

FILING OF ANNUAL BUDGET

Issuer: Economic Development Authority of Hanover County (Virginia)

Bonds: \$64,495,000 Residential Facility Revenue Bonds (Covenant Woods)
Series 2012A

CUSIPS
41077CAA3
41077CAK1
41077CAB1
41077CAL9
41077CAC9
41077CAM7
41077CAH8
41077CAJ4

\$30,200,000 Residential Facility Revenue Bonds (Covenant Woods)
Series 2018

41077CAP0
41077CAQ8
41077CAR6
41077CAS4

Date: April 15, 2021


Covenant Woods and Advance Care LLC, collectively, the obligated party on the above captioned bonds, is making this filing as the adopted annual budget for FY2022 related to Covenant Woods required in connection with the issuance of its Bonds.

Included in this package are:

1. FY2022 operating budget – Obligated Group
2. Discussion & analysis for assumptions in the annual budget – Obligated Group
3. Operating and capital budget - Covenant Woods
4. Operating budget – Advance Care LLC

If there are any questions related to this material please contact me at EKMauritsen@covenantwoods.com

Sincerely,



Erik Mauritsen
CFO
Covenant Woods

**Covenant Woods-Obligated Group
Operating Budget FY2022 Analysis**

| | <u>FY22 Budget</u> | <u>FY21 Budget</u> | <u>% Change</u> | <u>\$ Change</u> | <u>FY21 Annualized</u> | <u>% Change</u> | <u>\$ Change</u> |
|---|--------------------|--------------------|-----------------|--------------------|------------------------|-----------------|------------------|
| Unrestricted revenue, gains, and other support: | | | | | | | |
| Residential Services - Independent | 14,225,063 | 14,149,015 | 0.5% | 76,049 | 13,180,320 | 7.9% | 1,044,743 |
| Residential Services - Assisted Living | 3,946,464 | 4,770,313 | -17.3% | (823,849) | 3,309,452 | 19.2% | 637,012 |
| Residential Services - Nursing | 7,459,392 | 8,086,783 | -7.8% | (627,391) | 6,033,053 | 23.6% | 1,426,339 |
| Earned Entrance fees | 7,227,175 | 6,823,187 | 5.9% | 403,988 | 6,592,114 | 9.6% | 635,061 |
| Covenant Program | (336,000) | (360,000) | -6.7% | 24,000 | (340,113) | -1.2% | 4,113 |
| Contractual Adjustment | (4,785,289) | (5,287,585) | -9.5% | 502,296 | (3,781,413) | 26.5% | (1,003,876) |
| Home Health Revenue (net of contractual allowance) | 5,176,716 | 4,355,600 | 18.9% | 821,116 | 4,430,059 | 16.9% | 746,657 |
| Gifts and donations | 291,000 | 271,000 | 7.4% | 20,000 | 839,127 | -65.3% | (548,127) |
| Interest and dividend income | 824,861 | 1,098,361 | -24.9% | (273,500) | 1,113,315 | -25.9% | (288,454) |
| Net realized gain (loss) on sale of investments | 525,000 | 555,000 | -5.4% | (30,000) | 2,333,076 | -77.5% | (1,808,076) |
| Net realized gain (loss) on disposal of assets | - | - | 0.0% | - | 2,530 | 0.0% | (2,530) |
| Other | 495,000 | 558,200 | -11.3% | (63,200) | 697,425 | -29.0% | (202,425) |
| Total revenues | 35,049,382 | 35,019,873 | 0.1% | 29,508 | 34,408,944 | 1.9% | 640,438 |
| Expenses: | | | | | | | |
| Salaries | 18,450,260 | 17,119,229 | 7.8% | 1,331,031 | 17,908,263 | 3.0% | 541,997 |
| Supplies and materials | 1,334,553 | 1,340,377 | -0.4% | (5,825) | 1,029,306 | 29.7% | 305,247 |
| Depreciation and amortization | 6,774,008 | 5,986,552 | 13.2% | 787,457 | 6,842,943 | -1.0% | (68,935) |
| Repairs and maintenance | 931,192 | 902,546 | 3.2% | 28,646 | 948,244 | -1.8% | (17,052) |
| Professional fees | 463,693 | 538,344 | -13.9% | (74,650) | 642,928 | -27.9% | (179,235) |
| Food | 1,426,952 | 1,513,465 | -5.7% | (86,513) | 1,332,290 | 7.1% | 94,663 |
| Occupancy costs | 1,612,600 | 1,598,420 | 0.9% | 14,180 | 1,450,426 | 11.2% | 162,174 |
| Taxes | 940,956 | 998,058 | -5.7% | (57,102) | 891,487 | 5.5% | 49,469 |
| Insurance | 569,838 | 453,151 | 25.8% | 116,687 | 407,007 | 40.0% | 162,831 |
| Interest | 4,301,106 | 4,378,345 | -1.8% | (77,239) | 4,388,924 | -2.0% | (87,818) |
| Other | 1,885,154 | 1,721,950 | 9.5% | 163,204 | 1,570,776 | 20.0% | 314,378 |
| Total Expenses | 38,690,311 | 36,550,437 | 5.9% | 2,139,874 | 37,412,593 | 3.4% | 1,277,718 |
| Operating Income (Loss) | (3,640,929) | (1,530,563) | 137.9% | (2,110,366) | (3,003,649) | 21.2% | (637,280) |
| Excess of revenues, gains and other support over expenses | (3,640,929) | (1,530,563) | 137.9% | (2,110,366) | (3,003,649) | 21.2% | (637,280) |
| Other changes in unrestricted net assets: | | | | | | | |
| Net unrealized gain (loss) on investments | 814,000 | 814,000 | 0.0% | - | (101,920) | -898.7% | 915,920 |
| Increase (decrease) in unrestricted net assets | (2,826,929) | (716,563) | 294.5% | (2,110,366) | (3,105,569) | -9.0% | 278,640 |

Budgeted Covenants FY2022
Obligated Group

Days Cash on Hand

| | FY2022 | Required | Variance |
|---------------------------------|--------------------|------------|------------|
| Cash | 500,000 | | |
| Investments | 35,000,000 | | |
| Cash on Hand | <u>35,500,000</u> | | |
| Total Expenses | 38,690,311 | | |
| Less: Depreciation/Amortization | <u>(6,774,008)</u> | | |
| Total Operating Expenses | <u>31,916,303</u> | | |
| Daily Operating Expenses | 87,442 | | |
| Days Cash on Hand | 406 | 150 | 256 |

Debt Service Coverage (DSCR)

| | | | |
|----------------------------------|--------------------|-------------|-------------|
| Operating Income | (3,640,929) | | |
| Less: | | | |
| Entrance fee amortization | (7,227,175) | | |
| Realized gains/losses | (525,000) | | |
| Add: | | | |
| Depreciation/amortization | 6,774,008 | | |
| Interest expense | 4,301,106 | | |
| Entrance fees received | 8,192,955 | | |
| Less entrance fee refunds | <u>(1,000,000)</u> | | |
| Income Available to Service debt | 6,874,965 | | |
| Annual Debt Service | 5,554,272 | | |
| DSCR | 1.24 | 1.20 | 0.04 |

**Required minimum DSCR is 1.00 if Days' Cash On Hand is greater than 300 days*

FY2022

Budget Discussion & Analysis

Summary (Ratios)

This year was particularly challenging for budgets due to the COVID pandemic effect. The unknown effects of how long the pandemic effect will last into 2021 along with any lingering after-effects cannot be reasonably estimated at this time. As such, we are budgeting primarily ignoring any material effect of the pandemic. If the pandemic continues longer and/or has longer lasting effects on us, this will be noted as variance reasons if that were to occur.

Covenants (Obligated Group)– Budgeted Days’ Cash on Hand decreased to 406 days for FY2022, compared to 520 days in FY2021 budget. Lower census and entrance fees received in FY21 is a primary driver in this decrease. The debt service coverage ratio (DSCR) requires greater than a 1.20X coverage unless Days’ Cash on Hand is above 300, then the requirement is dropped to 1.0X coverage. FY2021 budget projects DSCR to be 1.24X compared to 1.62X in FY2020 budget. Lower beginning census with gradual increase through the year as well as some unknowns related to costs on the Advance Care Home Health side are primary drivers in this.

Revenues (Obligated Group)

Revenues for FY2021 are budgeted 0.1% higher than current year budget and 1.9% higher than annualized YTD 2021. The biggest driver for this increase is increased AC Home Health revenues. We are budgeting for a 3% increase in monthly fees for Covenant Woods but with a reduced census compared to FY21 budget, this does not result in an overall significant increase.

Independent turnovers forecasted for FY2022 are 20, producing an estimated \$8.2 million in entrance fees. We estimate \$1 million in entrance fee refunds, resulting in net EFs of \$7.2M. To put this in perspective, we have had approximately \$1.8M in EFs through and 2 move-ins during the first half of FY21. Census assumed in this budget, along with comparable census information for FY21 budget and actual census YTD are as follows:

| Level of Care | FY22 Budget | FY21 Budget | Actual YTD FY21 |
|---------------------------|------------------------|------------------------|----------------------------|
| Independent Living | 92% | 95% | 90% |
| Assisted Living | 74% | 87% | 59% |
| Memory Support | 76% | 90% | 58% |
| Nursing | 87% | 89% | 78% |

Expenses (Obligated Group)

Expenses are forecasted to be up 5.9% over FY2021 budgeted expense and 3.4% compared to annualized FY2021 expenses. This budget assumes higher insurance expense increased software costs associated with AC Home Health and insurance premium renewals came in much higher this year, with particularly high increases in our auto policies. The insurance increases had little to do with us as it was more across the insurance industry that these increases are taking place. As noted above, technology costs are also a driver in overall increase in expenses but these should be looked at more as investments in IT infrastructure and setting the stage for enhancements to our resident engagement and smart home technology. Salary expense is higher primarily due to new staffing to bring therapy in house.

Capital Budget

The capital budget for FY2022 is approximately \$2.1M less than the capital budget for FY2021 and represents 26% of budgeted depreciation. The most significant item in this budget relates to the technology enhancements mentioned above in expenses. There are two components to this initiative, capital to set everything up and expense to run and maintain the software. Approximately \$330K is allocated to the resident tablet initiative that will significantly enhance resident engagement and add some smart home technology. Other items of significance include Lodge Terrace improvements for dining and some facility capital improvements.

Covenant Woods
Operating Budget FY2022 Analysis

| | <u>FY22 Budget</u> | <u>FY21 Budget</u> | <u>% Change</u> | <u>\$ Change</u> | <u>FY21 Annualized</u> | <u>% Change</u> | <u>\$ Change</u> |
|--|--------------------|--------------------|-----------------|--------------------|------------------------|-----------------|------------------|
| Unrestricted revenue, gains, and other support: | | | | | | | |
| Residential Services - Independent | 14,225,063 | 14,149,015 | 0.5% | 76,049 | 13,180,320 | 7.9% | 1,044,743 |
| Residential Services - Assisted Living | 3,946,464 | 4,770,313 | -17.3% | (823,849) | 3,309,452 | 19.2% | 637,012 |
| Residential Services - Nursing | 7,459,392 | 8,086,783 | -7.8% | (627,391) | 6,033,053 | 23.6% | 1,426,339 |
| Earned Entrance fees | 7,227,175 | 6,823,187 | 5.9% | 403,988 | 6,592,114 | 9.6% | 635,061 |
| Covenant Program | (336,000) | (360,000) | -6.7% | 24,000 | (340,113) | -1.2% | 4,113 |
| Contractual Adjustment | (4,785,289) | (5,287,585) | -9.5% | 502,296 | (3,781,413) | 26.5% | (1,003,876) |
| Gifts and donations | 291,000 | 271,000 | 7.4% | 20,000 | 839,127 | -65.3% | (548,127) |
| Interest and dividend income | 824,861 | 1,098,361 | -24.9% | (273,500) | 1,113,315 | -25.9% | (288,454) |
| Net realized gain (loss) on sale of investments | 525,000 | 555,000 | -5.4% | (30,000) | 2,333,076 | -77.5% | (1,808,076) |
| Net realized gain (loss) on disposal of assets | - | - | 0.0% | - | 2,530 | 0.0% | (2,530) |
| Other | 495,000 | 558,200 | -11.3% | (63,200) | 697,425 | -29.0% | (202,425) |
| Total revenues | 29,872,665 | 30,664,273 | -2.6% | (791,608) | 29,978,885 | -0.4% | (106,219) |
| Expenses: | | | | | | | |
| Salaries | 13,855,440 | 13,346,596 | 3.8% | 508,844 | 13,810,709 | 0.3% | 44,731 |
| Supplies and materials | 1,271,173 | 1,289,677 | -1.4% | (18,505) | 978,876 | 29.9% | 292,297 |
| Depreciation and amortization | 6,531,467 | 5,986,552 | 9.1% | 544,916 | 6,621,945 | -1.4% | (90,478) |
| Repairs and maintenance | 931,192 | 902,546 | 3.2% | 28,646 | 948,244 | -1.8% | (17,052) |
| Professional fees | 439,585 | 538,344 | -18.3% | (98,758) | 623,523 | -29.5% | (183,938) |
| Food | 1,426,952 | 1,513,465 | -5.7% | (86,513) | 1,332,290 | 7.1% | 94,663 |
| Occupancy costs | 1,557,400 | 1,522,020 | 2.3% | 35,380 | 1,377,686 | 13.0% | 179,714 |
| Taxes | 940,956 | 998,058 | -5.7% | (57,102) | 891,487 | 5.5% | 49,469 |
| Insurance | 500,343 | 391,951 | 27.7% | 108,392 | 334,065 | 49.8% | 166,278 |
| Interest | 4,301,106 | 4,378,345 | -1.8% | (77,239) | 4,388,924 | -2.0% | (87,818) |
| Other | 1,417,701 | 1,473,708 | -3.8% | (56,007) | 1,178,875 | 20.3% | 238,826 |
| Total Expenses | 33,173,315 | 32,341,262 | 2.6% | 832,053 | 32,486,624 | 2.1% | 686,691 |
| Operating Income (Loss) | (3,300,649) | (1,676,989) | 96.8% | (1,623,661) | (2,507,739) | 31.6% | (792,910) |
| Excess of revenues, gains and other support over expenses | (3,300,649) | (1,676,989) | 96.8% | (1,623,661) | (2,507,739) | 31.6% | (792,910) |
| Other changes in unrestricted net assets: | | | | | | | |
| Net unrealized gain (loss) on investments | 770,000 | 814,000 | -5.4% | (44,000) | (101,920) | -855.5% | 871,920 |
| Increase (decrease) in unrestricted net assets | (2,530,649) | (862,989) | 193.2% | (1,667,661) | (2,609,659) | -3.0% | 79,010 |

Budgeted Occupancy Summary FY22

| | <u>Total Units Available</u> | <u>Budgeted Occupancy</u> | <u>% Occupancy</u> |
|--------------------|------------------------------|---------------------------|--------------------|
| Independent Living | 231 | 213 | 92% |
| Assisted Living | 39 | 27 | 69% |
| Memory Support | 21 | 15 | 71% |
| Nursing | 62 | 51 | 82% |

Turnovers & Transfers (excludes direct admits)

| | |
|-----------------------------|----|
| # of IL turnovers projected | 20 |
| # of new entrants - IL | 27 |
| # of deaths projected | 35 |

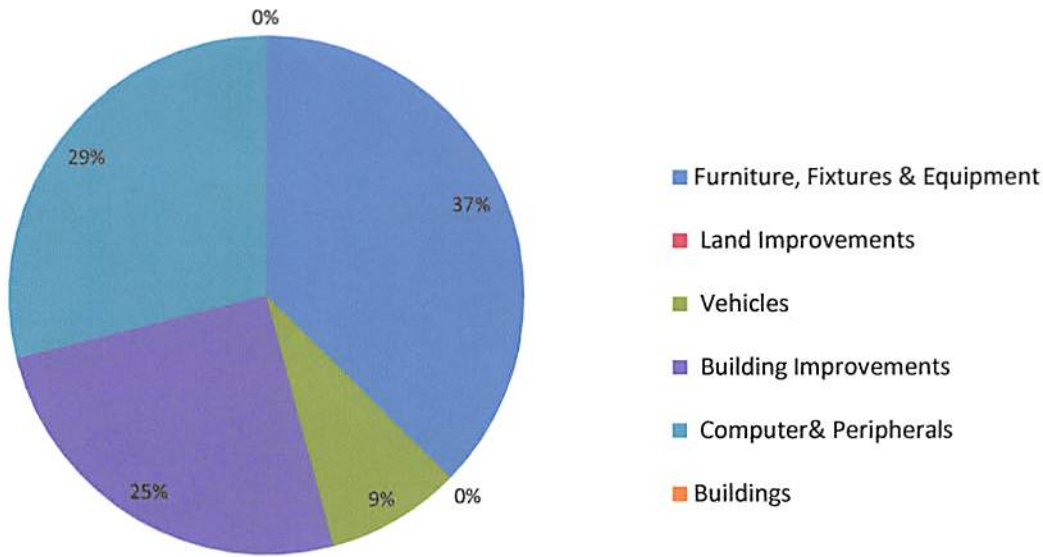
Health & Wellness Resident Census - Projected FY22

| | <u>LifeCare</u> | <u>Direct Admit</u> | <u>Medicare</u> | <u>Total</u> | <u>Available</u> | <u>% Occupancy</u> |
|-----------------|-----------------|---------------------|-----------------|--------------|------------------|--------------------|
| Assisted Living | 22 | 6 | 0 | 28 | 39 | 72% |
| Memory Support | 11 | 4 | 0 | 15 | 21 | 71% |
| Nursing | 37 | 8 | 6 | 51 | 62 | 82% |

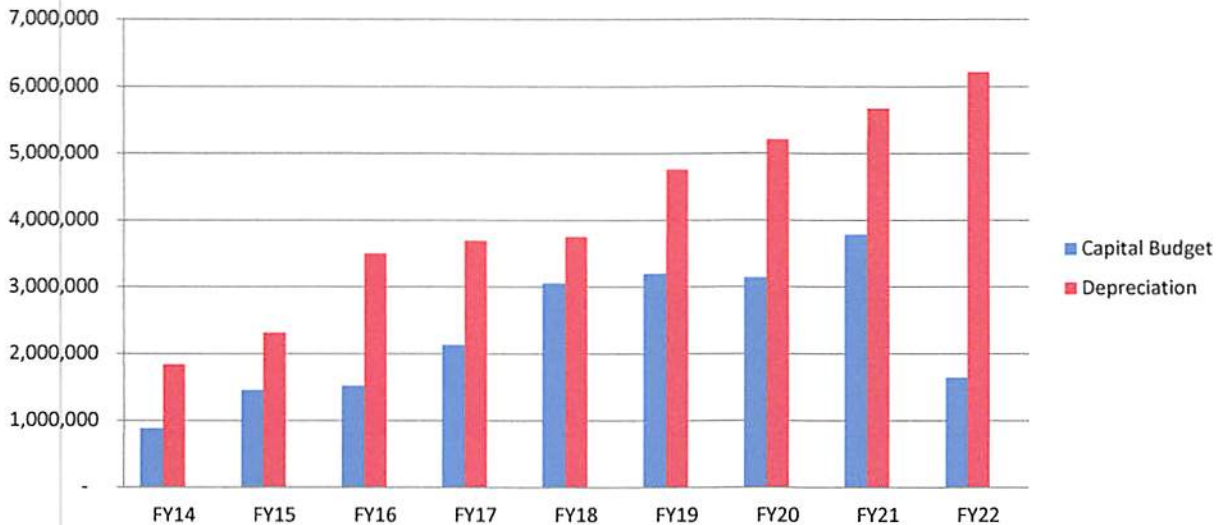
Total Proposed Capital Budget by Asset Type FY22

| <u>Asset Type</u> | <u>FY2022</u> | <u>FY2021</u> | <u>Difference</u> |
|---------------------------------|---------------------|---------------------|-----------------------|
| Furniture, Fixtures & Equipment | \$ 612,796 | \$ 274,600 | \$ 338,196 |
| Land Improvements | \$ - | \$ 1,715,420 | \$ (1,715,420) |
| Vehicles | \$ 138,500 | \$ 70,508 | \$ 67,992 |
| Building Improvements | \$ 413,800 | \$ 1,245,075 | \$ (831,275) |
| Computer & Peripherals | \$ 474,432 | \$ 482,900 | \$ (8,468) |
| Buildings | \$ - | \$ - | \$ - |
| Total Routine Capital | \$ 1,639,528 | \$ 3,788,503 | \$ (2,148,975) |

FY2022 Capital Budget



Capital Budget vs Depreciation Expense



**Covenant Woods
Advance Care, LLC
FY2022 Budget**

| <u>Revenues</u> | <u>Budget FY22</u> | <u>Budget FY21</u> | <u>Difference</u> | <u>% Difference</u> | <u>Annualized FY21</u> | <u>Difference</u> | <u>% Difference</u> |
|-------------------------|--------------------|--------------------|-------------------|---------------------|------------------------|-------------------|---------------------|
| Skilled Nursing | 3,120,000 | 1,866,000 | 1,254,000 | 67.2% | 2,637,516 | 482,484 | 18.3% |
| Physical Therapy | 1,920,000 | 1,719,200 | 200,800 | 11.7% | 1,685,988 | 234,012 | 13.9% |
| Occupational Therapy | 633,600 | 691,200 | (57,600) | -8.3% | 566,297 | 67,303 | 11.9% |
| Speech Therapy | 192,000 | 64,800 | 127,200 | 196.3% | 132,514 | 59,486 | 44.9% |
| Social Work | 11,600 | 14,400 | (2,800) | -19.4% | 2,592 | 9,008 | 347.5% |
| Contractual Adjustment | (700,484) | - | (700,484) | #DIV/0! | (635,407) | (65,076) | 10.2% |
| Other Operating Revenue | - | - | - | #DIV/0! | 40,560 | (40,560) | -100.0% |
| Total Revenues | 5,176,716 | 4,355,600 | 821,116 | 18.9% | 4,430,059 | 746,657 | 16.9% |
| <u>Expenses</u> | | | - | | | | |
| Salaries/Benefits | 4,594,820 | 3,772,633 | 822,187 | 21.8% | 4,097,554 | 497,266 | 12.1% |
| Supplies | 63,380 | 50,700 | 12,680 | 25.0% | 50,429 | 12,951 | 25.7% |
| Professional Fees | 24,108 | - | 24,108 | #DIV/0! | 19,405 | 4,703 | 24.2% |
| Occupancy Costs | 55,200 | 76,400 | (21,200) | -27.7% | 72,741 | (17,541) | -24.1% |
| Dues & Subscriptions | 263,521 | 99,132 | 164,389 | 165.8% | 159,848 | 103,672 | 64.9% |
| Depreciation | 242,541 | - | 242,541 | #DIV/0! | 220,998 | 21,543 | 9.7% |
| Other | 203,932 | 149,110 | 54,822 | 36.8% | 232,052 | (28,120) | -12.1% |
| Insurance | 69,495 | 61,200 | 8,295 | 13.6% | 72,942 | (3,447) | -4.7% |
| CW Management Fee | 129,272 | 91,265 | 38,006 | 41.6% | 90,195 | 39,076 | 43.3% |
| Total Expenses | 5,646,268 | 4,300,440 | 1,345,828 | 31.3% | 5,016,165 | 630,103 | 12.6% |
| | | | - | | | | |
| Operating Income | (469,552) | 55,160 | (524,711) | -951.3% | (586,105) | 116,554 | -19.9% |
| Margin % | -9.1% | | | | | | |