

FILING OF ANNUAL BUDGET

Issuer: Economic Development Authority of Hanover County (Virginia)

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

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

Date: March 10, 2022

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 FY2023 related to Covenant Woods required in connection with the issuance of its Bonds.

Included in this package are:

1. FY2023 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 FY2023 Analysis**

	<u>FY23 Budget</u>	<u>FY22 Budget</u>	<u>% Change</u>	<u>\$ Change</u>	<u>FY22 Annualized</u>	<u>% Change</u>	<u>\$ Change</u>
Unrestricted revenue, gains, and other support:							
Residential Services - Independent	14,588,452	14,225,063	2.6%	363,388	13,180,320	10.7%	1,408,132
Residential Services - Assisted Living	3,640,247	3,946,464	-7.8%	(306,217)	3,309,452	10.0%	330,795
Residential Services - Nursing	8,041,333	7,459,392	7.8%	581,941	6,033,053	33.3%	2,008,280
Earned Entrance fees	7,523,856	7,227,175	4.1%	296,681	6,592,114	14.1%	931,742
Covenant Program	(336,000)	(336,000)	0.0%	-	(340,113)	-1.2%	4,113
Contractual Adjustment	(4,241,646)	(4,785,289)	-11.4%	543,644	(3,781,413)	12.2%	(460,232)
Home Health Revenue (net of contractual allowance)	5,844,144	5,176,716	12.9%	667,427	4,316,456	35.4%	1,527,688
Gifts and donations	348,000	291,000	19.6%	57,000	839,127	-58.5%	(491,127)
Interest and dividend income	832,471	824,861	0.9%	7,610	1,113,315	-25.2%	(280,844)
Net realized gain (loss) on sale of investments	495,000	525,000	-5.7%	(30,000)	2,333,076	-78.8%	(1,838,076)
Net realized gain (loss) on disposal of assets	-	-	0.0%	-	2,530	0.0%	(2,530)
Other	797,385	495,000	61.1%	302,385	697,425	14.3%	99,959
Total revenues	37,533,241	35,049,382	7.1%	2,483,859	34,295,341	9.4%	3,237,900
Expenses:							
Salaries	18,974,468	17,119,229	10.8%	1,855,238	16,943,999	12.0%	2,030,469
Benefits	2,157,306	-	#DIV/0!	2,157,306	2,889,706	-25.3%	(732,400)
Supplies and materials	735,947	1,340,377	-45.1%	(604,430)	640,048	15.0%	95,899
Depreciation and amortization	6,937,269	5,986,552	15.9%	950,717	6,926,181	0.2%	11,088
Repairs and maintenance	894,790	902,546	-0.9%	(7,756)	895,362	-0.1%	(572)
Professional fees	324,324	538,344	-39.8%	(214,020)	560,086	-42.1%	(235,762)
Food	1,622,922	1,513,465	7.2%	109,458	1,417,642	14.5%	205,280
Occupancy costs	1,661,163	1,598,420	3.9%	62,743	1,639,680	1.3%	21,483
Taxes	977,324	998,058	-2.1%	(20,734)	928,037	5.3%	49,287
Insurance	606,043	453,151	33.7%	152,892	518,879	16.8%	87,164
Interest	4,243,308	4,378,345	-3.1%	(135,037)	4,270,356	-0.6%	(27,048)
Other	2,797,581	1,721,950	62.5%	1,075,631	2,686,196	4.1%	111,385
Total Expenses	41,932,445	36,550,437	14.7%	5,382,008	40,316,171	4.0%	1,616,274
Operating Income (Loss)	(4,399,204)	(1,501,055)	193.1%	(2,898,149)	(6,020,830)	-26.9%	1,621,626
Excess of revenues, gains and other support over expenses	(4,399,204)	(1,501,055)	193.1%	(2,898,149)	(6,020,830)	-26.9%	1,621,626
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	(3,585,204)	(687,055)	421.8%	(2,898,149)	(6,122,751)	-41.4%	2,537,546

Budgeted Covenants FY2023
Obligated Group

Days Cash on Hand

	FY2023	Required	Variance
Cash	500,000		
Investments	35,000,000		
Cash on Hand	<u>35,500,000</u>		
Total Expenses	41,932,445		
Less: Depreciation/Amortization	<u>(6,937,269)</u>		
Total Operating Expenses	<u>34,995,176</u>		
Daily Operating Expenses	95,877		
Days Cash on Hand	370	150	220

Debt Service Coverage (DSCR)

Operating Income	(4,399,204)		
Less:			
Entrance fee amortization	(7,523,856)		
Add:			
Depreciation/amortization	6,937,269		
Interest expense	4,243,308		
Entrance fees received	8,214,425		
Less entrance fee refunds	<u>(1,500,000)</u>		
Income Available to Service debt	5,971,942		
Annual Debt Service	3,276,322		
DSCR	1.82	1.20	0.62

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

FY2023

Budget Discussion & Analysis

Summary

This year proved to be a challenging year for Covenant Woods in compiling a feasible budget. We had a perfect storm of circumstances working against us, including; continued issues related to Covid, staffing shortages, setting our minimum wage at \$15/hour, and significant inflation on items such as food and supplies. Combining these factors with lower census in assisted living & home health, necessitated a different way of looking at our operations to achieve savings needed.

On the plus side, we were able to negotiate much better terms for the Series 2012 bonds we refinanced, which helped to ease the target we needed to make in the short term, along with being able to include realized gains in our DSCR calculation. We also now have our license for hospice, new branding for Advance Care, new marketing initiatives for addressing the assisted living census, and a return to pre-Covid independent living sales levels.

Covenants (Obligated Group)– Budgeted Days’ Cash on Hand decreased to 370 days for FY2023, compared to 404 days in FY2022 budget. Low census in assisted living and home health and high operational costs are primary drivers of 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. FY2023 budget projects DSCR to be 1.82X compared to 1.30X in FY2022 budget. The high DSCR projected does take into account our new debt service target, that excludes principal on our new debt for FY23.

Net Operating Margin (Obligated Group) –This budget has NOM at approximately \$(2.4M), which is worse than FY22 budget \$(1.1M) but significantly better than where we are on an annualized basis, \$(5.3M), for FY22.

Revenues

Revenues for FY2023 are budgeted 7.1% higher than current year budget and 9.4% higher than annualized YTD 2022. The biggest drivers for this increase are higher census in assisted living, independent living and home health. We are budgeting for a 4.0% increase in monthly fees for Covenant Woods. We are not budgeting for any increase in daily rate fees for Assisted Living, Memory Support, and Nursing Care based on recommendations from consultants we engaged to do a market study.

Independent turnovers forecasted for FY2023 are 20, producing an estimated \$8.2 million in entrance fees. We estimate \$1.5 million in entrance fee refunds, resulting in net EFs of \$6.7M. Census assumed in this budget, along with comparable census information for FY22 budget and actual census YTD are as follows:

Level of Care	FY23 Budget	FY22 Budget	Actual YTD FY22
Independent Living	93%	92%	91%
Assisted Living	72%	69%	46%
Memory Support	62%	71%	40%
Nursing	87%	82%	85%

Expenses

Expenses are forecasted to be up 14.7% over FY2022 budgeted expense and 4.0% compared to annualized FY2022 expenses. The majority of the increase over FY22 is related to salaries and benefits. As previously discussed, in response to rising minimum wages initiated by many localities and companies across the country and in our area, we decided to set our minimum wage to \$15/hr beginning April 1st. This change also had a rippling compression effect for other positions that were close to this new minimum, thereby magnifying the overall budgetary effect. Benefit costs have also increased significantly over the last year and this plays into the budget as well. We base the assumed medical expense costs on an actuarially determined amount that is calculated by an actuary engaged by our insurance captive. Liability insurance increases had little to do with us as it was more across the insurance industry that these increases are taking place. Food expense is another area that has seen significant increases due to inflation. Many items have increased by double digit percentage points.

Capital Budget

The capital budget for FY2023 is approximately \$661K less than the capital budget for FY2022 and represents 36% of budgeted depreciation. The majority of this budget is related to unit turnovers and for building enhancements or modifications.

Covenant Woods
Operating Budget FY2023 Analysis

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Covenant Program	(336,000)	(336,000)	0.0%	-	(340,113)	-1.2%	4,113
Contractual Adjustment	(4,241,646)	(4,785,289)	-11.4%	543,644	(3,781,413)	12.2%	(460,232)
Gifts and donations	348,000	291,000	19.6%	57,000	839,127	-58.5%	(491,127)
Interest and dividend income	832,471	824,861	0.9%	7,610	1,113,315	-25.2%	(280,844)
Net realized gain (loss) on sale of investments	495,000	525,000	-5.7%	(30,000)	2,333,076	-78.8%	(1,838,076)
Net realized gain (loss) on disposal of assets	-	-	0.0%	-	2,530	0.0%	(2,530)
Other	797,385	495,000	61.1%	302,385	697,425	14.3%	99,959
Total revenues	31,689,097	29,872,665	6.1%	1,816,432	29,978,885	5.7%	1,710,212
Expenses:							
Salaries	14,032,392	13,855,440	1.3%	176,951	12,690,897	10.6%	1,341,495
Benefits	1,799,190	-	0.0%	1,799,190	2,542,948	-29.2%	(743,758)
Supplies and materials	645,827	1,271,173	-49.2%	(625,346)	576,668	12.0%	69,159
Depreciation and amortization	6,588,063	6,531,467	0.9%	56,596	6,683,641	-1.4%	(95,578)
Repairs and maintenance	894,790	931,192	-3.9%	(36,402)	895,362	-0.1%	(572)
Professional fees	324,324	439,585	-26.2%	(115,261)	535,978	-39.5%	(211,654)
Food	1,622,922	1,426,952	13.7%	195,970	1,417,642	14.5%	205,280
Occupancy costs	1,644,363	1,557,400	5.6%	86,963	1,591,680	3.3%	52,683
Taxes	977,324	940,956	3.9%	36,369	928,037	5.3%	49,287
Insurance	539,094	500,343	7.7%	38,751	449,384	20.0%	89,710
Interest	4,243,308	4,301,106	-1.3%	(57,798)	4,270,356	-0.6%	(27,048)
Other	2,143,946	1,417,701	51.2%	726,245	2,087,312	2.7%	56,634
Total Expenses	35,455,543	33,173,315	6.9%	2,282,228	34,669,904	2.3%	785,640
Operating Income (Loss)	(3,766,446)	(3,300,649)	14.1%	(465,797)	(4,691,019)	-19.7%	924,572
Excess of revenues, gains and other support over expenses	(3,766,446)	(3,300,649)	14.1%	(465,797)	(4,691,019)	-19.7%	924,572
Other changes in unrestricted net assets:							
Net unrealized gain (loss) on investments	660,000	770,000	-14.3%	(110,000)	(101,920)	-747.6%	761,920
Increase (decrease) in unrestricted net assets	(3,106,446)	(2,530,649)	22.8%	(575,797)	(4,792,939)	-35.2%	1,686,493

Budgeted Occupancy Summary FY23

	<u>Total Units Available</u>	<u>Budgeted Occupancy</u>	<u>% Occupancy</u>
Independent Living	231	214	93%
Assisted Living	39	28	72%
Memory Support	21	13	62%
Nursing	62	54	87%

Turnovers & Transfers (excludes direct admits)

# of IL turnovers projected	20
# of new entrants - IL	27
# of deaths projected	36

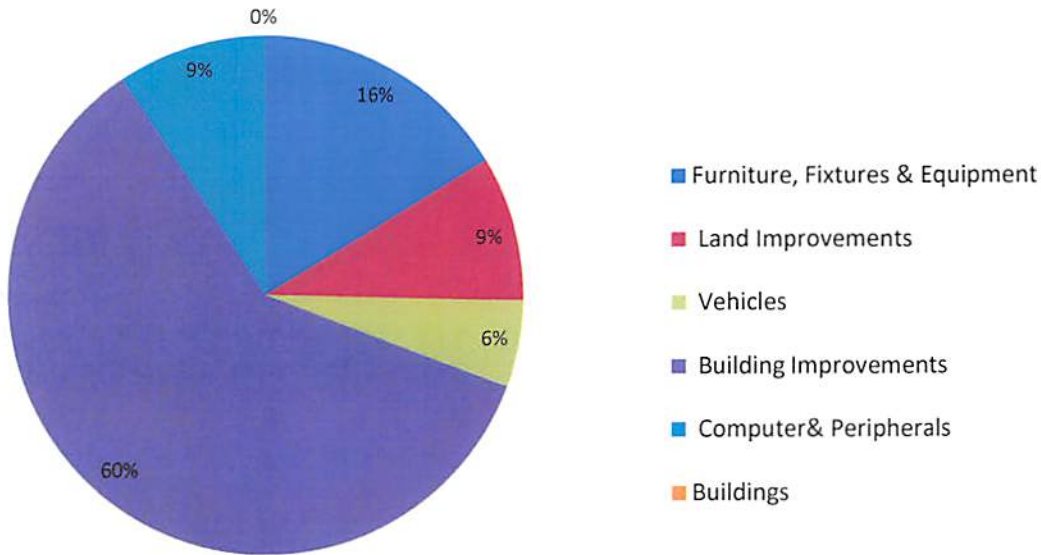
Health & Wellness Resident Census - Projected FY23

	<u>LifeCare</u>	<u>Direct Admit</u>	<u>Medicare</u>	<u>Total</u>	<u>Available</u>	<u>% Occupancy</u>
Assisted Living	19	9	0	28	39	72%
Memory Support	6	7	0	13	21	62%
Nursing	36	11	7	54	62	87%

Total Proposed Capital Budget by Asset Type FY23

<u>Asset Type</u>	<u>FY2023</u>	<u>FY2022</u>	<u>Difference</u>
Furniture, Fixtures & Equipment	\$ 375,250	\$ 612,796	\$ (237,546)
Land Improvements	\$ 208,000	\$ -	\$ 208,000
Vehicles	\$ 124,000	\$ 138,500	\$ (14,500)
Building Improvements	\$ 1,378,500	\$ 413,800	\$ 964,700
Computer & Peripherals	\$ 215,000	\$ 474,432	\$ (259,432)
Buildings	\$ -	\$ -	\$ -
Total Routine Capital	\$ 2,300,750	\$ 1,639,528	\$ 661,222

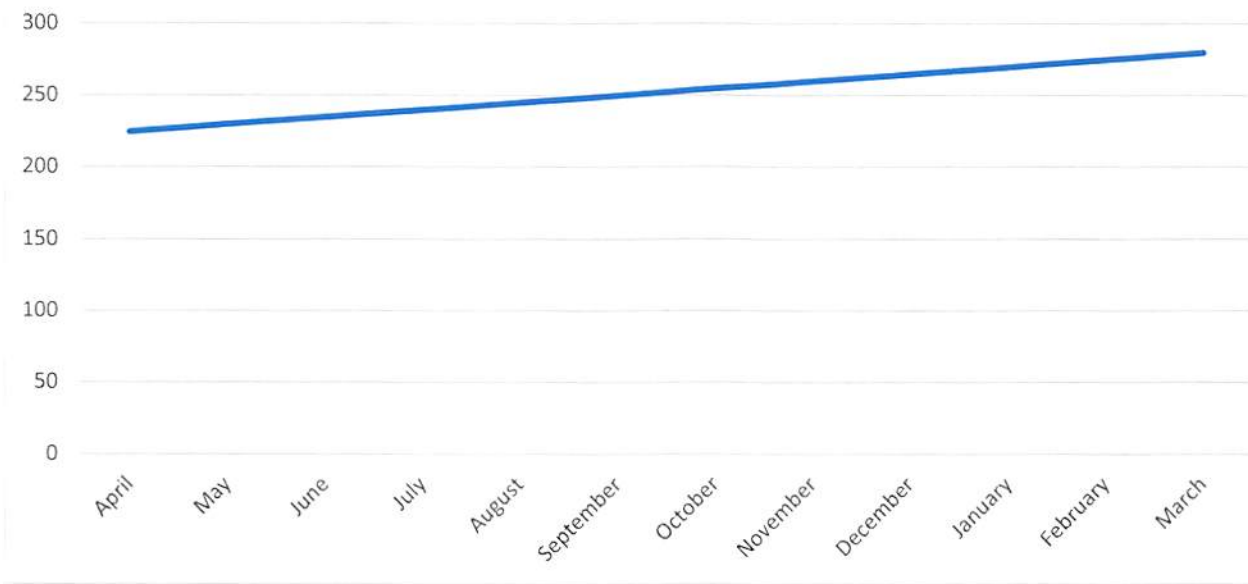
FY2023 Capital Budget



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

<u>Revenues</u>	<u>Budget FY23</u>	<u>Budget FY22</u>	<u>Difference</u>	<u>% Difference</u>	<u>Annualized FY22</u>	<u>Difference</u>	<u>% Difference</u>
Skilled Nursing	3,976,875	1,866,000	2,110,875	113.1%	3,385,186	591,689	17.5%
Physical Therapy	1,136,250	1,719,200	(582,950)	-33.9%	739,709	396,541	53.6%
Occupational Therapy	284,063	691,200	(407,138)	-58.9%	248,320	35,743	14.4%
Speech Therapy	284,063	64,800	219,263	338.4%	67,050	217,013	323.7%
Social Work	-	14,400	(14,400)	-100.0%	1,600	(1,600)	-100.0%
Contractual Adjustment	(506,250)	-	(506,250)	#DIV/0!	(443,604)	(62,646)	14.1%
Outpatient Therapy	350,667	-	350,667	#DIV/0!	292,275	58,392	20.0%
Contracted Therapy CW	318,477	-	318,477	#DIV/0!	-	318,477	#DIV/0!
Other Operating Revenue	-	-	-	#DIV/0!	25,920	(25,920)	-100.0%
Total Revenues	5,844,144	4,355,600	1,488,544	34.2%	4,316,456	1,527,688	35.4%
<u>Expenses</u>			-				
Salary Expense	4,942,076	3,772,633	1,169,443	31.0%	4,253,102	688,974	16.2%
Benefit Expense	358,116	-	-		346,758	11,358	3.3%
Supplies	90,120	50,700	39,420	77.8%	63,380	26,740	42.2%
Professional Fees	-	-	-	#DIV/0!	24,108	(24,108)	-100.0%
Occupancy Costs	16,800	76,400	(59,600)	-78.0%	48,000	(31,200)	-65.0%
Dues & Subscriptions	277,358	99,132	178,226	179.8%	263,521	13,837	5.3%
Depreciation	349,206	-	349,206	#DIV/0!	242,541	106,665	44.0%
Other	228,052	149,110	78,942	52.9%	206,092	21,960	10.7%
Insurance	66,949	61,200	5,749	9.4%	69,495	(2,546)	-3.7%
CW Management Fee	148,225	91,265	56,960	62.4%	129,272	18,953	14.7%
Total Expenses	6,476,902	4,300,440	2,176,462	50.6%	5,646,268	830,634	14.7%
			-				
Operating Income	(632,758)	55,160	(687,918)	-1247.1%	(1,329,812)	697,054	-52.4%
Margin %	-10.8%						

Advance Care Home Health Budgeted Census FY23



Average Census Levels for AC Outpatient Therapy at CW

PT	25
OT	11
ST	9
Inpatient (Skilled)	60