

## FILING OF ANNUAL BUDGET

Issuer: Economic Development Authority of Hanover County (Virginia)

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

\$54,540,000 Residential Facility Revenue Bonds (Covenant Woods)  
Series 2022

Date: February 17, 2026

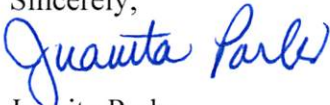
Covenant Woods, the obligated party on the above captioned bonds, is making this filing as the adopted annual budget for FY2027 related to Covenant Woods required in connection with the issuance of its Bonds.

Included in this package are:

1. Discussion & analysis for assumptions in the annual budget
2. FY2027 operating budget
3. Capital budget
4. FY2027 entrance fee and monthly service fee pricing

If there are any questions related to this material, please contact me at [Juanita.parks@covenantwoods.com](mailto:Juanita.parks@covenantwoods.com)

Sincerely,



Juanita Parks  
Chief Financial Officer  
Covenant Woods

## **FY27 Budget Discussion and Analysis**

As FY26 comes to a close, Covenant Woods (CW) remains focused on strengthening income from operations and continuing to achieve positive net operating income. The *Financial Management* focus in CW's strategic plan emphasized the goal of *Bee-coming a financially sustainable community that efficiently and effectively meets the needs of both current and future residents*. Key drivers of a successful financial year include the labor market conditions, occupancy levels, and fiscal discipline across the management team. The proposed FY27 budget aligns with the objectives established at the start of the budget process and is based on reasonable and attainable expense assumptions. This includes a 5.0% increase in monthly service fees across the continuum, including Independent Living, Assisted Living, Memory Support, and Nursing, a 10% increase in entrance fees for new residents, and a 3.5% wage increase for staff.

Each year, CW strives to ensure that growth in operating revenues meets or exceeds the growth in operating expenses. While that is a critical goal, it was not achieved in the FY27 budget. During FY26, CW realized significant savings in salary related expenses due to numerous unfilled positions that management actively sought to fill throughout the year. As a result of these savings, revenue growth from FY25 (8.4%) far outpaced the expense growth (3.7%), creating a distortion when comparing FY26 to FY27. To better assess long-term performance, management reviewed the five-year average compound annual growth (CAGR) for the increase in operating revenues expenses. Over this period, operating revenues grew at an average CAGR of 9.4% (8.6% if we exclude the administrative fee on entry fees that was introduced in FY25), while operating expenses increased at an average CAGR of 5.2%, indicating that CW remains on a positive financial trajectory.

The FY27 budget also assumes full staffing, which is very unlikely to be fully realized given the historical presence of open positions. Due to salary savings experienced in FY26, the FY27 budget reflects modest declines in certain financial metrics, including net operating income (1.3m v 1.7m), net operating margin (4.2% v 5.6%), net operating margin adjusted (30.7% v 31.8%) and debt service coverage ratio (2.92 v 3.05). Although we are showing a slight decline in these metrics, CW is still exceeding the Fitch BBB rating for each.

FY27 budget places significant emphasis on upgrading outdated technology systems. CW's most recent cyber security audit identified several gaps in security and information technology best practices. Planned improvements include email encryption, phishing awareness training, multifactor authentication, and replacement of outdated network switches. Cybersecurity threats and potential business interruption pose substantial legal, financial, and service-related risks, which CW is actively working to mitigate. As a result, information technology-related operating expenses are increasing \$216k (23.1%) and technology-related capital expenditures total \$1.2m. CW's Director of IT has prioritized these capital expenditures based on urgency and security

risk, with higher-priority items scheduled for implementation first and lower-priority items contingent upon achieving budgeted entry fee targets.

Management worked closely with our Director of Marketing to establish the appropriate Independent Living (IL) occupancy assumptions for FY27. This includes 25 sales and 24 turnovers, resulting in a stable IL occupancy rate of 94.4%, generating \$13.3 million in new entry fees. After factoring in the proposed 5% increase in IL monthly service fees and a 10% increase in entry fees, CW determined that while our entrance fees remain slightly below our competition, our monthly service fees are competitive. FY26 marked a record high in occupancy and entrance fees, including occupying the previously hard-to-fill smaller units, some of which had been vacant for over two years. While this achievement positively impacts operating income, it limits the availability of units to market without turnover, which can lead to reduced entry fees.

Additionally, we worked with our Director of Nursing, and Administrator to establish appropriate occupancy assumptions for Assisted Living (AL), Memory Support (MS), and Nursing Services (NS), as outlined below, and recommends a 5% increase in their respective monthly service fees. Occupancy is a critical factor for a Continuing Care Retirement Community (CCRC) like CW, and maintaining the budgeted average occupancy is essential. The inability to reduce expenses in Manor East during periods of reduced occupancy places significant pressure on meeting budgeted occupancy targets. Without reaching and sustaining these targets, it is unlikely, without new revenue streams, that we will meet the budgeted net operating income. In the FY27 budget, the following census assumptions were made, and management is confident in its ability to achieve them:

	<u>Occupancy %</u>	<u>Units Occupied</u>	<u>Units Available</u>
Independent Living (IL)	94.4%	218	231
Assisted Living (AL)	89.7%	35	39
Memory Support (MS)	81.0%	17	21
Nursing (NS)	<u>88.7%</u>	<u>55</u>	<u>62</u>
<b>Total</b>	<b>92.1%</b>	<b>325</b>	<b>353</b>

This budget will serve as a tool for monitoring financial performance throughout the year, guiding management decisions, and ensuring alignment with our mission and strategic plan. Management will continue to focus on expense management, operational efficiencies, reducing employee turnover, improving retention, and enhancing service delivery. FY27 will continue to focus on core fundamentals of operations, demonstrating to the Board, lenders, and other stakeholders that Covenant Woods will remain profitable, leading CCRC with a strong financial future.

**Covenant Woods**  
**Income Statement by Category**  
**FY27 - April 1, 2026 - March 31, 2027**

	<b>FY27</b>	<b>FY26</b>		<b>%</b>	<b>FY26</b>		<b>%</b>
	<b>Budget</b>	<b>Projection</b>	<b>\$ Variance</b>	<b>Variance</b>	<b>Budget</b>	<b>\$ Variance</b>	<b>Variance</b>
Unrestricted revenue, gains, and other support:							
Residential Services - Independent	\$18,933,075	\$18,006,572	\$926,503	5.1%	17,623,111	1,309,964	7.4%
Residential Services - Assisted Living, net of contractals	4,249,545	3,914,211	\$335,334	8.6%	4,010,277	239,268	6.0%
Residential Services - Nursing, net of contractals	6,573,892	6,613,832	(\$39,940)	(0.6%)	6,961,370	(387,478)	(5.6%)
Therapy, net of contractals	462,306	450,407	\$11,899	2.6%	18,707	443,599	2371.3%
Amortization of Entrance Fees	7,316,218	7,744,186	(\$427,968)	(5.5%)	7,469,960	(153,742)	(2.1%)
Administrative Fee on New Entrance Fees	1,070,268	1,013,189	\$57,079	5.6%	954,121	116,147	12.2%
Covenant Program	(528,324)	(500,852)	(\$27,472)	5.5%	(528,330)	6	(0.0%)
Covenant Fund Income & Reimbursement	528,324	500,852	\$27,472	5.5%	-	528,324	0.0%
Gifts and donations	241,896	158,641	\$83,255	52.5%	198,000	43,896	22.2%
Interest and dividend income	1,421,453	1,473,934	(\$52,481)	(3.6%)	1,193,764	227,689	19.1%
Net realized gain (loss) on sale of investments	0	692,900	(\$692,900)	(100.0%)	-	-	0.0%
Other	798,900	870,496	(\$71,596)	(8.2%)	1,160,200	(361,300)	(31.1%)
	<b>41,067,553</b>	<b>40,938,368</b>	<b>129,185</b>	<b>0.3%</b>	<b>39,061,180</b>	<b>2,006,373</b>	<b>5.1%</b>
Expenses:							
Salaries	18,756,924	17,308,583	(1,448,341)	(8.4%)	18,171,570	(585,354)	(3.2%)
Benefits	2,019,074	1,890,449	(128,625)	(6.8%)	1,773,112	(245,962)	(13.9%)
Supplies and materials	745,409	698,200	(47,209)	(6.8%)	925,574	180,165	19.5%
Depreciation and amortization	6,309,308	6,325,744	16,436	0.3%	6,423,248	113,940	1.8%
Repairs and maintenance	1,213,266	1,047,955	(165,311)	(15.8%)	1,013,343	(199,923)	(19.7%)
Professional fees	522,755	453,828	(68,927)	(15.2%)	555,362	32,607	5.9%
Food	1,954,588	1,828,301	(126,287)	(6.9%)	1,937,853	(16,735)	(0.9%)
Occupancy costs	1,930,372	1,964,314	33,942	1.7%	1,942,287	11,915	0.6%
Taxes	1,113,735	1,099,354	(14,381)	(1.3%)	1,016,721	(97,014)	(9.5%)
Insurance	604,368	553,091	(51,277)	(9.3%)	590,684	(13,684)	(2.3%)
Interest	3,651,442	3,744,868	93,426	2.5%	3,761,645	110,203	2.9%
Other	1,918,496	2,330,410	411,914	17.7%	1,871,932	(46,564)	(2.5%)
	<b>40,739,737</b>	<b>39,245,097</b>	<b>(1,494,640)</b>	<b>(3.8%)</b>	<b>39,983,331</b>	<b>(756,406)</b>	<b>(1.9%)</b>
Operating Income (Loss)	<b>327,816</b>	<b>1,693,271</b>	<b>(1,365,455)</b>	<b>(80.6%)</b>	<b>(922,151)</b>	<b>(1,249,967)</b>	<b>135.5%</b>
Other changes in unrestricted net assets:							
Net unrealized gain (loss) on investments	0	3,924,558	(3,924,558)	(100.0%)	-	0	0.0%
Increase (decrease) in unrestricted net assets	<b>327,816</b>	<b>5,617,829</b>	<b>(5,290,013)</b>	<b>94.2%</b>	<b>(922,151)</b>	<b>1,249,967</b>	<b>135.5%</b>

**Covenant Woods**  
**Operating Income Statement by Department**  
**FY27 - April 1, 2026 - March 31, 2027**

	<b>FY27</b>	<b>FY26</b>		<b>%</b>	<b>FY26</b>		<b>%</b>
	<b>Budget</b>	<b>Projection</b>	<b>\$ Variance</b>	<b>Variance</b>	<b>Budget</b>	<b>\$ Variance</b>	<b>Variance</b>
<b>Operating Revenues</b>							
Independent Living	\$18,933,075	\$18,006,572	\$926,503	5.1%	17,623,111	1,309,964	7.4%
Residential Services - Assisted Living, net of contractals	2,722,600	2,523,592	\$199,008	7.9%	2,585,104	137,496	5.3%
Residential Services - Memory Support, net of contractals	1,526,945	1,390,619	\$136,326	9.8%	1,425,173	101,772	7.1%
Residential Services - Nursing, net of contractals	6,573,892	6,613,832	(\$39,940)	(0.6%)	6,961,370	(387,478)	(5.6%)
Therapy, net of contractual	462,306	450,407	\$11,899	2.6%	18,707	443,599	2371.3%
Covenant Program	(528,324)	(500,852)	(\$27,472)	5.5%	(528,330)	6	(0.0%)
Covenant Fund Income & Reimbursement	528,324	500,852	\$27,472	5.5%	-	528,324	0.0%
Administrative Fee on New Entrance Fees	1,070,268	1,013,189	\$57,079	5.6%	954,121	116,147	12.2%
Catering	0	82,782	(\$82,782)	(100.0%)	459,100	(459,100)	(100.0%)
Other Revenues	798,900	787,714	\$11,186	1.4%	701,100	97,800	13.9%
<b>Total Operating Revenues</b>	<b>32,087,986</b>	<b>30,868,707</b>	<b>1,219,279</b>	<b>3.9%</b>	<b>30,199,456</b>	<b>1,888,530</b>	<b>6.3%</b>
<b>Operating Expenses</b>							
Accounting	1,001,391	967,519	(33,872)	(3.5%)	1,001,103	(288)	(0.0%)
Administration	1,528,855	1,829,226	300,371	16.4%	1,715,523	186,668	10.9%
Assisted Living	1,472,811	2,148,417	675,606	31.4%	2,339,769	866,958	37.1%
Catering	0	108,684	108,684	100.0%	484,030	484,030	100.0%
Development	217,424	195,384	(22,040)	(11.3%)	205,867	(11,557)	(5.6%)
Dining	5,970,459	5,765,478	(204,981)	(3.6%)	5,772,682	(197,777)	(3.4%)
Facilities	3,594,412	3,416,453	(177,959)	(5.2%)	3,569,314	(25,098)	(0.7%)
Housekeeping	1,703,012	1,636,241	(66,771)	(4.1%)	1,667,034	(35,978)	(2.2%)
Human Resources	684,720	719,814	35,094	4.9%	721,603	36,883	5.1%
Information Technology	1,150,986	934,885	(216,101)	(23.1%)	903,786	(247,200)	(27.4%)
Insurance & Taxes	1,718,103	1,674,683	(43,420)	(2.6%)	1,607,405	(110,698)	(6.9%)
Laundry	204,041	185,624	(18,417)	(9.9%)	194,546	(9,495)	(4.9%)
Marketing	1,121,083	1,084,906	(36,177)	(3.3%)	1,104,564	(16,519)	(1.5%)
Memory Support	1,159,505	0	(1,159,505)	0.0%	-	(1,159,505)	0.0%
Nursing	4,798,817	4,091,919	(706,898)	(17.3%)	4,099,582	(699,235)	(17.1%)
Nursing Administration	962,856	1,282,316	319,460	24.9%	1,326,362	363,506	27.4%
Spiritual Care	258,991	176,137	(82,854)	(47.0%)	178,611	(80,380)	(45.0%)
Resident Services	1,299,504	1,193,968	(105,536)	(8.8%)	1,145,421	(154,083)	(13.5%)
Security	491,720	401,069	(90,651)	(22.6%)	362,319	(129,401)	(35.7%)
Therapy	1,141,613	1,086,299	(55,314)	(5.1%)	1,130,121	(11,492)	(1.0%)
Transportation	268,681	248,039	(20,642)	(8.3%)	258,152	(10,529)	(4.1%)
<b>Total Operating Expenses</b>	<b>30,748,984</b>	<b>29,147,061</b>	<b>(1,601,923)</b>	<b>(5.5%)</b>	<b>29,787,794</b>	<b>(961,190)</b>	<b>(3.2%)</b>
<b>Net Operating Income</b>	<b>1,339,002</b>	<b>1,721,646</b>	<b>(382,644)</b>		<b>411,662</b>	<b>927,340</b>	
<b>Net Operating Margin</b>	<b>4.2%</b>	<b>5.6%</b>	<b>-1.4%</b>		<b>1.4%</b>	<b>2.8%</b>	
<b>Non-Operating Income</b>							
Interest & Dividend Income	1,421,453	1,473,934	(52,481)	(3.6%)	1,193,764	227,689	19.1%
Realized Gain (Loss) on Investments	0	692,900	(692,900)	(100.0%)	-	0	0.0%
Unrealized Gain (Loss) on Investments	0	3,924,558	(3,924,558)	(100.0%)	-	0	0.0%
Amortization of Entrance Fees	7,316,218	7,744,186	(427,968)	(5.5%)	7,469,960	(153,742)	(2.1%)
Gifts & Donations	241,893	158,641	83,252	52.5%	198,000	43,893	22.2%
<b>Total Non-Operating Revenues</b>	<b>8,979,564</b>	<b>13,994,219</b>	<b>(5,014,655)</b>	<b>(35.8%)</b>	<b>8,861,724</b>	<b>117,840</b>	<b>1.3%</b>
<b>Non-Operating Expenses</b>							
Depreciation & Amortization	6,309,308	6,325,744	16,436	0.3%	6,423,248	113,940	1.8%
Interest Expense	3,651,442	3,744,868	93,426	2.5%	3,761,645	110,203	2.9%
Gift Related Expenses	30,000	27,424	(2,576)	(9.4%)	10,644	(19,356)	0.0%
Net Realized Loss (Gain) on Disposal of Assets	0	0	0	0.0%	-	0	0.0%
<b>Total Non-Operating Expense</b>	<b>9,990,750</b>	<b>10,098,036</b>	<b>107,286</b>	<b>1.1%</b>	<b>10,195,537</b>	<b>(204,787)</b>	<b>(2.0%)</b>
<b>Net Income (Loss)</b>	<b>327,816</b>	<b>5,617,829</b>	<b>(5,290,013)</b>		<b>(922,151)</b>	<b>1,249,967</b>	

**Covenant Woods  
Covenants - FY27**

<b>Debt Service Coverage Ratio (requirement 1.00)</b>	
<b>Change in Unrestricted Net Assets</b>	327,819
<b>Non-cash Transactions:</b>	
Add: Depreciation	6,309,308
Add: Unrealized Loss / Subtract Unrealized Gain	-
Less: Entrance Fee Amortization	(7,316,218)
Change in Investment in Subsidiary	-
<b>Cash Transactions:</b>	
Add: Interest Expense	3,651,442
Add: Loss of Disposal of Assets / Subtract Gain on Disposal	-
Add: Entrance Fees Received	13,378,345
Less: Entrance Fee Refunded	(1,112,889)
<b>Income Available for Debt Service</b>	<b>15,237,806</b>
<b>Maximum/Required Annual Debt Service</b>	<b>5,211,784</b>
<b>Long-Term Debt Service Coverage Ratio</b>	<b>2.92</b>

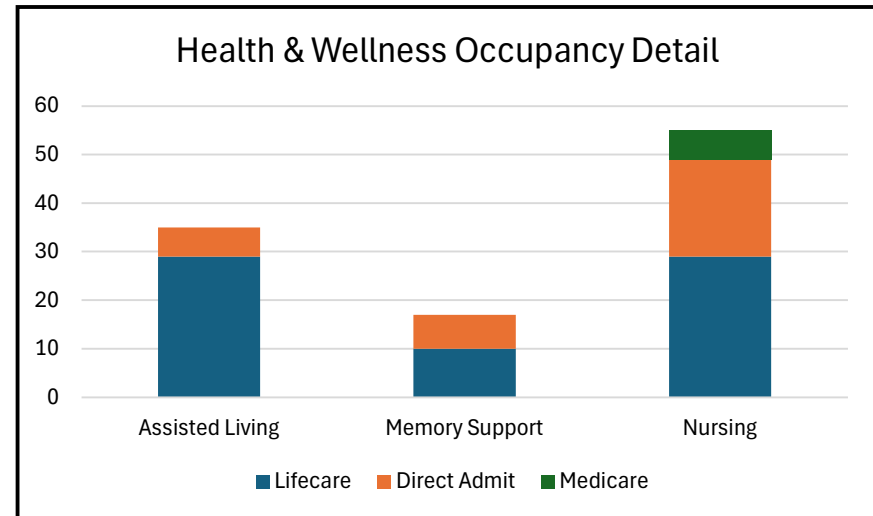
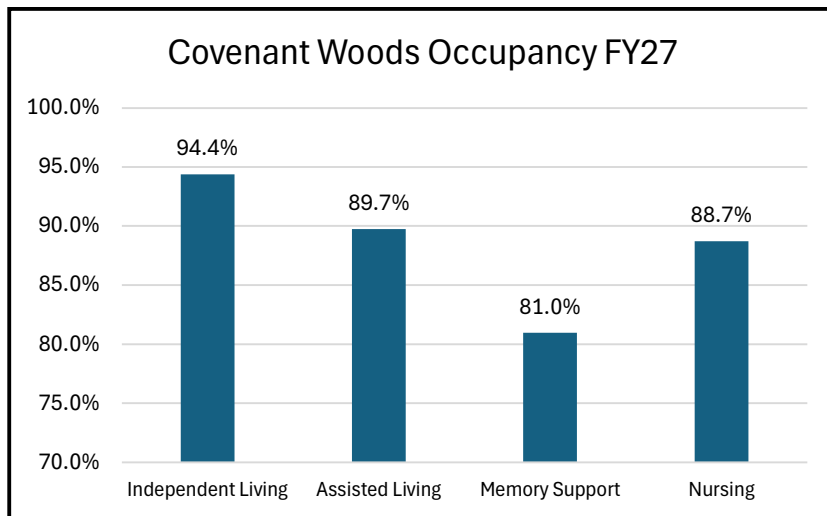
<b>Days Cash on Hand (requirement 150)</b>	
Cash & Cash Equivalents	8,150,286
Investments	41,776,504
<b>Total Unrestricted Cash</b>	<b>49,926,790</b>
Total Expenses	40,739,731
Less: Depreciation & Amortization	(6,309,308)
<b>Total Cash Expenses</b>	<b>34,430,423</b>
<b>Daily Cash Operating Expenses</b>	<b>94,330</b>
Days Cash on Hand	529

**Covenant Woods  
FY27 Budgeted Occupancy**

<b>Occupancy by Level of Care</b>	<b>Available Units</b>	<b>Budgeted Occupied</b>	<b>% Occupied</b>
Independent Living	231	218	94.4%
Assisted Living	39	35	89.7%
Memory Support	21	17	81.0%
Nursing	62	55	88.7%
<b>Overall</b>	<b>353</b>	<b>325</b>	<b>92.1%</b>

<b>Independent Living Detail</b>	
Number of IL Settlements	25
Entrance Fees (25)	13,378,345
Refunds	(1,112,889)
<b>Net Entrance Fees</b>	<b>12,265,456</b>
<i>Average Entrance Fee</i>	<i>535,134</i>

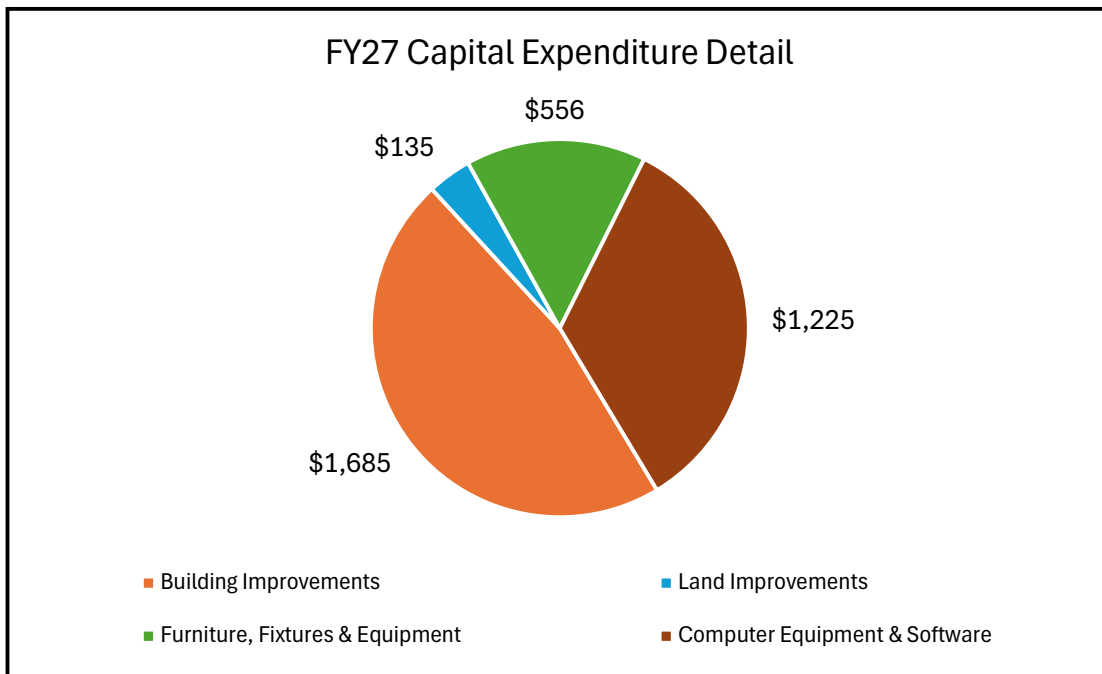
<b>Health &amp; Wellness Occupancy</b>	<b>Lifecare</b>	<b>Direct Admit</b>	<b>Medicare</b>	<b>Total</b>	<b>Available</b>	<b>% Occupied</b>
Assisted Living	29	6	0	35	39	89.7%
Memory Support	10	7	0	17	21	81.0%
Nursing	29	20	6	55	62	88.7%
<b>Health &amp; Wellness Overall</b>	<b>68</b>	<b>33</b>	<b>6</b>	<b>107</b>	<b>122</b>	<b>87.7%</b>
<i>Payor Percentage</i>	<i>63.6%</i>	<i>30.8%</i>	<i>5.6%</i>			



**Covenant Woods  
FY27 Capital Budget**

	<b>FY27</b>	<b>% of Budget</b>
Land	-	0.0%
Building	\$ 800	18.2%
Building Improvements	\$ 1,685	38.3%
Land Improvements	\$ 135	3.1%
Furniture, Fixtures & Equipment	\$ 556	12.6%
Computer Equipment & Software	\$ 1,225	27.8%
Vehicles	\$ -	0.0%
<b>Total Capital Spending</b>	<b>\$ 4,401</b>	<b>100.0%</b>

% of Revenue **14.6%**



**Lifecare Contract - FY27**

			<u>Declining</u>	<u>50% Guaranteed</u>	<u>Guaranteed</u>	
	<u># Of Units</u>	<u>Square Footage</u>	<u>Balance (Full Life Care)</u>	<u>Refund (Full Life Care)</u>	<u>Refund (Full Life Care)</u>	<u>Monthly Fee</u>
<b><u>Apartments (The Manor)</u></b>						
Rowan/Primrose/Bayberry	28	770	320,650	448,910	593,203	4,751
Hawthorn	17	975	409,983	573,977	758,469	5,272
Laurel	2	1100	458,222	641,512	847,711	5,948
Laurel Deluxe	6	1214	505,711	707,995	935,566	6,313
Aster	2	1131	471,136	659,590	871,602	5,879
Camellia	12	1299	541,119	757,566	1,001,071	6,483
Cypress	12	1319	549,450	769,231	1,016,483	6,582
Holly	6	1317	548,618	768,064	1,014,942	6,573
Holly II	6	1317	548,618	768,064	1,014,942	6,573
Willow	12	1332	554,866	776,813	1,026,502	6,648
<b><u>Apartments (The Lodge)</u></b>						
Iris	17	1028	424,190	593,866	784,752	5,558
Azalea	5	1230	512,376	717,327	947,896	6,395
Violet	18	1336	556,532	779,146	1,029,584	6,946
Sage	22	1462	620,511	868,715	1,147,944	7,601
Wisteria	10	1582	671,441	940,019	1,242,167	7,895
Heather	6	1625	676,920	947,688	1,253,512	8,110
Hyacinth	5	1660	684,026	957,636	1,265,448	8,285
Garden Hyacinth	1	1505	626,931	877,705	1,159,824	6,782
<b><u>Cottages</u></b>						
Bartlett	4	1510	642,878	900,029	1,189,325	6,363
Cortland	4	1628	693,116	970,363	1,282,265	6,861
York	9	1762	750,166	1,050,233	1,386,597	7,425
Magnolia	5	1987	821,320	1,149,847	1,519,442	8,373
Mulberry	4	1520	647,136	905,990	1,197,201	6,406
Spruce	7	1710	728,028	1,019,239	1,346,851	7,206
Poplar	5	1785	759,959	1,063,942	1,405,923	7,522
Hickory	6	1855	789,761	1,105,665	1,461,057	7,817
Second Person Entrance Fee			119,520	164,160	227,520	2,160
<b>Total / Weighted Average</b>	<b>231</b>	<b>1,319</b>	<b>553,505</b>	<b>774,907</b>	<b>1,023,968</b>	<b>6,564</b>

**Fee for Service Contract - FY27**

	<u># Of Units</u>	<u>Square Footage</u>	<u>Declining Balance</u>	<u>Monthly Fee</u>
<b><u>Apartments (The Manor)</u></b>				
Rowan/Primrose/Bayberry	28	770	256,520	3,362
Hawthorn	17	975	327,986	3,954
Laurel	2	1100	366,578	4,461
Laurel Deluxe	6	1214	404,568	4,735
Aster	2	1131	376,909	4,410
Camellia	12	1299	432,896	4,862
Cypress	12	1319	439,560	4,937
Holly	6	1317	438,894	4,929
Holly II	6	1317	438,894	4,929
Willow	12	1332	443,893	4,986
<b><u>Apartments (The Lodge)</u></b>				
Iris	17	1028	339,352	4,168
Azalea	5	1230	409,901	4,797
Violet	18	1336	445,226	5,210
Sage	22	1462	496,409	5,702
Wisteria	10	1582	537,153	5,921
Heather	6	1625	541,536	6,083
Hyacinth	5	1660	547,221	6,213
Garden Hyacinth	1	1505	501,545	5,087
<b><u>Cottages</u></b>				
Bartlett	4	1510	514,302	4,772
Cortland	4	1628	554,493	5,147
York	9	1762	600,133	5,569
Magnolia	5	1987	722,395	6,280
Mulberry	4	1520	517,708	4,804
Spruce	7	1710	582,421	5,405
Poplar	5	1785	673,307	5,642
Hickory	6	1855	697,149	5,863
Second Person Entrance Fee			77,760	2,160
<b>Total / Weighted Average</b>	<b>231</b>	<b>1,319</b>	<b>447,330</b>	<b>4,899</b>

	<u># Of Beds</u>	<u>Approximate Square Footage</u>	<u>Lifecare Contract Daily Fee</u>	<u>Fee for Service Daily Fee</u>
Assisted Living - Standard Care	39	410	266	266
Assisted Living - Memory Care	21	340	309	309
Nursing Care	62	290	433	433