Covenant Village of Florida | Covenant Village of Cromwell | Covenant Village of Great Lakes | Covenant Village of Golden Valley | Bethany Covenant Village | Covenant Village of Northbrook | The Holmstad, Inc. | Covenant Home of Chicago | Windsor Park |
|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | | | | | | |
| Routine resident services | $ 90,062 | $ 10,684 | $ 12,184 | $ 8,310 | $ 11,890 | $ - | $ 15,537 | $ 16,825 | $ 1,896 | $ 12,736 |
| Ancillary services | 11,393 | 1,810 | 842 | 1,740 | 1,908 | - | 2,143 | 1,703 | 29 | 1,218 |
| Amortization of deferred entrance fees | 16,981 | 2,134 | 2,434 | 2,282 | 1,704 | - | 3,375 | 3,291 | - | 1,761 |
| Net assets released from restriction for operations | 1,059 | 68 | 103 | 45 | 276 | - | 195 | 82 | - | 290 |
| Other | 2,433 | 146 | 938 | 433 | 298 | - | 272 | 173 | 61 | 112 |
| Total operating revenues | 121,928 | 14,842 | 16,501 | 12,810 | 16,076 | - | 21,522 | 22,074 | 1,986 | 16,117 |
| EXPENSES: | | | | | | | | | | |
| Routine nursing services | 25,563 | 2,739 | 3,434 | 2,175 | 4,155 | - | 3,946 | 4,795 | 133 | 4,186 |
| Ancillary services | 6,748 | 1,168 | 653 | 994 | 1,142 | - | 1,095 | 981 | - | 715 |
| Resident benefits | 5,766 | 639 | 730 | 540 | 836 | - | 890 | 1,010 | 367 | 754 |
| Dietary | 17,355 | 2,199 | 2,048 | 1,868 | 2,163 | - | 3,053 | 2,861 | 428 | 2,735 |
| Laundry | 725 | 39 | 96 | 30 | 121 | - | 172 | 136 | 13 | 118 |
| Housekeeping | 3,522 | 476 | 532 | 244 | 582 | - | 542 | 626 | 12 | 508 |
| Maintenance | 9,630 | 1,265 | 1,159 | 742 | 982 | - | 1,803 | 2,062 | 126 | 1,491 |
| Utilities | 5,433 | 858 | 911 | 623 | 629 | - | 680 | 1,003 | 112 | 617 |
| Administrative and general | 18,495 | 2,643 | 2,487 | 1,821 | 2,274 | - | 3,218 | 3,102 | 553 | 2,397 |
| Interest | 16,606 | 2,188 | 519 | 2,628 | 2,282 | - | 1,555 | 4,532 | 161 | 2,741 |
| Property taxes | 2,171 | 408 | 707 | 306 | 91 | - | - | 256 | - | 403 |
| Insurance | 2,987 | 482 | 357 | 289 | 377 | - | 484 | 482 | 75 | 441 |
| Marketing and promotion | 6,409 | 986 | 798 | 835 | 802 | - | 939 | 953 | 7 | 1,089 |
| Depreciation | 18,925 | 2,610 | 1,845 | 1,389 | 2,086 | - | 3,908 | 4,000 | 215 | 2,872 |
| Amortization | 312 | 32 | 3 | 81 | 26 | - | 56 | 87 | - | 27 |
| Other | 1,033 | 64 | 258 | 139 | 162 | - | 160 | 103 | - | 147 |
| Total expenses | 141,680 | 18,796 | 16,537 | 14,704 | 18,710 | - | 22,501 | 26,989 | 2,202 | 21,241 |
| OPERATING (LOSS) INCOME | (19,752) | (3,954) | (36) | (1,894) | (2,634) | - | (979) | (4,915) | (216) | (5,124) |

(Continued)

## COVENANT RETIREMENT COMMUNITIES, INC.

### CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION - EASTERN CAMPUSES FOR THE YEAR ENDED JANUARY 31, 2013 (In thousands)

| | Consolidated | Covenant Village of Florida | Covenant Village of Cromwell | Covenant Village of Great Lakes | Covenant Village of Golden Valley | Bethany Covenant Village | Covenant Village of Northbrook | The Holmstad, Inc. | Covenant Home of Chicago | Windsor Park |
|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING (LOSS) INCOME | $ (19,752) | $ (3,954) | $ (36) | $ (1,894) | $ (2,634) | $ - | $ (979) | $ (4,915) | $ (216) | $ (5,124) |
| NONOPERATING REVENUE (EXPENSE): | | | | | | | | | | |
| Contributions: | | | | | | | | | | |
| Gifts and bequests - net | (218) | 381 | (239) | (30) | 70 | - | (136) | (170) | (10) | (84) |
| Net assets released from restriction - distributions from trusts | 73 | 14 | 10 | - | 29 | - | 1 | - | 14 | 5 |
| Total contributions | (145) | 395 | (229) | (30) | 99 | - | (135) | (170) | 4 | (79) |
| Loss on extinguishment of debt | (4,107) | - | - | (1,665) | (617) | - | (358) | (1,467) | - | - |
| Other nonoperating (expense) income - net | (479) | 29 | (308) | 24 | (5) | - | (12) | (183) | - | (24) |
| Investment return, including beneficial interest in investment pool: | | | | | | | | | | |
| Interest and dividend income | 5,109 | 731 | 561 | 230 | 421 | - | 907 | 1,385 | 67 | 807 |
| Realized gains (losses) on fixed income and equity securities - net | 2,374 | 116 | 57 | 73 | 140 | - | 949 | 583 | 73 | 383 |
| Unrealized gains (losses) on fixed income and equity securities - net | 1,077 | (184) | (50) | 45 | 60 | - | 485 | 54 | - | 667 |
| Total investment return (loss), including beneficial interest in investment pool | 8,560 | 663 | 568 | 348 | 621 | - | 2,341 | 2,022 | 140 | 1,857 |
| Total nonoperating revenue (expense) | 3,829 | 1,087 | 31 | (1,323) | 98 | - | 1,836 | 202 | 144 | 1,754 |
| Results related to discontinued operations | (1,604) | | | | | (1,604) | | | | |
| (LOSS) INCOME | (17,527) | (2,867) | (5) | (3,217) | (2,536) | (1,604) | 857 | (4,713) | (72) | (3,370) |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | | | | | |
| Net assets released from restriction for capital purchases | 85 | - | - | 10 | - | - | 13 | 1 | - | 61 |
| Net asset transfer to related organization | 6,624 | - | - | - | 287 | 6,337 | - | - | - | - |
| Contributions to support benevolent care | 950 | 300 | 300 | - | 350 | - | - | - | - | - |
| Total other changes in unrestricted net assets | 7,659 | 300 | 300 | 10 | 637 | 6,337 | 13 | 1 | - | 61 |
| (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS | $ (9,868) | $ (2,567) | $ 295 | $ (3,207) | $ (1,899) | $ 4,733 | $ 870 | $ (4,712) | $ (72) | $ (3,309) |

See accompanying note to consolidating statement of fiancnial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - WESTERN CAMPUSES
## AS OF JANUARY 31, 2013
## (In thousands)

| | Consolidated | The Samarkand | Covenant Village of Turlock | Mount Miguel Covenant Village | Covenant Shores | Covenant Village of Colorado |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents | $ 72 | $ 11 | $ 22 | $ 21 | $ 9 | $ 9 |
| Restricted cash | 613 | 7 | 1 | 41 | 49 | 515 |
| Assets whose use is limited, including beneficial interest in investment pool: | | | | | | |
| Board designated | 15,328 | 1,509 | 1,325 | 1,042 | 6,896 | 4,556 |
| Restricted under debt agreements | 932 | 81 | 291 | 117 | 330 | 113 |
| Accounts receivable - net | 4,453 | 844 | 540 | 705 | 620 | 1,744 |
| Prepaid expenses and other assets | 438 | 26 | 178 | 143 | 54 | 37 |
| Total current assets | 21,836 | 2,478 | 2,357 | 2,069 | 7,958 | 6,974 |
| ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL: | | | | | | |
| Board designated | 45,901 | 27,915 | 11,303 | 5,264 | 570 | 849 |
| Restricted under state and debt agreements | 9,958 | 881 | 2,947 | 812 | 2,669 | 2,649 |
| Endowment | 45 | - | - | 45 | - | - |
| Total assets whose use is limited, including beneficial interest in investment pool | 55,904 | 28,796 | 14,250 | 6,121 | 3,239 | 3,498 |
| OTHER ASSETS | 4,186 | 1,020 | 883 | 1,270 | 370 | 643 |
| INTEREST IN IRREVOCABLE TRUSTS | 2,038 | 406 | 807 | 390 | 185 | 250 |
| PROPERTY AND EQUIPMENT - Net | 169,982 | 31,168 | 32,981 | 18,163 | 42,010 | 45,660 |
| TOTAL | $ 253,946 | $ 63,868 | $ 51,278 | $ 28,013 | $ 53,762 | $ 57,025 |

(Continued)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - WESTERN CAMPUSES
## AS OF JANUARY 31, 2013
## (In thousands)

| | Consolidated | The Samarkand | Covenant Village of Turlock | Mount Miguel Covenant Village | Covenant Shores | Covenant Village of Colorado |
|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS (DEFICITS)** | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Accounts payable - trade | $ 485 | $ 60 | $ 51 | $ 18 | $ 4 | $ 352 |
| Accounts payable - contractors | 78 | 78 | - | - | - | - |
| Accrued salaries and wages | 2,284 | 660 | 301 | 523 | 408 | 392 |
| Accrued interest | 503 | - | 192 | 1 | 155 | 155 |
| Advance deposits | 706 | 193 | 66 | 114 | 275 | 58 |
| Current maturities of long-term debt | 2,592 | 483 | 361 | 451 | 656 | 641 |
| Deferred revenue subject to refund | 29,390 | 6,637 | 3,474 | 5,975 | 7,172 | 6,132 |
| Refundable contract liabilities | 21,862 | 1,904 | 1,557 | 2,680 | 9,983 | 5,738 |
| Other current liabilities | 2,262 | 719 | 251 | 177 | 103 | 1,012 |
| Total current liabilities | 60,162 | 10,734 | 6,253 | 9,939 | 18,756 | 14,480 |
| LONG-TERM DEBT - Less current maturities | 107,213 | 8,028 | 27,943 | 6,306 | 24,563 | 40,373 |
| PAYABLE TO (FROM) COVENANT INSTITUTIONS - Notes and advances | (68,091) | (23,671) | (11,644) | (36,129) | 345 | 3,008 |
| OTHER LIABILITIES | 67 | - | 39 | 19 | - | 9 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 70,806 | 14,578 | 10,769 | 16,642 | 17,487 | 11,330 |
| Total liabilities | 170,157 | 9,669 | 33,360 | (3,223) | 61,151 | 69,200 |
| NET ASSETS (DEFICITS): | | | | | | |
| Unrestricted | 80,843 | 52,394 | 17,367 | 31,026 | (7,568) | (12,376) |
| Temporarily restricted | 2,901 | 1,805 | 551 | 165 | 179 | 201 |
| Permanently restricted - endowment | 45 | - | - | 45 | - | - |
| Total net assets (deficits) | 83,789 | 54,199 | 17,918 | 31,236 | (7,389) | (12,175) |
| TOTAL | $ 253,946 | $ 63,868 | $ 51,278 | $ 28,013 | $ 53,762 | $ 57,025 |

See accompanying note to consolidating statement of financial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION - WESTERN CAMPUSES
## FOR THE YEAR ENDED JANUARY 31, 2013
## (In thousands)

| | Consolidated | The Samarkand | Covenant Village of Turlock | Mount Miguel Covenant Village | Covenant Shores | Covenant Village of Colorado |
|---|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | | |
| Routine resident services | $ 64,127 | $ 15,892 | $ 10,107 | $ 14,044 | $ 12,751 | $ 11,333 |
| Ancillary services | 7,585 | 1,519 | 772 | 2,157 | 1,659 | 1,478 |
| Amortization of deferred entrance fees | 13,458 | 3,344 | 1,798 | 2,689 | 3,518 | 2,109 |
| Net assets released from restriction for operations | 569 | 153 | 147 | 139 | 98 | 32 |
| Other | 1,663 | 371 | 140 | 224 | 641 | 287 |
| Total operating revenues | 87,402 | 21,279 | 12,964 | 19,253 | 18,667 | 15,239 |
| EXPENSES: | | | | | | |
| Routine nursing services | 16,416 | 4,314 | 2,530 | 3,526 | 2,849 | 3,197 |
| Ancillary services | 4,548 | 1,052 | 475 | 1,246 | 851 | 924 |
| Resident benefits | 4,017 | 1,106 | 731 | 677 | 741 | 762 |
| Dietary | 11,158 | 2,728 | 2,001 | 2,535 | 2,076 | 1,818 |
| Laundry | 590 | 127 | 143 | 136 | 72 | 112 |
| Housekeeping | 2,890 | 968 | 554 | 520 | 463 | 385 |
| Maintenance | 5,924 | 1,324 | 1,281 | 1,141 | 1,183 | 995 |
| Utilities | 3,694 | 858 | 550 | 836 | 848 | 602 |
| Administrative and general | 12,676 | 3,113 | 2,316 | 2,342 | 2,296 | 2,609 |
| Interest | 7,193 | 891 | 1,528 | 415 | 1,832 | 2,527 |
| Property taxes | 218 | 2 | - | - | 216 | - |
| Insurance | 2,152 | 544 | 391 | 433 | 436 | 348 |
| Marketing and promotion | 3,499 | 774 | 869 | 812 | 366 | 678 |
| Depreciation | 10,418 | 2,314 | 1,776 | 2,021 | 2,294 | 2,013 |
| Amortization | 149 | 11 | 33 | 9 | 41 | 55 |
| Other | 590 | 169 | 101 | 127 | 83 | 110 |
| Total expenses | 86,132 | 20,295 | 15,279 | 16,776 | 16,647 | 17,135 |
| OPERATING (LOSS) INCOME | 1,270 | 984 | (2,315) | 2,477 | 2,020 | (1,896) |

(Continued)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION - WESTERN CAMPUSES FOR THE YEAR ENDED JANUARY 31, 2013 (In thousands)

| | Consolidated | The Samarkand | Covenant Village of Turlock | Mount Miguel Covenant Village | Covenant Shores | Covenant Village of Colorado |
|---|---|---|---|---|---|---|
| OPERATING (LOSS) INCOME | $ 1,270 | $ 984 | $ (2,315) | $ 2,477 | $ 2,020 | $ (1,896) |
| NONOPERATING REVENUE (EXPENSE): | | | | | | |
| Contributions: | | | | | | |
| Gifts and bequests - net | 423 | (10) | 81 | 312 | (84) | 124 |
| Net assets released from restriction - distributions from trusts | 140 | - | 43 | 24 | 40 | 33 |
| Total contributions | 563 | (10) | 124 | 336 | (44) | 157 |
| Loss on extinguishment of debt | (1,556) | - | - | - | (1,332) | (224) |
| Other nonoperating (expense) income - net | (107) | (115) | 21 | (16) | 6 | (3) |
| Investment return, including beneficial interest in investment pool: | | | | | | |
| Interest and dividend income | 3,618 | 1,183 | 592 | 816 | 596 | 431 |
| Realized gains (losses) on fixed income and equity securities - net | 1,730 | 822 | 340 | 196 | 235 | 137 |
| Unrealized gains (losses) on fixed income and equity securities - net | 817 | 92 | 42 | 64 | 378 | 241 |
| Total investment return (loss), including beneficial interest in investment pool | 6,165 | 2,097 | 974 | 1,076 | 1,209 | 809 |
| Total nonoperating revenue (expense) | 5,065 | 1,972 | 1,119 | 1,396 | (161) | 739 |
| (LOSS) INCOME | 6,335 | 2,956 | (1,196) | 3,873 | 1,859 | (1,157) |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | |
| Net assets released from restriction for capital purchases | 50 | 41 | - | - | 3 | 6 |
| Contributions to support benevolent care | - | - | - | - | - | - |
| Total other changes in unrestricted net assets | 50 | 41 | - | - | 3 | 6 |
| (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS | $ 6,385 | $ 2,997 | $ (1,196) | $ 3,873 | $ 1,862 | $ (1,151) |

See accompanying note to consolidating statement of fiancnial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - COVENANT RETIREMENT SERVICES
## AS OF JANUARY 31, 2012
## (In thousands)

| | Consolidated | Eliminations | Covenant Solutions Business Development and Support | Covenant Land Company | Covenant Holdings One, LLC | Covenant Holdings Two, LLC | Covenant Place of Lenexa | CovenantCare at Home | Ontrac Management Services | LifeConnect | Covenant Retirement Services |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | | | |
| Cash and cash equivalents | $ 1,917 | $ - | $ 808 | $ - | $ 420 | $ 3 | $ 35 | $ 429 | $ - | $ - | $ 222 |
| Restricted cash | - | - | - | - | - | - | - | - | - | - | - |
| Assets whose use is limited, including beneficial interest in investment pool: | | | | | | | | | | | |
| Board designated | 49 | - | 49 | - | - | - | - | - | - | - | - |
| Restricted under debt agreements | - | - | - | - | - | - | - | - | - | - | - |
| Accounts receivable - net | 3,536 | (28) | 454 | - | - | (2) | - | 2,976 | 136 | - | - |
| Prepaid expenses and other assets | 24 | - | 9 | - | - | - | - | 15 | - | - | - |
| Total current assets | 5,526 | (28) | 1,320 | - | 420 | 1 | 35 | 3,420 | 136 | - | 222 |
| ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL: | | | | | | | | | | | |
| Board designated | - | - | - | - | - | - | - | - | - | - | - |
| Restricted under state and debt agreements | - | - | - | - | - | - | - | - | - | - | - |
| Endowment | - | - | - | - | - | - | - | - | - | - | - |
| Total assets whose use is limited, including beneficial interest in investment pool | - | - | - | - | - | - | - | - | - | - | - |
| OTHER ASSETS | 882 | - | (32) | - | 195 | 145 | (397) | 207 | (238) | (1,031) | 2,033 |
| INTEREST IN IRREVOCABLE TRUSTS | - | - | - | - | - | - | - | - | - | - | - |
| PROPERTY AND EQUIPMENT - Net | 23,698 | - | - | - | 3,740 | 6,441 | 13,333 | 184 | - | - | - |
| TOTAL | $ 30,106 | $ (28) | $ 1,288 | $ - | $ 4,355 | $ 6,587 | $ 12,971 | $ 3,811 | $ (102) | $ (1,031) | $ 2,255 |

(Continued)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - COVENANT RETIREMENT SERVICES
## AS OF JANUARY 31, 2012
## (In thousands)

| | Consolidated | Eliminations | Covenant Solutions Business Development and Support | Covenant Land Company | Covenant Holdings One, LLC | Covenant Holdings Two, LLC | Covenant Place of Lenexa | CovenantCare at Home | Ontrac Management Services | LifeConnect | Covenant Retirement Services |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS (DEFICITS)** | | | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | | | |
| Accounts payable - trade | $ 208 | $ (28) | $ 88 | $ - | $ (3) | $ - | $ - | $ 116 | $ - | $ - | $ 35 |
| Accounts payable - contractors | 1,827 | - | - | - | - | - | 1,827 | - | - | - | - |
| Accrued salaries and wages | 778 | - | 96 | - | - | 6 | - | 616 | 52 | 1 | 7 |
| Accrued interest | 14 | - | - | - | 14 | - | - | - | - | - | - |
| Advance deposits | - | - | - | - | - | - | - | - | - | - | - |
| Current maturities of long-term debt | - | - | - | - | - | - | - | - | - | - | - |
| Deferred revenue subject to refund | - | - | - | - | - | - | - | - | - | - | - |
| Refundable contract liabilities | - | - | - | - | - | - | - | - | - | - | - |
| Other current liabilities | 1,215 | - | - | - | 12 | 711 | 35 | 457 | - | - | - |
| Total current liabilities | 4,042 | (28) | 184 | - | 23 | 717 | 1,862 | 1,189 | 52 | 1 | 42 |
| LONG-TERM DEBT - Less current maturities | - | - | - | - | - | - | - | - | - | - | - |
| PAYABLE TO (FROM) COVENANT INSTITUTIONS - | | | | | | | | | | | |
| Notes and advances | 36,822 | - | 1,455 | - | 3,755 | 8,251 | 3,600 | 16,676 | 181 | 122 | 2,782 |
| OTHER LIABILITIES | 7,766 | - | - | - | - | - | 7,755 | 11 | - | - | - |
| DEFERRED REVENUE FROM ENTRANCE FEES | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 48,630 | (28) | 1,639 | - | 3,778 | 8,968 | 13,217 | 17,876 | 233 | 123 | 2,824 |
| NET ASSETS (DEFICITS): | | | | | | | | | | | |
| Unrestricted | (18,524) | - | (351) | - | 577 | (2,381) | (246) | (14,065) | (335) | (1,154) | (569) |
| Temporarily restricted | - | - | - | - | - | - | - | - | - | - | - |
| Permanently restricted - endowment | - | - | - | - | - | - | - | - | - | - | - |
| Total net assets (deficits) | (18,524) | - | (351) | - | 577 | (2,381) | (246) | (14,065) | (335) | (1,154) | (569) |
| TOTAL | $ 30,106 | $ (28) | $ 1,288 | $ - | $ 4,355 | $ 6,587 | $ 12,971 | $ 3,811 | $ (102) | $ (1,031) | $ 2,255 |

See accompanying note to consolidating statement of financial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION - COVENANT RETIREMENT SERVICES
## FOR THE YEAR ENDED JANUARY 31, 2013
## (In thousands)

| | Consolidated | Eliminations | Covenant Solutions Business Development & Support | Covenant Land Company | Covenant Holdings One, LLC | Covenant Holdings Two, LLC | Covenant Place of Lenexa | Covenant Care at Home | Ontrac Management Services | LifeConnect | Covenant Retirement Services |
|---|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | | | | | | | |
| Routine resident services | $ 502 | $ - | $ - | $ - | $ - | $ 502 | $ - | $ - | $ - | $ - | $ - |
| Ancillary services | 11,507 | - | - | - | - | - | - | 11,507 | - | - | - |
| Amortization of deferred entrance fees | - | - | - | - | - | - | - | - | - | - | - |
| Net assets released from restriction for operations | - | - | - | - | - | - | - | - | - | - | - |
| Other | 3,304 | (52) | 2,274 | - | 650 | 12 | - | - | 417 | 3 | - |
| Total operating revenues | 15,313 | (52) | 2,274 | - | 650 | 514 | - | 11,507 | 417 | 3 | - |
| EXPENSES: | | | | | | | | | | | |
| Routine nursing services | 6,219 | - | - | - | - | - | - | 6,219 | - | - | - |
| Ancillary services | 2,026 | - | - | - | - | - | - | 2,026 | - | - | - |
| Resident benefits | 368 | - | - | - | - | 14 | - | 354 | - | - | - |
| Dietary | 6 | - | - | - | - | 6 | - | - | - | - | - |
| Laundry | - | - | - | - | - | - | - | - | - | - | - |
| Housekeeping | 24 | - | - | - | - | 24 | - | - | - | - | - |
| Maintenance | 305 | - | - | - | 204 | 101 | - | - | - | - | - |
| Utilities | 71 | - | - | - | - | 53 | - | 18 | - | - | - |
| Administrative and general | 7,511 | (52) | 2,513 | - | 40 | 143 | 29 | 3,689 | 623 | 232 | 294 |
| Interest | 1,256 | (91) | 1 | - | 160 | 276 | - | 759 | 11 | 23 | 117 |
| Property taxes | 177 | - | - | - | 107 | 71 | (2) | 1 | - | - | - |
| Insurance | 237 | - | 52 | - | 4 | 70 | - | 108 | 1 | 2 | - |
| Marketing and promotion | 827 | - | - | - | - | 117 | 76 | 580 | 27 | 18 | 9 |
| Depreciation | 373 | - | 1 | - | 96 | 160 | - | 116 | - | - | - |
| Amortization | 59 | - | - | - | - | - | - | 59 | - | - | - |
| Other | 55 | - | 14 | - | - | - | - | 39 | - | 2 | - |
| Total expenses | 19,514 | (143) | 2,581 | - | 611 | 1,035 | 103 | 13,968 | 662 | 277 | 420 |
| OPERATING (LOSS) INCOME | (4,201) | 91 | (307) | - | 39 | (521) | (103) | (2,461) | (245) | (274) | (420) |

(Continued

# COVENANT RETIREMENT COMMUNITIES, INC.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION - COVENANT RETIREMENT SERVICES
## FOR THE YEAR ENDED JANUARY 31, 2013
## (In thousands)

| | Consolidated | Eliminations | Covenant Solutions Business Development & Support | Covenant Land Company | Covenant Holdings One, LLC | Covenant Holdings Two, LLC | Covenant Place of Lenexa | Covenant Care at Home | Ontrac Management Services | LifeConnect | Covenant Retirement Services |
|---|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING (LOSS) INCOME | $ (4,201) | $ 91 | $ (307) | $ - | $ 39 | $ (521) | $ (103) | $ (2,461) | $ (245) | $ (274) | $ (420) |
| NONOPERATING REVENUE (EXPENSE): | | | | | | | | | | | |
| Contributions: | | | | | | | | | | | |
| Gifts and bequests - net | 9 | - | (5) | - | - | - | - | 14 | - | - | - |
| Other nonoperating (expense) income - net | 3 | - | - | - | - | 6 | - | (3) | - | - | - |
| Total investment return (loss), including beneficial interest in investment pool | | | | | | | | | | | |
| Interest and dividend income | (6) | (91) | - | - | - | 3 | - | - | - | 1 | 81 |
| Total nonoperating (expense) revenue | 6 | (91) | (5) | - | - | 9 | - | 11 | - | 1 | 81 |
| (LOSS) INCOME | (4,195) | - | (312) | - | 39 | (512) | (103) | (2,450) | (245) | (273) | (339) |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | | | | | | |
| Net asset transfer from related organization | - | - | - | - | - | - | - | - | - | - | - |
| Total other changes in unrestricted net assets | - | - | - | - | - | - | - | - | - | - | - |
| (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS | $ (4,195) | $ - | $ (312) | $ - | $ 39 | $ (512) | $ (103) | $ (2,450) | $ (245) | $ (273) | $ (339) |

See accompanying note to consolidating statement of fiancnial position and consolidating statement of operations and changes in unrestricted net assets information.

(Concluded)

## 1. BASIS OF REPORTING

In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position and consolidating statement of operations and changes in unrestricted net asset information as of and for the year ended January 31, 2013 for the Obligated Group exclude the effects of consolidating entities controlled by members of the Obligated Group but which themselves are not members of the Obligated Group. Those entities which are not members of the Obligated Group are included in Covenant Retirement Services. The balances for Covenant Retirement Communities and the Obligated Group do not include interests in controlled entities.

# Covenant Retirement Communities West, Inc.

Report on Audit of Liquid Reserves and Additional Information as of and for the Year Ended January 31, 2013, and Independent Auditor's Report

# COVENANT RETIREMENT COMMUNITIES WEST, INC.

## TABLE OF CONTENTS

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Independent Auditor's Report



To the Board of Directors
Covenant Retirement Communities West, Inc.
San Diego, California

We have audited the liquid reserves report of Covenant Retirement Communities West, Inc., which includes The Samarkand, Mount Miguel Covenant Village, and Covenant Village of of Turlock as of January 31, 2013 and for the year then ended, listed in Part 5 - Liquid Reserves in the table of contents (the "liquid reserves report").

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the liquid reserves report in accordance with complying with California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the liquid reserve report that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the liquid reserves report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the liquid reserves report, 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 liquid reserves report 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 liquid reserves report.

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 liquid reserves report referred to above presents fairly, in all material respects, the liquid reserve requirements of Covenant Retirement Communities West, Inc. as of January 31, 2013 in conformity with the report preparation provision of California Health and Safety Code Section 1792.

To the Board of Directors
Covenant Retirement Communities West, Inc.
San Diego, California

Our audit was conducted for the purpose of forming an opinion on the basic liquid reserves report takenas a whole. The additional information listed in Parts 1, 2, 3, 6, and 7 in the table of contents is presented for the purpose of additional analysis. This additional information is the responsibility of management. Such information has not been subjected to the auditing procedures applied in our audit of the basic liquid reserves report and, accordingly, we express no opinion on it.

***Restricted Use***

This report is intended solely for the use of Covenant Retirement Communities West, Inc.'s management and board of directors and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purpose.

Plante & Moran, PLLC

June 24, 2013

# Part 5
# Liquid Reserves

**FORM 5-1**
**LONG-TERM DEBT INCURRED**
**IN A PRIOR FISCAL YEAR**
**(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Principal Paid During Fiscal Year | (C) Interest Paid During Fiscal Year | (d) Credit Enhancement Premiums Paid in Fiscal Year | (e) Total Paid (columns (b)+(c)+(d)) |
|---|---|---|---|---|---|
| COPs 92 | 7/15/1992 | $ 900,000 | $ 16,315 | $ 218,758 | $ 1,135,073 |
| COPs 95 | 7/15/1995 | 800,000 | 19,203 | 261,701 | 1,080,904 |
| IL 98 | 1/1/1998 | | 120,130 | | 120,130 |
| FL 98 | 1/1/1998 | 290,000 | 321,475 | | 611,475 |
| CT 98 | 3/1/1998 | 780,000 | 39,000 | | 819,000 |
| MN 99 | 5/15/1999 | | 1,260,551 | | 1,260,551 |
| MI 99 | 11/10/1999 | | | | - |
| CT 99 | 11/10/1999 | | | | - |
| IL 01 | 11/1/2001 | | 1,051,951 | | 1,051,951 |
| IL 02 A | 11/14/2002 | | 1,315,008 | | 1,315,008 |
| IL 02 B | 11/14/2002 | | 422,013 | | 422,013 |
| CO 02 A | 11/14/2002 | | 1,252,075 | | 1,252,075 |
| CO 02 B | 11/14/2002 | | 1,495,385 | | 1,495,385 |
| IL 04 | 5/17/2004 | | | | - |
| CO 05 | 8/15/2005 | 2,420,000 | 6,349,813 | | 8,769,813 |
| IL 11A | 12/1/2011 | | 302,585 | | 302,585 |
| IL 11B | 12/1/2011 | 640,000 | 941,197 | | 1,581,197 |
| | | **$ 5,830,000** | **$ 14,906,701** | **$ 480,459** | **$ 21,217,160** |

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**Provider:** Covenant Retirement Communities

**FORM 5-2**
**LONG-TERM DEBT INCURRED**
**DURING FISCAL YEAR**
**(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Total Interest Paid During Fiscal Year | (C) Amount of most Recent Payment on the Debt | (d) Number of Payments over next 12 months | (e) Reserve Requirement (see instruction 5) (columns c * d) |
|---|---|---|---|---|---|
| CO 12 A | 9/7/2012 | $ 1,206,587 | $ 1,400,000 | 1 | $ 1,400,000 |
| CO 12 B | 9/7/2012 | 244,033 | 1,640,000 | 1 | 1,640,000 |
| CO 12 C | 9/7/2012 | 224,588 | 2,880,000 | 1 | 2,880,000 |
| | | **$ 1,675,208** | **$ 5,920,000** | **3** | **$ 5,920,000** |

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**Provider:** Covenant Retirement Communities

**Items from Combined Statements of Cash Flows to Forms 5-1 and 5-2**
**Long-Term Debt Incurred in Prior and Current Fiscal Years**
**For the Fiscal Year Ended January 31, 2013**

| | CRC Total |
|---|---|
| **Principal paid on long-term debt per Schedule 5-1 & 5-2** | $ 5,830,000 |
| Early redemption of variable rate bonds | 131,220,000 |
| + Total per Cash Flows - Payment of Debt | $ 137,050,000 |
| | |
| + Combined Statements of Cash Flows | $ 137,050,000 |

**Items from Combined Statements of Cash Flows to Forms 5-1 and 5-2**
**Long-Term Debt Incurred in Prior and Current Fiscal Years**
**For the Fiscal Year Ended January 31, 2013**

| | CRC Total |
|---|---|
| **Interest paid on long-term debt** | $ 16,582,000 |
| **Credit enhancement premiums paid** | 480,000 |
| Interest received from trustee held funds | |
| Interest paid on other debt | 476,000 |
| + Total per Cash Flows - Interest Paid | $ 17,538,000 |
| + Combined Statements of Cash Flows | $ 17,538,000 |

Provider: Covenant Retirement Communities, Inc.
California Reserve Report
**Form 5-3**
**Long-Term Debt Incurred in a Prior Fiscal Year**

| Line | | | |
|---|---|---|---|
| 1 | Total from Form 5-1 bottom of Column (e) | $ | 21,217,160 |
| 2 | Total from Form 5-2 bottom of Column (e) | | 5,920,000 |
| 3 | Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance) | | - |
| 4 | TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | $ | 27,137,160 |

**FORM 5-4**
**CALCULATION OF NET OPERATING EXPENSES**

| Line | | Amounts | TOTAL |
|---|---|---|---|
| 1 | Total operating expenses from financial statements | | $20,295,000 |
| 2 | Deductions: | | |
| | a. Interest paid on long-term debt (see instructions) | $12,000 | |
| | b. Credit enhancement premiums paid for long-term debt (see instructions) | $158,000 | |
| | c. Depreciation | $2,314,000 | |
| | d. Amortization | $11,000 | |
| | e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract | $3,752,000 | |
| | f. Extraordinary expenses approved by the Department | $0 | |
| 3 | Total Deductions | | $6,247,000 |
| 4 | Net Operating Expenses | | $14,048,000 |
| 5 | Divide Line 4 by 365 and enter the result. | | $38,488 |
| 6 | **Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount. | | $2,886,600 |

**PROVIDER:** Covenant Retirement Communities
**COMMUNITY:** The Samarkand

## FORM 5-4
## CALCULATION OF NET OPERATING EXPENSES

| Line | | Amounts | TOTAL |
|---|---|---|---|
| 1 | Total operating expenses from financial statements | | $15,279,000 |
| 2 | Deductions: | | |
| | a. Interest paid on long-term debt (see instructions) | $1,110,000 | |
| | b. Credit enhancement premiums paid for long-term debt (see instructions) | $98,000 | |
| | c. Depreciation | $1,776,000 | |
| | d. Amortization | $33,000 | |
| | e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract | $724,000 | |
| | f. Extraordinary expenses approved by the Department | | |
| 3 | Total Deductions | | $3,741,000 |
| 4 | Net Operating Expenses | | $11,538,000 |
| 5 | Divide Line 4 by 365 and enter the result. | | $31,611 |
| 6 | **Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount. | | $2,370,825 |

**PROVIDER:** Covenant Retirement Communities
**COMMUNITY:** Covenant Village of Turlock

## FORM 5-4
## CALCULATION OF NET OPERATING EXPENSES

| Line | | Amounts | TOTAL |
|---|---|---|---|
| 1 | Total operating expenses from financial statements | | $16,776,000 |
| 2 | Deductions: | | |
| | a. Interest paid on long-term debt (see instructions) | $9,300 | |
| | b. Credit enhancement premiums paid for long-term debt (see instructions) | $126,000 | |
| | c. Depreciation | $2,021,000 | |
| | d. Amortization | $9,000 | |
| | e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract | $4,645,000 | |
| | f. Extraordinary expenses approved by the Department | | |
| 3 | Total Deductions | | $6,810,300 |
| 4 | Net Operating Expenses | | $9,965,700 |
| 5 | Divide Line 4 by 365 and enter the result. | | $27,303 |
| 6 | **Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount. | | $2,047,725 |

**PROVIDER:** Covenant Retirement Communities
**COMMUNITY:** Mount Miguel Covenant Village

Covenant Retirement Communities
California Reserve Report
**Form 5-4 Support for Line 2e**
Revenue received during the year for services rendered to residents who did not have a continuing care contract

| | Samarkand | Covenant Village of Turlock | Mount Miguel Covenant Village |
|---|---|---|---|
| Maintenance fees and Ancillary service fees received from non-contract residents | $ 3,732,771 | $ 722,934 | $ 4,636,830 |
| Other operating revenue from non-contract residents (e.g., telephone charges, cable TV, other) | 18,728 | 1,328 | 8,475 |
| Total per Form 5-4, Line 2(e) | $ 3,751,499 | $ 724,262 | $ 4,645,305 |

**Items from Combined Statements of Cash Flows & Supplemental Information to Combined Statements of Cash Flows for Calculation of Cash Operating Expenses**
**For the Fiscal Year Ended January 31, 2013**

| | CRC Total | Samarkand | Mt. Miguel | Turlock | All Others |
|---|---|---|---|---|---|
| * **Depreciation** | $ 32,312,000 | $ 2,314,000 | $ 2,021,000 | $ 1,776,000 | $ 26,201,000 |
| * **Amortization** | $ 582,000 | $ 11,000 | $ 9,000 | $ 33,000 | $ 529,000 |
| Routine Resident Services and Other Items | $ 181,132,000 | $ 13,775,000 | $ 11,870,000 | $ 10,936,000 | $ 144,551,000 |
| **Revenues received from non-contract residents** | 9,121,000 | 3,752,000 | 4,645,000 | 724,000 | 0 |
| + Total per Cash Flows - Cash from Residents | $ 190,253,000 | $ 17,527,000 | $ 16,515,000 | $ 11,660,000 | $ 144,551,000 |
| **Interest paid** | $ 17,058,000 | $ 12,000 | $ 9,300 | $ 1,110,000 | $ 15,926,700 |
| **Credit enhancement premiums paid for long-term debt** | 480,000 | 158,000 | 126,000 | 98,000 | 98,000 |
| + Total per Cash Flows - Interest Paid | $ 17,538,000 | $ 170,000 | $ 135,300 | $ 1,208,000 | $ 16,024,700 |

+ Combined Statements of Cash Flows
* Supplemental Information to Combined Statement of Cash Flows

**FORM 5-5**
**ANNUAL RESERVE CERTIFICATION**

Provider Name: Covenant Retirement Communities West, Inc.
Quarter Ended: January 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended January 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year January 31, 2013 are as follows:

| | | Amount |
|---|---|---|
| [1] | Debt Service Reserve Amount | 27,137,160 |
| [2] | Operating Expense Reserve Amount | 7,305,150 |
| [3] | **Total Liquid Reserve Amount** | 34,442,310 |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| | | Amount (market value at the end of quarter) Debt Service Reserve | Operating Reserve |
|---|---|---|---|
| [4] | Cash and Cash Equivalents | | 1,689,112 |
| [5] | Investment Securities | | 2,170,354 |
| [6] | Equity Securities | | 14,499,160 |
| [7] | Unused/Available Lines of Credit | | |
| [8] | Unused/Available Letters of Credit | | |
| [9] | Debt Service Reserve | 32,100,114 | (not applicable) |
| [10] | Other: ____ (describe qualify asset) | | |

| | | | | |
|---|---|---|---|---|
| **Total Amount of Qualifying Assets Listed for Liquid Reserve:** | [11] | 32,100,114 | [12] | 18,358,626 |
| **Total Amount Required** | [13] | 27,137,160 | [14] | 7,305,150 |
| **Surplus/(Deficiency):** | [15] | 4,962,954 | [16] | 11,053,476 |

Signature:
Elizabeth B. Bruxima
(Authorized Representative)

Date: 6/20/2013

Senior VP / CFO
(Title)

FORM 5-5

Covenant Retirement Communities, West

Form 5-5 Attachment Re: Reserves

The reserves included on Form 5-5 are categorized as follows:

| | | |
|---|---|---|
| Benevolent Care Fund: | $ | 11,547,763 |
| Property Replacement Fund: | | 4,885,725 |
| Capital Reserve Fund: | | 26,531,239 |
| Other Board Designated Funds | | 4,342,452 |
| Good Neighbor Fund | | 1,051,040 |
| Total Funds | $ | 48,358,219 |
| **Portion of Funds Consisting of Approved Securities** | | 37.85% |
| Reserves (cash, investment securities and equities included on Form 5-5) | $ | 18,304,590 |
| Additional Cash Not in Reserves | | 54,036 |
| Total Qualifying Assets per Form 5-5 | $ | 18,358,626 |

**Description of Reserves:**

Benevolent Care Fund:

Principal accumulates as a board designated endowment fund. Earnings are utilized to offset benevolent care provided to residents.

Property Replacement Fund:

Reserves established to pay for non-routine capital. For example: roofs, HVAC systems, etc.

Capital Reserve Fund:

Reserve is to provide funds for optional early redemption of variable rate debt (in a rising interest rate environment). Reserves are also available to internally finance significant campus capital renovations and expansions.

Other Board Designated Funds:

These reserves include the funds held to pay refundable contract obligations as well as other miscellaneous Board designations.

Good Neighbor Fund:

This fund is held by the Samarkand only and is utilized to assist residents who are receiving an benevolent care discount for their monthly fee with other personal needs (e.g., new eye glasses).

## 1. BASIS OF ACCOUNTING

The accompanying liquid reserves report on pages 3 through 15 has been prepared in accordance with the provisions of the Health and Safety Code Section 1792 administered by the State of California Department of Social Services. The liquid reserves report includes the accounts of the following entities of Covenant Retirement Communities West, Inc.: The Samarkand, Mount Miguel Covenant Village, and Covenant Village of Turlock. Covenant Retirement Communities West, Inc. and the related entities are subsidiaries of Covenant Retirement Communities, Inc., an Illinois not-for-profit corporation responsible for operating retirement, assisted-living, and skilled-care facilities.

* * * * * *

# Part 1
# Annual Provider Fees

## FORM 1-1
## RESIDENT POPULATION

| Line | Continuing Care Residents | TOTAL |
|---|---|---|
| [1] | Number at beginning of fiscal year | 321 |
| [2] | Number at end of fiscal year | 304 |
| [3] | Total Lines 1 and 2 | 625 |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 312.5 |
| | **All Residents** | |
| [6] | Number at beginning of fiscal year | 353 |
| [7] | Number at end of fiscal year | 343 |
| [8] | Total Lines 6 and 7 | 696 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10. | x .50 |
| [10] | Mean number of *all* residents | 348 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places). | 0.90 |

## FORM 1-2
## ANNUAL PROVIDER FEE

| Line | | | | TOTAL |
|---|---|---|---|---|
| [1] | | Total Operating Expenses (including depreciation and debt service - interest only) | | $20,295,000 |
| | [a] | Depreciation | $2,314,000 | |
| | [b] | Debt Service (Interest Only) | $12,000 | |
| [2] | | Subtotal (add Line 1a and 1b) | | $2,326,000 |
| [3] | | Subtract Line 2 from Line 1 and enter result. | | $17,969,000 |
| [4] | | Percentage allocated to continuing care residents (Form 1-1, Line 11) | | 90% |
| [5] | | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | | $16,172,100 |
| | | | | x .001 |
| [6] | | **Total Amount Due** (multiply Line 5 by .001) | | $16,172 |

**PROVIDER:** Covenant Retirement Communities

**COMMUNITY:** The Samarkand

## FORM 1-1
## RESIDENT POPULATION

| Line | Continuing Care Residents | TOTAL |
|---|---|---|
| [1] | Number at beginning of fiscal year | 304 |
| [2] | Number at end of fiscal year | 298 |
| [3] | Total Lines 1 and 2 | 602 |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 301 |
| | **All Residents** | |
| [6] | Number at beginning of fiscal year | 314 |
| [7] | Number at end of fiscal year | 311 |
| [8] | Total Lines 6 and 7 | 625 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10. | x .50 |
| [10] | Mean number of *all* residents | 312.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places). | 0.96 |

## FORM 1-2
## ANNUAL PROVIDER FEE

| Line | | | | TOTAL |
|---|---|---|---|---|
| [1] | | Total Operating Expenses (including depreciation and debt service - interest only) | | $15,279,000 |
| | [a] | Depreciation | $1,776,000 | |
| | [b] | Debt Service (Interest Only) | $1,110,000 | |
| [2] | | Subtotal (add Line 1a and 1b) | | $2,886,000 |
| [3] | | Subtract Line 2 from Line 1 and enter result. | | $12,393,000 |
| [4] | | Percentage allocated to continuing care residents (Form 1-1, Line 11) | | 96% |
| [5] | | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | | $11,897,280 |
| | | | | x .001 |
| [6] | | **Total Amount Due** (multiply Line 5 by .001) | | $11,897 |

**PROVIDER:** Covenant Retirement Communities
**COMMUNITY:** Covenant Village of Turlock

## FORM 1-1
## RESIDENT POPULATION

| Line | Continuing Care Residents | TOTAL |
|---|---|---|
| [1] | Number at beginning of fiscal year | 396 |
| [2] | Number at end of fiscal year | 388 |
| [3] | Total Lines 1 and 2 | 784 |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 392 |
| | **All Residents** | |
| [6] | Number at beginning of fiscal year | 433 |
| [7] | Number at end of fiscal year | 436 |
| [8] | Total Lines 6 and 7 | 869 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10. | x .50 |
| [10] | Mean number of *all* residents | 434.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places). | 0.90 |

## FORM 1-2
## ANNUAL PROVIDER FEE

| Line | | | | TOTAL |
|---|---|---|---|---|
| [1] | | Total Operating Expenses (including depreciation and debt service - interest only) | | $16,776,000 |
| | [a] | Depreciation | $2,021,000 | |
| | [b] | Debt Service (Interest Only) | $9,300 | |
| [2] | | Subtotal (add Line 1a and 1b) | | $2,030,300 |
| [3] | | Subtract Line 2 from Line 1 and enter result. | | $14,745,700 |
| [4] | | Percentage allocated to continuing care residents (Form 1-1, Line 11) | | 90% |
| [5] | | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | | $13,271,130 |
| | | | | x .001 |
| [6] | | **Total Amount Due** (multiply Line 5 by .001) | | $13,271 |

**PROVIDER:** Covenant Retirement Communities
**COMMUNITY:** Mount Miguel Covenant Village

# Part 2
# Certification by Chief Executive Officer

RECEIVED

CONTINUING CARE
CONTRACTS BRANCH

## Part 2

## Certification by Chief Executive Officer

The Annual Report is to the best of my knowledge correct and in compliance with the State of California Department of Social Services requirements. The continuing care contracts used for new residents have been approved by the Department of Social Services.

As of the date of this certification, Covenant Retirement Communities, Inc. and Covenant Retirement Communities West are maintaining the required liquid reserves.

Rick K. Fisk      May 14, 2013

Rick K. Fisk      Date

# Part 3
# Evidence of Fidelity Bond

ACORD®

# CERTIFICATE OF LIABILITY INSURANCE

6/1/2014

DATE (MM/DD/YYYY) 5/30/2013

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

RECEIVED JUL 0 ... CONTRACTING CARE CONTRACTS BRANCH

| | |
|---|---|
| PRODUCER Lockton Insurance Brokers, LLC<br>CA License #OF15767<br>Two Embarcadero Center, Suite 1700<br>San Francisco CA 94111<br>(415) 568-4000 | CONTACT NAME:<br>PHONE (A/C, No, Ext): FAX (A/C, No):<br>E-MAIL ADDRESS: |
| | INSURER(S) AFFORDING COVERAGE — NAIC #<br>INSURER A : Federal Insurance Company — 20281<br>INSURER B :<br>INSURER C :<br>INSURER D :<br>INSURER E :<br>INSURER F : |
| INSURED 1329220 Covenant Ministries of Benevolence<br>5145 N. California Avenue<br>Chicago IL 60625 | |

COVERAGES COVRE01 CERTIFICATE NUMBER: 10903356 REVISION NUMBER: XXXXXXX

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

| INSR LTR | TYPE OF INSURANCE | ADDL INSR | SUBR WVD | POLICY NUMBER | POLICY EFF (MM/DD/YYYY) | POLICY EXP (MM/DD/YYYY) | LIMITS |
|---|---|---|---|---|---|---|---|
| | GENERAL LIABILITY<br>COMMERCIAL GENERAL LIABILITY<br>CLAIMS-MADE OCCUR<br>GEN'L AGGREGATE LIMIT APPLIES PER: POLICY PRO-JECT LOC | | | NOT APPLICABLE | | | EACH OCCURRENCE $ XXXXXXX<br>DAMAGE TO RENTED PREMISES (Ea occurrence) $ XXXXXXX<br>MED EXP (Any one person) $ XXXXXXX<br>PERSONAL & ADV INJURY $ XXXXXXX<br>GENERAL AGGREGATE $ XXXXXXX<br>PRODUCTS - COMP/OP AGG $ XXXXXXX<br>$ |
| | AUTOMOBILE LIABILITY<br>ANY AUTO<br>ALL OWNED AUTOS SCHEDULED AUTOS<br>HIRED AUTOS NON-OWNED AUTOS | | | NOT APPLICABLE | | | COMBINED SINGLE LIMIT (Ea accident) $ XXXXXXX<br>BODILY INJURY (Per person) $ XXXXXXX<br>BODILY INJURY (Per accident) $ XXXXXXX<br>PROPERTY DAMAGE (Per accident) $ XXXXXXX<br>$ XXXXXXX |
| | UMBRELLA LIAB OCCUR<br>EXCESS LIAB CLAIMS-MADE<br>DED RETENTION $ | | | NOT APPLICABLE | | | EACH OCCURRENCE $ XXXXXXX<br>AGGREGATE $ XXXXXXX<br>$ XXXXXXX |
| | WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N<br>ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)<br>If yes, describe under DESCRIPTION OF OPERATIONS below | N/A | | NOT APPLICABLE | | | WC STATU-TORY LIMITS OTH-ER<br>E.L. EACH ACCIDENT $ XXXXXXX<br>E.L. DISEASE - EA EMPLOYEE $ XXXXXXX<br>E.L. DISEASE - POLICY LIMIT $ XXXXXXX |
| A | Crime | N | N | 82221868 | 6/1/2013 | 6/1/2014 | $5,000,000<br>$75,000 Retention |

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

| CERTIFICATE HOLDER | CANCELLATION |
|---|---|
| **10903356**<br>State of California<br>California Reserve Report | SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.<br>AUTHORIZED REPRESENTATIVE<br>Adam D. McDonough |

# Part 4
# Covenant Retirement Communities, Inc.
# Audited Financial Statements
**(not included in this bound document)**

# Part 6
# CCRC Disclosure Statement

## Continuing Care Retirement Community
## Disclosure Statement
## General Information

RECEIVED
CONTINUING CARE CONTRACTS BRANCH

FACILITY NAME: The Samarkand

ADDRESS: 2550 Treasure Drive, Santa Barbara, CA ZIP CODE: 93105-4148 PHONE: 805-687-0701

PROVIDER NAME: Covenant Retirement Communities FACILITY OPERATOR: Covenant Retirement Communities

RELATED FACILITIES: See Page 2 RELIGIOUS AFFILIATION: Evangelical Covenant Church

YEAR OPENED: 1966 NO. OF ACRES: 17 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: Y

MILES TO SHOPPING CENTER: 1 mile MILES TO HOSPITAL: 1 mile

NUMBER OF UNITS:

| INDEPENDENT LIVING | | HEALTH CARE | |
|---|---|---|---|
| APARTMENTS - STUDIO | 18 | ASSISTED LIVING | 53 |
| APARTMENTS - 1 BDRM | 68 | SKILLED NURSING | 43 |
| APARTMENTS - 2 BDRM | 120 | SPECIAL CARE | 20 |
| COTTAGES/HOUSES | 8 | DESCRIBE SPECIAL CARE | Dementia |
| % OCCUPANCY AT YEAR END | 83% | | |

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☑ Y ☐ N BY: CARF-CCAC

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☑ FEE FOR SERVICE

☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☑ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☐ 50% ☑ PRORATED TO 0% OTHER: ______

RANGE OF ENTRANCE FEES: $ 107,500 TO $ 651,500 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 60 Health Care Days; 10% Discount

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: ______

### FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

| | AVAILABLE | FEE FOR SERVICE |
|---|---|---|
| BEAUTY/BARBER SHOP | ☑ | ☑ |
| BILLIARD ROOM | ☑ | ☐ |
| BOWLING GREEN | ☐ | ☐ |
| CARD ROOMS | ☑ | ☐ |
| CHAPEL | ☑ | ☐ |
| COFFEE SHOP | ☑ | ☑ |
| CRAFT ROOMS | ☑ | ☑ |
| EXERCISE ROOM | ☑ | ☐ |
| GOLF COURSE ACCESS | ☐ | ☐ |
| LIBRARY | ☑ | ☐ |
| PUTTING GREEN | ☐ | ☐ |
| SHUFFLEBOARD | ☐ | ☐ |
| SPA | ☑ | ☐ |
| SWIMMING POOL-INDOOR | ☐ | ☐ |
| SWIMMING POOL-OUTDOOR | ☑ | ☐ |
| TENNIS COURT | ☐ | ☐ |
| WORKSHOP | ☑ | ☐ |
| OTHER - | ☐ | ☐ |

SERVICES AVAILABLE

| | INCLUDED IN FEE | FOR EXTRA CHARGE |
|---|---|---|
| HOUSEKEEPING TIMES/MONTH | 4 | |
| NUMBER OF MEALS/DAY | 1 | 2 |
| SPECIAL DIETS AVAILABLE | Yes | |
| 24-HOUR EMERGENCY RESPONSE | ☑ | ☐ |
| ACTIVITIES PROGRAM | ☑ | ☑ |
| ALL UTILITIES EXCEPT PHONE | ☑ | ☐ |
| APARTMENT MAINTENANCE | ☑ | ☑ |
| CABLE TV | ☐ | ☑ |
| LINENS FURNISHED | ☑ | ☐ |
| LINENS LAUNDERED | ☑ | ☐ |
| MEDICATION MANAGEMENT | ☐ | ☑ |
| NURSING/WELLNESS CLINIC | ☑ | ☑ |
| PERSONAL NURSING/HOME CARE | ☐ | ☑ |
| TRANSPORTATION-PERSONAL | ☐ | ☑ |
| TRANSPORTATION-PREARRANGED | ☑ | ☑ |
| OTHER Online Computers and Printer | ☑ | ☐ |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

**PROVIDER NAME:** Covenant Retirement Communities, Inc.

| CCRC's | LOCATION (City, State) | Phone (with area code) |
|---|---|---|
| Covenant Village of Golden Valley | Minneapolis, Minnesota | 763-546-6125 |
| Covenant Shores | Mercer Island, Washington | 206-268-3000 |
| Covenant Village of Colorado | Westminster, Colorado | 303-424-4828 |
| Covenant Village of Cromwell | Cromwell, Connecticut | 860-635-5511 |
| Covenant Village of Florida* | Plantation, Florida | 954-472-2860 |
| Covenant Village of the Great Lakes | Grand Rapids, Michigan | 616-735-4541 |
| Covenant Village of Northbrook | Northbrook, Illinois | 847-480-6380 |
| Covenant Village of Turlock | Turlock, California | 209-632-9976 |
| The Holmstad | Batavia, Illinois | 630-879-4000 |
| Mount Miguel Covenant Village | Spring Valley, California | 619-479-4790 |
| The Samarkand | Santa Barbara, California | 805-687-0701 |
| Windsor Park* | Carol Stream, Illinois | 630-682-4377 |

**MULTI-LEVEL RETIREMENT COMMUNITIES**

| | | |
|---|---|---|
| Covenant Home of Chicago | Chicago, Illinois | 773-506-6900 |
| | | |
| | | |

**FREE-STANDING SKILLED NURSING**

**SUBSIDIZED SENIOR HOUSING**

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE**

**PROVIDER NAME:** Covenant Retirement Communities, Inc. (The Samarkand)
In Thousands

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| **INCOME FROM ONGOING OPERATIONS** | | | | |
| **OPERATING INCOME** | | | | |
| (excluding amortization of entrance fee income) | $ 188,553 | $ 198,150 | $ 196,601 | $ 205,391 |
| **LESS OPERATING EXPENSES** | | | | |
| (excluding depreciation, amortization, & interest) | $ 172,314 | $ 181,351 | $ 190,753 | $ 191,096 |
| **NET INCOME FROM OPERATIONS** | $ 16,239 | $ 16,799 | $ 5,848 | $ 14,295 |
| **LESS INTEREST EXPENSE** | $ 18,445 | $ 17,933 | $ 17,561 | $ 17,449 |
| **PLUS CONTRIBUTIONS** | $ (782) | $ 882 | $ 733 | $ 24 |
| **PLUS NON-OPERATING INCOME (EXPENSES)** | | | | |
| (excluding extraordinary items) | $ - | $ - | $ - | $ - |
| **NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION** | $ (2,988) | $ (252) | $ (10,980) | $ (3,130) |
| **NET CASH FLOW FROM ENTRANCE FEES** | | | | |
| (Total Deposits Less Refunds) | $ 40,347 | $ 30,167 | $ 39,146 | $ 33,920 |

**DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END**

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| | | * See Attached Sheet * | | | |

**FINANCIAL RATIOS (see next page for ratio formulas)**

| | 2011 CCAC Medians 50th Percentile (optional) | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **DEBT TO ASSET RATIO** | 42.91 | 44.99 | 43.79 | 43.67 | 45.91 |
| **OPERATING RATIO** | 98.77 | 101.17 | 100.57 | 105.96 | 101.54 |
| **DEBT SERVICE COVERAGE RATIO** | 2.49 | 2.06 | 1.59 | 1.98 | 1.64 |
| **DAYS CASH-ON-HAND RATIO** | 321.00 | 337.78 | 360.58 | 313.69 | 304.16 |

**HISTORICAL MONTHLY SERVICE FEES**
AVERAGE FEE AND PERCENT CHANGE

| | 2010 | % | 2011 | % | 2012 | % | 2013 | % |
|---|---|---|---|---|---|---|---|---|
| STUDIO | $ 1,695 - 2,375 | 6.5 | $ 1,760 - 2,465 | 3.8 | $ 1,830 - 2,560 | 3.8 | $ 1,885 - 2,635 | 3.0 |
| ONE BEDROOM | $ 2,690.00 | 6.5 | $ 2,790.00 | 3.7 | $ 2,895.00 | 3.7 | $ 2,980.00 | 2.9 |
| TWO BEDROOM | $ 2,995.00 | 6.6 | $ 3,105.00 | 3.7 | $ 3,225.00 | 3.7 | $ 3,320.00 | 2.9 |
| COTTAGE/HOUSE | $ 4,675.00 | 6.5 | $ 4,855.00 | 3.9 | $ 5,035.00 | 3.9 | $ 5,185.00 | 3.0 |
| ASSISTED LIVING | $ 3,830 - 5,630 | 8.0 | $ 3,995 - 5,905 | 4.6 | $ 4,185 - 6,200 | 4.6 | $ 4,350 - 6,475 | 4.9 |
| SKILLED NURSING | $283.00/day | 10.1 | $298.00/day | 5.3 | $315.00/day | 5.3 | $331.00/day | 5.7 |
| SPECIAL CARE | N/A | | N/A | | N/A | | N/A | |

**COMMENTS FROM PROVIDER:** Second Person Care Fees in Residential: 2010 = $705.00; 2011= $730.00; 2012 = $755.00; 2013 = $775.00
Second Person Fees in Assisted Living: 2010 = $2,135.00; 2011= $2,225.00; 2012 = $2,330.00; 2013 = $2,420.00

PROVIDER NAME: Covenant Retirement Communities, Inc.
DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END
As of January 31, 2013
In Thousands

| LENDER | 1/31/13 OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| California Statewide Communities Development Authority Variable Rate Certificates of Participation | | | | | |
| Series 1992 | $ 11,700 | variable | 7/15/1992 | 12/1/2022 | 30 years |
| Series 1995 | 14,100 | variable | 7/15/1995 | 12/1/2025 | 29 years |
| City of Plantation Health Facilities Authority Series 1998 | 6,005 | 4.00 - 5.125 | 1/1/1998 | 12/1/2022 | 25 years |
| Colorado Health Facilities Authority Series 2005 | 123,285 | 4.50 - 5.25 | 8/15/2005 | 12/1/2035 | 30 years |
| Illinois Finance Authority Revenue Refunding Direct Placement Bonds | | | | | |
| Series 2011A | 15,830 | variable | 12/14/2011 | 12/1/2029 | 18 years |
| Series 2011B | 42,695 | variable | 12/14/2011 | 12/1/2029 | 18 years |
| Colorado Health Facilities Authority Revenue Bonds | | | | | |
| Series 2012A | 104,205 | 4.50-5.00 | 9/7/2012 | 12/1/2033 | 21 years |
| Series 2012B | 22,905 | 4.00-5.00 | 9/7/2012 | 12/1/2026 | 14 years |
| Series 2012C | 23,060 | 2.00-5.00 | 9/7/2012 | 12/1/2022 | 10 years |
| Total long-term debt | $ 363,785 | | | | |

PROVIDER NAME: Covenant Retirement Communities, Inc.

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenues}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

**Note:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

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JUL 0 [illegible]
CONTINUING CARE CONTRACTS [illegible]

# Continuing Care Retirement Community
## Disclosure Statement
## General Information

FACILITY NAME: Covenant Village of Turlock

ADDRESS: 2125 North Olive Avenue, Turlock, CA ZIP CODE: 95382 PHONE: 209-632-9976

PROVIDER NAME: Covenant Retirement Communities FACILITY OPERATOR: Covenant Retirement Communities

RELATED FACILITIES: See Page 2 RELIGIOUS AFFILIATION: Evangelical Covenant Church

YEAR OPENED: 1977 NO. OF ACRES: 23 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: Y

MILES TO SHOPPING CENTER: 1 mile MILES TO HOSPITAL: less than 1/4 mile

NUMBER OF UNITS:

| INDEPENDENT LIVING | | HEALTH CARE | |
|---|---|---|---|
| APARTMENTS - STUDIO | 42 | ASSISTED LIVING | 52 |
| APARTMENTS - 1 BDRM | 88 | SKILLED NURSING | 50 |
| APARTMENTS - 2 BDRM | 55 | SPECIAL CARE | 0 |
| COTTAGES/HOUSES | 35 | DESCRIBE SPECIAL CARE | |
| % OCCUPANCY AT YEAR END | 76% | | |

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☑ Y ☐ N BY: CARF-CCAC

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☑ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☑ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% OTHER: ___

RANGE OF ENTRANCE FEES: $ 96,000 TO $ 351,000 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 60 Health Care Days; 10% Discount

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: ___

### FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

| | AVAILABLE | FEE FOR SERVICE |
|---|---|---|
| BEAUTY/BARBER SHOP | ☑ | ☐ |
| BILLIARD ROOM | ☐ | ☐ |
| BOWLING GREEN | ☑ | ☐ |
| CARD ROOMS | ☑ | ☐ |
| CHAPEL | ☑ | ☐ |
| COFFEE SHOP | ☑ | ☐ |
| CRAFT ROOMS | ☑ | ☐ |
| EXERCISE ROOM | ☐ | ☐ |
| GOLF COURSE ACCESS | ☑ | ☐ |
| LIBRARY | ☐ | ☐ |
| PUTTING GREEN | ☑ | ☐ |
| SHUFFLEBOARD | ☑ | ☐ |
| SPA | ☑ | ☐ |
| SWIMMING POOL-INDOOR | ☐ | ☐ |
| SWIMMING POOL-OUTDOOR | ☐ | ☐ |
| TENNIS COURT | ☑ | ☐ |
| WORKSHOP | ☐ | ☐ |
| OTHER | | |

SERVICES AVAILABLE

| | INCLUDED IN FEE | FOR EXTRA CHARGE |
|---|---|---|
| HOUSEKEEPING TIMES/MONTH | 4/mo | |
| NUMBER OF MEALS/DAY | 1 | 2 |
| SPECIAL DIETS AVAILABLE | Yes | |
| | ☑ | ☐ |
| 24-HOUR EMERGENCY RESPONSE | ☑ | ☑ |
| ACTIVITIES PROGRAM | ☑ | ☐ |
| ALL UTILITIES EXCEPT PHONE | ☑ | ☑ |
| APARTMENT MAINTENANCE | ☑ | ☐ |
| CABLE TV | ☑ | ☐ |
| LINENS FURNISHED | ☑ | ☐ |
| LINENS LAUNDERED | ☑ | ☑ |
| MEDICATION MANAGEMENT | ☑ | ☐ |
| NURSING/WELLNESS CLINIC | ☐ | ☑ |
| PERSONAL NURSING/HOME CARE | ☐ | ☑ |
| TRANSPORTATION-PERSONAL | ☐ | ☑ |
| TRANSPORTATION-PREARRANGED | ☐ | ☑ |
| OTHER Computer Lab | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

**PROVIDER NAME:** Covenant Retirement Communities, Inc.

| CCRC's | LOCATION (City, State) | Phone (with area code) |
|---|---|---|
| Covenant Village of Golden Valley | Minneapolis, Minnesota | 763-546-6125 |
| Covenant Shores | Mercer Island, Washington | 206-268-3000 |
| Covenant Village of Colorado | Westminster, Colorado | 303-424-4828 |
| Covenant Village of Cromwell | Cromwell, Connecticut | 860-635-5511 |
| Covenant Village of Florida* | Plantation, Florida | 954-472-2860 |
| Covenant Village of the Great Lakes | Grand Rapids, Michigan | 616-735-4541 |
| Covenant Village of Northbrook | Northbrook, Illinois | 847-480-6380 |
| Covenant Village of Turlock | Turlock, California | 209-632-9976 |
| The Holmstad | Batavia, Illinois | 630-879-4000 |
| Mount Miguel Covenant Village | Spring Valley, California | 619-479-4790 |
| The Samarkand | Santa Barbara, California | 805-687-0701 |
| Windsor Park* | Carol Stream, Illinois | 630-682-4377 |

**MULTI-LEVEL RETIREMENT COMMUNITIES**

| | | |
|---|---|---|
| Covenant Home of Chicago | Chicago, Illinois | 773-506-6900 |
| | | |
| | | |

**FREE-STANDING SKILLED NURSING**

**SUBSIDIZED SENIOR HOUSING**

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE**

PROVIDER NAME: Covenant Retirement Communities, Inc. (Covenant Village of Turlock)
In Thousands

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME | | | | |
| (excluding amortization of entrance fee income) | $ 188,553 | $ 198,150 | $ 196,601 | $ 205,391 |
| LESS OPERATING EXPENSES | | | | |
| (excluding depreciation, amortization, & interest) | $ 172,314 | $ 181,351 | $ 190,753 | $ 191,096 |
| NET INCOME FROM OPERATIONS | $ 16,239 | $ 16,799 | $ 5,848 | $ 14,295 |
| LESS INTEREST EXPENSE | $ 18,445 | $ 17,933 | $ 17,561 | $ 17,449 |
| PLUS CONTRIBUTIONS | $ (782) | $ 882 | $ 733 | $ 24 |
| PLUS NON-OPERATING INCOME (EXPENSES) | | | | |
| (excluding extraordinary items) | $ - | $ - | $ - | $ - |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, | | | | |
| DEPRECIATION AND AMORTIZATION | $ (2,988) | $ (252) | $ (10,980) | $ (3,130) |
| NET CASH FLOW FROM ENTRANCE FEES | | | | |
| (Total Deposits Less Refunds) | $ 40,347 | $ 30,167 | $ 39,146 | $ 33,920 |

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| | | * See Attached Sheet * | | | |

FINANCIAL RATIOS (see next page for ratio formulas)

| | 2012 CCAC Medians 50th Percentile (optional) | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| DEBT TO ASSET RATIO | 42.23 | 44.99 | 43.79 | 43.67 | 45.91 |
| OPERATING RATIO | 97.50 | 101.17 | 100.57 | 105.96 | 101.54 |
| DEBT SERVICE COVERAGE RATIO | 2.41 | 2.08 | 1.59 | 1.98 | 1.64 |
| DAYS CASH-ON-HAND RATIO | 263.00 | 337.78 | 360.58 | 313.69 | 304.16 |

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

| | 2010 | % | 2011 | % | 2012 | % | 2013 | % |
|---|---|---|---|---|---|---|---|---|
| STUDIO | $ 1,455.00 | 5.8 | $ 1,524.00 | 4.7 | $ 1,580.00 | 4.7 | $ 1,625.00 | 2.8 |
| ONE BEDROOM | $ 1,817.00 | 6.0 | $ 1,937.00 | 6.6 | $ 2,187.00 | 6.6 | $ 2,252.50 | 3.0 |
| TWO BEDROOM | $ 2,567.00 | 7.2 | $ 2,707.00 | 5.4 | $ 2,806.00 | 5.4 | $ 3,116.00 | 11.0 |
| COTTAGE/HOUSE | $ 1,519.00 | 5.9 | $ 1,840.00 | 21.1 | $ 1,908.00 | 21.1 | $ 1,965.00 | 3.0 |
| ASSISTED LIVING | $ 3,970.00 | 6.3 | $ 4,125.00 | 3.9 | $ 4,125.00 | 3.9 | $ 4,290.00 | 4.0 |
| SKILLED NURSING | $260/day | 6.1 | $270/day | 3.7 | $280/ day | 3.7 | 368/ day | 31.4 |
| SPECIAL CARE | $295/day | 6.5 | $304/day | 2.9 | 315/day | 2.9 | $ - | N/A |

COMMENTS FROM PROVIDER: Second Person Care Fees in Residential: 2010 = $735; 2011 = $770.00; 2012 = $795.00; 2013 = $815
The calculation methodology for the TWO BEDROOM and COTTAGE/HOUSE unit is based on an average as there are several unit types.
As of FY13, the beds formerly considered special care are now apart of skilled nursing.

PROVIDER NAME: Covenant Retirement Communities, Inc.
DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END
As of January 31, 2013
In Thousands

| LENDER | 1/31/13 OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| California Statewide Communities Development Authority Variable Rate Certificates of Participation | | | | | |
| Series 1992 | $ 11,700 | variable | 7/15/1992 | 12/1/2022 | 30 years |
| Series 1995 | 14,100 | variable | 7/15/1995 | 12/1/2025 | 29 years |
| City of Plantation Health Facilities Authority Series 1998 | 6,005 | 4.00 - 5.125 | 1/1/1998 | 12/1/2022 | 25 years |
| Colorado Health Facilities Authority Series 2005 | 123,285 | 4.50 - 5.25 | 8/15/2005 | 12/1/2035 | 30 years |
| Illinois Finance Authority Revenue Refunding Direct Placement Bonds | | | | | |
| Series 2011A | 15,830 | variable | 12/14/2011 | 12/1/2029 | 18 years |
| Series 2011B | 42,695 | variable | 12/14/2011 | 12/1/2029 | 18 years |
| Colorado Health Facilities Authority Revenue Bonds | | | | | |
| Series 2012A | 104,205 | 4.50-5.00 | 9/7/2012 | 12/1/2033 | 21 years |
| Series 2012B | 22,905 | 4.00-5.00 | 9/7/2012 | 12/1/2026 | 14 years |
| Series 2012C | 23,060 | 2.00-5.00 | 9/7/2012 | 12/1/2022 | 10 years |
| Total long-term debt | $ 363,785 | | | | |

**PROVIDER NAME:** Covenant Retirement Communities, Inc.

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenues}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

**Note:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

# Continuing Care Retirement Community
## Disclosure Statement
## General Information



FACILITY NAME: Mount Miguel Covenant Village

ADDRESS: 325 Kempton Street, Spring Valley, CA ZIP CODE: 91977-5810 PHONE: 619-479-4790

PROVIDER NAME: Covenant Retirement Communities FACILITY OPERATOR: Covenant Retirement Communities

RELATED FACILITIES: See Page 2 RELIGIOUS AFFILIATION: Evangelical Covenant Church

YEAR OPENED: 1964 NO. OF ACRES: 28 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: Y

MILES TO SHOPPING CENTER: 1 mile MILES TO HOSPITAL: 8 miles

NUMBER OF UNITS:

| INDEPENDENT LIVING | | HEALTH CARE | |
|---|---|---|---|
| APARTMENTS - STUDIO | 30 | ASSISTED LIVING | 48 |
| APARTMENTS - 1 BDRM | 88 | SKILLED NURSING | 84 |
| APARTMENTS - 2 BDRM | 124 | SPECIAL CARE | |
| COTTAGES/HOUSES | 6 | DESCRIBE SPECIAL CARE | |
| % OCCUPANCY AT YEAR END | 92% | | |

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☑ Y ☐ N BY: CARF-CCAC

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☐ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☐ 50% ☑ PRORATED TO 0% OTHER: Monthly

RANGE OF ENTRANCE FEES: $ 144,600 TO $ 440,760 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 60 Health Care Days; 10% Discount

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: ___

### FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

| | AVAILABLE | FEE FOR SERVICE |
|---|---|---|
| BEAUTY/BARBER SHOP | ☑ | ☑ |
| BILLIARD ROOM | ☑ | ☐ |
| BOWLING GREEN | ☐ | ☐ |
| CARD ROOMS | ☐ | ☐ |
| CHAPEL | ☑ | ☐ |
| COFFEE SHOP | ☐ | ☐ |
| CRAFT ROOMS | ☑ | ☐ |
| EXERCISE ROOM | ☑ | ☐ |
| GOLF COURSE ACCESS | ☐ | ☐ |
| LIBRARY | ☑ | ☐ |
| PUTTING GREEN | ☐ | ☐ |
| SHUFFLEBOARD | ☑ | ☐ |
| SPA | ☑ | ☐ |
| SWIMMING POOL-INDOOR | ☐ | ☐ |
| SWIMMING POOL-OUTDOOR | ☑ | ☐ |
| TENNIS COURT | ☑ | ☐ |
| WORKSHOP | ☑ | ☐ |
| OTHER | ☐ | ☐ |

SERVICES AVAILABLE

| | INCLUDED IN FEE | FOR EXTRA CHARGE |
|---|---|---|
| HOUSEKEEPING TIMES/MONTH | 4 | |
| NUMBER OF MEALS/DAY | 1 | 2 |
| SPECIAL DIETS AVAILABLE | Yes | |
| 24-HOUR EMERGENCY RESPONSE | ☑ | ☐ |
| ACTIVITIES PROGRAM | ☑ | ☐ |
| ALL UTILITIES EXCEPT PHONE | ☑ | ☐ |
| APARTMENT MAINTENANCE | ☑ | ☐ |
| CABLE TV | ☑ | ☐ |
| LINENS FURNISHED | ☑ | ☐ |
| LINENS LAUNDERED | ☐ | ☐ |
| MEDICATION MANAGEMENT | ☐ | ☑ |
| NURSING/WELLNESS CLINIC | ☑ | ☐ |
| PERSONAL NURSING/HOME CARE | ☐ | ☐ |
| TRANSPORTATION-PERSONAL | ☐ | ☐ |
| TRANSPORTATION-PREARRANGED | ☐ | ☑ |
| OTHER ___ | ☐ | ☐ |

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**PROVIDER NAME:** Covenant Retirement Communities, Inc.

| CCRC's | LOCATION (City, State) | Phone (with area code) |
|---|---|---|
| Covenant Village of Golden Valley | Minneapolis, Minnesota | 763-546-6125 |
| Covenant Shores | Mercer Island, Washington | 206-268-3000 |
| Covenant Village of Colorado | Westminster, Colorado | 303-424-4828 |
| Covenant Village of Cromwell | Cromwell, Connecticut | 860-635-5511 |
| Covenant Village of Florida* | Plantation, Florida | 954-472-2860 |
| Covenant Village of the Great Lakes | Grand Rapids, Michigan | 616-735-4541 |
| Covenant Village of Northbrook | Northbrook, Illinois | 847-480-6380 |
| Covenant Village of Turlock | Turlock, California | 209-632-9976 |
| The Holmstad | Batavia, Illinois | 630-879-4000 |
| Mount Miguel Covenant Village | Spring Valley, California | 619-479-4790 |
| The Samarkand | Santa Barbara, California | 805-687-0701 |
| Windsor Park* | Carol Stream, Illinois | 630-682-4377 |

**MULTI-LEVEL RETIREMENT COMMUNITIES**

| | | |
|---|---|---|
| Covenant Home of Chicago | Chicago, Illinois | 773-506-6900 |
| | | |
| | | |

**FREE-STANDING SKILLED NURSING**

**SUBSIDIZED SENIOR HOUSING**

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE**

**PROVIDER NAME:** Covenant Retirement Communities, Inc. (Mount Miguel Covenant Village)
In Thousands

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| **INCOME FROM ONGOING OPERATIONS** | | | | |
| **OPERATING INCOME** | | | | |
| (excluding amortization of entrance fee income) | $ 188,553 | $ 198,150 | $ 196,601 | $ 205,391 |
| **LESS OPERATING EXPENSES** | | | | |
| (excluding depreciation, amortization, & interest) | $ 172,314 | $ 181,351 | $ 190,753 | $ 191,096 |
| **NET INCOME FROM OPERATIONS** | $ 16,239 | $ 16,799 | $ 5,848 | $ 14,295 |
| **LESS INTEREST EXPENSE** | $ 18,445 | $ 17,933 | $ 17,561 | $ 17,449 |
| **PLUS CONTRIBUTIONS** | $ (782) | $ 882 | $ 733 | $ 24 |
| **PLUS NON-OPERATING INCOME (EXPENSES)** | | | | |
| (excluding extraordinary items) | $ - | $ - | $ - | $ - |
| **NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION** | $ (2,988) | $ (252) | $ (10,980) | $ (3,130) |
| **NET CASH FLOW FROM ENTRANCE FEES** | | | | |
| (Total Deposits Less Refunds) | $ 40,347 | $ 30,167 | $ 39,146 | $ 33,920 |

**DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END**

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| | | * See Attached Sheet * | | | |

| **FINANCIAL RATIOS (see next page for ratio formulas)** | **2012 CCAC Medians 50th Percentile (optional)** | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **DEBT TO ASSET RATIO** | 42.23 | 44.99 | 43.79 | 43.67 | 45.91 |
| **OPERATING RATIO** | 97.50 | 101.17 | 100.57 | 105.96 | 101.54 |
| **DEBT SERVICE COVERAGE RATIO** | 2.41 | 2.08 | 1.59 | 1.98 | 1.64 |
| **DAYS CASH-ON-HAND RATIO** | 263.00 | 337.78 | 360.58 | 313.69 | 304.16 |

**HISTORICAL MONTHLY SERVICE FEES**
AVERAGE FEE AND PERCENT CHANGE

| | 2010 | % | 2011 | % | 2012 | % | 2013 | % |
|---|---|---|---|---|---|---|---|---|
| STUDIO | $ 1,367.00 | 6.0 | $ 1,425.00 | 4.5 | $ 1,489.00 | 4.5 | $ 1,537.00 | 3.2 |
| ONE BEDROOM | $ 1,682.00 | 5.5 | $ 1,749.00 | 4.3 | $ 1,823.00 | 4.3 | $ 1,878.00 | 3.0 |
| TWO BEDROOM | $ 2,010.00 | 5.0 | $ 2,085.00 | 4.0 | $ 2,168.00 | 4.0 | $ 2,228.00 | 2.8 |
| COTTAGE/HOUSE | N/A | | N/A | | N/A | | N/A | |
| ASSISTED LIVING | $ 3,871.00 | 6.0 | $ 3,787.00 | 4.0 | $ 3,938.00 | 4.0 | $ 4,096.00 | 4.0 |
| SKILLED NURSING | $249/Day | 6.0 | $259/Day | 5.5 | $273/Day | 5.5 | $284/Day | 4.0 |
| SPECIAL CARE | N/A | | N/A | | N/A | | N/A | |

**COMMENTS FROM PROVIDER:** Second Person Care Fees in Residential: 2010 = $630.00; 2011 = $662.00; 2012 = $695; 2013 = $730
Assisted Living pricing adjusted due to service level pricing: SL2: $244 SL3: $505

PROVIDER NAME: Covenant Retirement Communities, Inc.
DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END
As of January 31, 2013
In Thousands

| LENDER | 1/31/13 OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| California Statewide Communities Development Authority Variable Rate Certificates of Participation | | | | | |
| Series 1992 | $ 11,700 | variable | 7/15/1992 | 12/1/2022 | 30 years |
| Series 1995 | 14,100 | variable | 7/15/1995 | 12/1/2025 | 29 years |
| City of Plantation Health Facilities Authority Series 1998 | 6,005 | 4.00 - 5.125 | 1/1/1998 | 12/1/2022 | 25 years |
| Colorado Health Facilities Authority Series 2005 | 123,285 | 4.50 - 5.25 | 8/15/2005 | 12/1/2035 | 30 years |
| Illinois Finance Authority Revenue Refunding Direct Placement Bonds | | | | | |
| Series 2011A | 15,830 | variable | 12/14/2011 | 12/1/2029 | 18 years |
| Series 2011B | 42,695 | variable | 12/14/2011 | 12/1/2029 | 18 years |
| Colorado Health Facilities Authority Revenue Bonds | | | | | |
| Series 2012A | 104,205 | 4.50-5.00 | 9/7/2012 | 12/1/2033 | 21 years |
| Series 2012B | 22,905 | 4.00-5.00 | 9/7/2012 | 12/1/2026 | 14 years |
| Series 2012C | 23,060 | 2.00-5.00 | 9/7/2012 | 12/1/2022 | 10 years |
| Total long-term debt | $ 363,785 | | | | |

**PROVIDER NAME:** Covenant Retirement Communities, Inc.

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenues}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses - Depreciation - Amortization})/365}$$

**Note:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

# Part 7
# Adjustments in Monthly Care Fees

Form 7-1 Report on CCRC Monthly Service Fees
Samarkand

| | Residential Living | Assisted Living | Skilled Nursing |
|---|---|---|---|
| 1 Monthly service fees at beginning of reporting period: (indicate range, if applicable) | $1,885 to $5,750 | $4,350 to $6,475 | $10,068 to $14,052 |
| 2 Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | 2.7% to 3.0% | 3.9% to 4.4% | 5.0% to 5.1% |

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of theis form and specify the names of the provider and community.)

3 Indicate the date the fee increase was implemented: **2/1/2012**

(If more than 1 increase was implemented, indicate the dates for each increase.)

4 Check each of the appropriate boxes:

[X] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[X] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[X] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[X] At the meeting with residents, the provider discussed and explained the reasons for the increase, the **basis** for determining the amount of the increase, and the data used for calculating the increase.

[X] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[X] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

5 On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

Form 7-1 Report on CCRC Monthly Service Fees
Turlock

| | Residential Living | Assisted Living | Skilled Nursing |
|---|---|---|---|
| 1 Monthly service fees at beginning of reporting period: (indicate range, if applicable) | $1,625-$3,785 | $4,290 | $8,700-$12,600 |
| 2 Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | 2.77%-3.01% | 3.85% | 3.45%- 4.7% |

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of theis form and specify the names of the provider and community.)

3 Indicate the date the fee increase was implemented: 2/1/2012

(If more than 1 increase was implemented, indicate the dates for each increase.)

4 Check each of the appropriate boxes:

[X] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[X] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[X] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[X] At the meeting with residents, the provider discussed and explained the reasons for the increase, the vasis for determining the amount of the increase, and the data used for calculating the increase.

[X] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[X] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

5 On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

Form 7-1 Report on CCRC Monthly Service Fees
Mount Miguel

| | Residential Living | Assisted Living | Skilled Nursing |
|---|---|---|---|
| 1 Monthly service fees at beginning of reporting period: (indicate range, if applicable) | $1,489 - $4,123 | $3,686 - $8,192 | $7,924 - $11,222 |
| 2 Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | 2.75 - 3.25% | 4.00% | 4.00% |

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of theis form and specify the names of the provider and community.)

3 Indicate the date the fee increase was implemented: 2/1/2012

(If more than 1 increase was implemented, indicate the dates for each increase.)

4 Check each of the appropriate boxes:

[X] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[X] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[X] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[X] At the meeting with residents, the provider discussed and explained the reasons for the increase, the vasis for determining the amount of the increase, and the data used for calculating the increase.

[X] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[X] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

5 On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

# Part 9
# Calculation of Refund Reserve Amount

# FORM 9-1
# CALCULATION OF REFUND RESERVE AMOUNT

| [1] Resident Name | [2] Sex | [3] Entrance Fee | [4] Refund % | [5] Refund Amount (promised after 6 yrs) | [6] Age | [7] Life Exp. | [9] Present Value Multiplier | [10] Present Value of Refund |
|---|---|---|---|---|---|---|---|---|
| Resident #1 | F | $542,900 | 90% | $488,610 | 85 | 6.956 | 0.665 | $324,926 |
| | | | | | | | | [illegible] |
| | | | | | | | | $0 |
| | | | | | | | | $0 |
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| | | | | | | | | $0 |
| | | | | | | | | $0 |
| | | | | | | | | $0 |
| | | | | | | | TOTAL AMOUNT REQUIRED FOR REFUND RESERVE : | $324,926 |

**PROVIDER:** Covenant Retirement Communities, Inc.
**COMMUNITY:** The Samarkand

# KEY INDICATORS REPORT

Date Prepared: 7/2/2013

Ruis K. Fuits

Chief Executive Officer Signature



## COVENANT RETIREMENT COMMUNITIES, INC.

*Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.*

| | 1/31/2009 | 1/31/2010 | 1/31/2011 | 1/31/2012 | 1/31/2013 | Projected | 1/31/2015 | 1/31/2016 | 1/31/2017 | 1/31/2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Preferred Trend Indicator |
| **OPERATIONAL STATISTICS** | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | See Sheet 2 tab | | | | | | | | | | N/A |
| **MARGIN (PROFITABILITY) INDICATORS** | | | | | | | | | | | |
| 2. Net Operating Margin (%) | 2.19% | 8.81% | 7.01% | 4.08% | 3.67% | 3.89% | 4.68% | 5.81% | 7.06% | 8.46% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | 19.46% | 25.78% | 20.37% | 21.46% | 18.98% | 22.68% | 25.38% | 27.45% | 27.29% | 27.82% | ↓ |
| **LIQUIDITY INDICATORS** | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments ($000) | $144,421 | $174,539 | $195,488 | $177,857 | $171,819 | $180,416 | $125,892 | $161,687 | $199,956 | $243,761 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | 292 | 356 | 386 | 348 | 333 | 326 | 226 | 283 | 342 | 409 | ↑ |
| **CAPITAL STRUCTURE INDICATORS** | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees ($000) | $229,142 | $226,777 | $217,419 | $224,032 | $226,122 | $ 230,305 | $249,600 | $272,112 | $288,465 | $297,944 | N/A |
| 7. Net Annual E/F proceeds ($000) | $35,885 | $40,347 | $30,167 | $39,146 | $33,920 | $46,905 | $54,355 | $60,747 | $59,075 | $59,124 | N/A |
| 8. Unrestricted Net Assets ($000) | $56,538 | $91,179 | $104,520 | $64,358 | $61,201 | $58,869 | $59,566 | $68,002 | $85,661 | $113,436 | N/A |
| 9. Annual Capital Asset Expenditure ($000) | $70,707 | $28,052 | $21,459 | $28,595 | $40,170 | $40,000 | $41,379 | $21,447 | $21,448 | $21,448 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | 0.18 | 0.61 | 0.61 | 0.33 | 0.16 | 0.50 | 0.64 | 0.83 | 1.00 | 1.21 | ↑ |
| 11. Annual Debt Service Coverage (x) | 1.25 | 1.71 | 1.80 | 1.90 | 1.74 | 2.32 | 2.75 | 3.19 | 3.27 | 3.48 | ↑ |
| 12. Annual Debt Service/Revenue (%) | 16.77% | 17.13% | 11.78% | 11.95% | 10.30% | 11.10% | 10.87% | 10.31% | 9.81% | 9.30% | ↓ |
| 13. Average Annual Effective Interest Rate (%) | 5.15% | 5.03% | 4.94% | 4.70% | 4.50% | 4.53% | 4.77% | 4.81% | 4.91% | 4.94% | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | 39.47% | 48.69% | 55.74% | 52.03% | 47.81% | 52.20% | 37.47% | 49.61% | 63.40% | 80.09% | ↑ |
| 15. Average Age of Facility (years) | 10.31 | 10.20 | 10.85 | 10.60 | 10.42 | 11.13 | 12.36 | 12.96 | 13.67 | 14.36 | ↓ |

**Covenant Retirement Communities**
**Key Indicator Write-Up**
**January 31, 2013**

Because CRC's fiscal year ends on 1/31/xx, we completed the ratios using the 2012 column, for example, for our 1/31/13 audit results as this most closely matches with a calendar year end.

The following information describes some of the changes in Covenant Retirement Communities' (CRC) ratios from 2011.

Margin Indicators: The operating margin ratios in 2012 declined from 2011 due to the need to add back services that were cut in prior years. The trend shows some conservative improvement in future years mostly related to an increase in occupancy tied to new marketing initiatives. CRC engaged a marketing firm in September 2012 to implement new marketing strategies.

Liquidity Indicators: Unrestricted cash and investments and days cash on hand decreased in 2012 due to an increase in capital expenditures funded by reserves. Unrestricted cash and investments is predicted to increase in 2013 related to an increase in entrance fee receipts. Days cash on hand is not expected to increase in 2013 due to an increase in planned operating expenses. Forecasted changes in unrestricted cash & investments and days cash on hand are directly tied to changes in entrance fee receipts and capital expenditures.

Debt Service Coverage Ratios: Debt service coverage ratio (revenue basis) decreased in 2011 related to the decrease in the operating margin.

Entrance fees: Entrance fees increased in 2012 related marketing incentives offered to new residents. Receipts are projected to increase in the future related to significant marketing initiatives and renovations of apartments.

CRC is looking ahead to another successful year and continuing to capitalize on the operating efficiencies gained during these challenging times. CRC's strong cash position will afford opportunities to ensure campus facilities are marketable and meeting current resident needs. Management across all levels remain committed to marketing efforts and achieving stronger occupancy levels. CRC will continue to carefully monitor spending and ensure the spending is in line with planned occupancy levels.