



Embracing the Future

2023 Annual Report



THE PAST YEAR was a continuation of recovery from the impact of the pandemic and meeting the ever-changing landscape of today's economy. Through it all, Covenant Living experienced a renewed sense of focus on embracing the future, especially for two of its most important assets: residents and employees. The organization experienced affirmations of its sound fiscal practices, a goal of maintaining and growing occupancy and honing in on the roadmap for the future with its strategic aspiration, including community growth and an eye on being even more resident and employee centric.



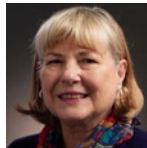






Janet Sullivan Creaney, Board Chair

Introduction



THE ANNUAL REPORT gives us an opportunity to remind ourselves about all that has been accomplished over the past year, but also to see how all of what has been done is really a roadmap for the future. The theme of Embracing the Future is fitting for our organization as it truly sets the tone of how the board of directors and the Covenant Living leadership team view our roles and all the possibilities ahead.

Looking back, it is invigorating to see the work that has been done to ramp up the resident and employee experience. Our employees are committed and passionate about our residents and provide exceptional service. Acknowledging that enhanced benefits, leadership training and recognition create an even better

place to work. We listen to our residents through surveys and conversations to get an understanding of how we can provide a better way of life.

We are seeing growth, not only through occupancy in all levels of living, but through planned renovations, expansions, and community updates. Covenant Living communities are in desirable locations and staying up to date keeps us competitive and marketable choices for senior living.

As we embrace the future, we are all in it together—working and planning for what is ahead. Living and working in community, solidified by our faith, heritage, and sound fiscal practices puts a bright light on what Covenant Living is and growing to become.



Terri Cunliffe, President and Chief Executive Officer

Embracing the Future

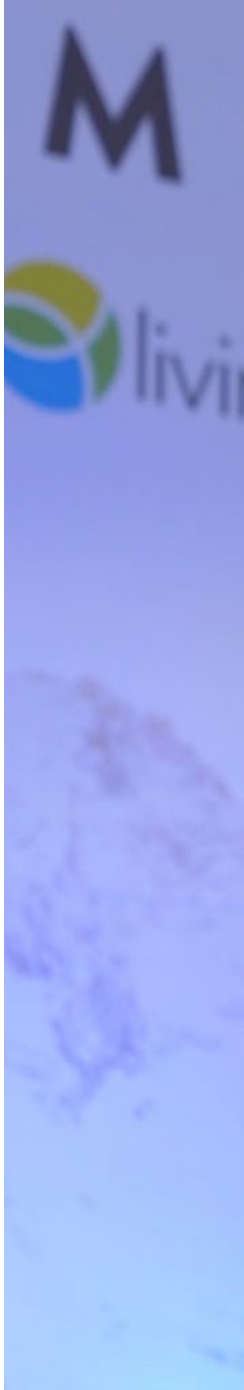


AS I REFLECT on my 36 years of service to Covenant Living Communities and Services, I am reminded of the many blessings I have received through relationships with past and current staff, leaders and residents. I recently read the poem “The Dash,” which illustrates the importance of the dash between two dates. Too often we focus on the specific dates associated with the beginning and end, but as noted in this poem, it is what happens during the dash in between those dates that really matters.

Today, I think about the dash between my start at Covenant Living in 1988 and my retirement in 2024. There have been many personal and professional

blessings and challenges. Covenant Living is a strong organization—financially, operationally, and lead by seasoned and capable leaders. It is well positioned for change. The next leader will begin a new season of growth and re-envisioning future plans to meet resident and employee expectations while sustaining financial strength.

As I prepared for my new role as President and CEO in June 2015, I was inspired by the words found in a devotional. “Let me prepare you for the day that stretches out before you. I know exactly what this day will contain, whereas you have only vague ideas about it. I will not show you what is on the road ahead, but I will thoroughly equip you for the journey.”





Now, as I prepare for retirement in May 2024, these same words comfort me. I am confident Covenant Living will continue to be lead well and I believe God has equipped me for this new season of life.

Thank you to the board, leaders, staff, residents, families and business partners who have taught and inspired me over the past 36 years.





Embracing the Future

... through Strategic Planning

IN 2023, Covenant Living's board of directors approved a refresh of our strategic plan to build upon the vision for the future. It started with an updated strategic aspiration, which states "Covenant Living Communities and Services will be a resident- and employee-centric organization, where people have purpose and value, while maintaining financial strength."

To achieve this aspiration, it meant looking at our key strategic pillars—of business optimization and transformation, improvement of the resident and employee experience, and growth through communities and services—and adding a fourth pillar of organizational impact.

These pillars are crucial areas of focus as we look at the changing workforce, aging population and needs for providing services and overall culture of the organization.

Business optimization and transformation

We continue to look at maximizing revenue by creating efficient processes, eliminating waste, and finding the best systems, resources, and tools for financial and operational success. This also includes improving employee retention, strategic workforce planning and management and seeking improvements to revenue cycle management.



Resident Experience

The resident experience is a vital part of providing a better way of life. Covenant Living is improving in this area by enhancing their initial move-in with the Heart of Welcome program, taking a closer look at improving the dining experience throughout all levels of living and continued focus on memory care programming.

Employee Experience

Employees joining the Covenant Living family are welcomed through an enhanced orientation. Recognition is improving through Inspired to Serve and programs are in place for leadership development as well as a focus on employee development and career pathing.





Growth through Communities and Services

Covenant Living continues to look at growth in a variety of ways from building out on vacant land at existing communities to reviewing opportunities for potential acquisitions and affiliations with organizations of similar values and other ancillary business opportunities.

Organizational Impact

Covenant Living's culture is one of serving and giving. We are beginning to hone in on our culture of philanthropy and developing additional ways for giving. In addition, we are taking steps at diving more into diversity, equity, inclusion, and belonging for the organization. We are in the beginning stages of better understanding our environmental impact and what that means socially and through governance.







Embracing the Future

... for Residents & Employees

For Residents

Listening to our residents and their input was a key initiative this past year with a survey conducted to get a pulse on what residents are thinking about their experiences and the organization. The survey, held in May 2023, had a 77.5 percent response rate. Among the highest scoring factors were safety in the community, quality of concierge, quality of fitness programs, being valued as a person and quality of spiritual life programs. Also of note, more than 86 percent of respondents stated favorably that they would recommend their community to a friend or relative. Another resident survey is scheduled for spring of 2024.

For Employees

Covenant Living has taken a very proactive approach when it comes to facing the workforce challenges head on. Over the course of the past year, our human resources department has bolstered its efforts in handling and managing centralized recruiting for the organization. This has eliminated recruiting agency fees and provides for a core internal team to actively recruit for the variety of open positions across the country.

With additional focus on employee retention and enhancing the employee experience, Covenant Living hosted Base Camp, a two-day leadership training for mid-level managers from across the country. Attendees



were able to network with their peers and participate in workshops geared toward their disciplines.

Planning for Summit 2024—held in February—was well underway last year. Summit is an opportunity for leadership development for those in leadership positions from across the country. The three-day conference includes networking with peers, attending breakout sessions and hearing from top-level motivational speakers. The event is capped off by the Inspiration Awards ceremony, celebrating nominated employees from each community who have gone above and beyond in being inspired to serve.





Embracing the Future ... through Growth

in Occupancy

With the stigma of restrictions through the pandemic behind us, our sales and marketing teams have seen a steady increase in the number of residents seeking senior housing options in all levels of living. In particular, our health centers with skilled nursing care experienced an increase in occupancy.

In fact, Covenant Living had an 86 percent occupancy rate in skilled nursing in fiscal year 2023. That number is higher than the national average of just over 81 percent. Covenant Living's increase is a testament to our reputation of providing quality care, the dedication of each community's healthcare navigators and

relationships with local medical communities. Nationally, occupancy in independent and assisted living was 83.7 percent. Covenant Living's combined average occupancy of 88.3 percent—for all levels of care except Skilled Nursing—beat that number in fiscal year 2023. This too is a testament to our teams of sales representatives and their commitment to sharing what the Covenant Living lifestyle is all about.

in Physical Plant

Covenant Living of Northbrook broke ground in late November of 2023 for an expansion project that includes three new three-story Carriage Homes (pictured bottom center on following page). This will add 36 new one-and



two-bedroom apartments, each with a large patio or balcony, and private underbuilding garage. The project also includes a reimagined Town Center adding another 9,000 square feet with upgraded dining venues—both indoors and outdoors.

Plans and pre-sales are underway at Covenant Living of the Great Lakes for a new Cottage Homes development (pictured center top). Once finalized, the Cottage Homes, to be built on existing property of the community, will consist of 34 two-bedroom cottages with front porches and private garages.





Embracing the Future ... through Giving

COVENANT LIVING continues its rich legacy of benevolence through the generosity of those who give from the heart. The organization is able to discreetly provide financial assistance to residents who have outlived their resources, through no fault of their own, and remain in their communities which they call home.

Throughout fiscal year 2023, the theme of "Celebrate Community" was used to carry the message and promote a culture of giving. Gifts to benevolent care came in many forms—including annual galas, estate gifts and other cash contributions—from Covenant Living communities across the country.

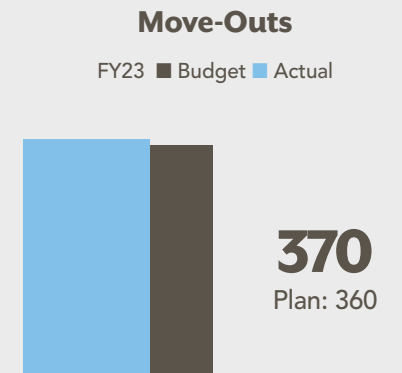
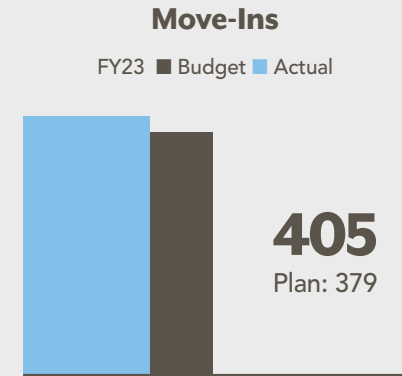
- Total Raised for Benevolent Care: \$4,777,000
- Contribution deposits in Benevolent Care Fund (from estate gifts): \$2,554,000
- All other benevolent care contributions (includes galas and other cash contributions): \$2,223,000

Covenant Living is blessed to have its residents, employees and business partners making an impactful difference in the lives of others—truly an indication that we are, through generosity, embracing the future.



Financials

THE ANNUAL independent audit of Covenant Living’s financials provides our board of directors and key stakeholders with a snapshot of Covenant Living’s financial position. Covenant Living maintains an “A-minus rating with stable outlook” standing with Fitch Ratings. This rating is based upon strong occupancy and operating performance, strong cash reserves and overall size with geographic diversity. Our fiscal year was October 1, 2022 through September 30, 2023.



Residential Living

AS OF SEPT 30, 2022

91.00 %

AS OF SEPT 30, 2023

92.00 %

Assisted Living

AS OF SEPT 30, 2022

79.00 %

AS OF SEPT 30, 2023

86.00%

Skilled Nursing

AS OF SEPT 30, 2022

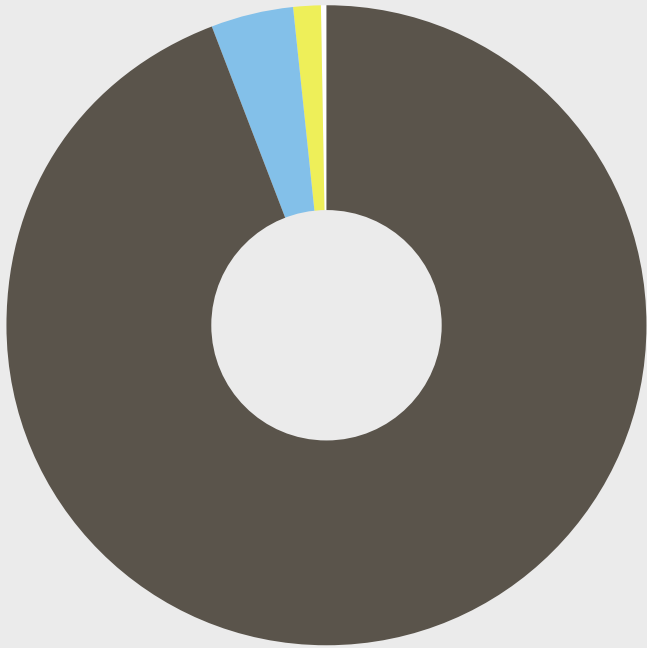
84.00 %

AS OF SEPT 30, 2023

86.00 %

Occupancy

End of year, not 12-month average

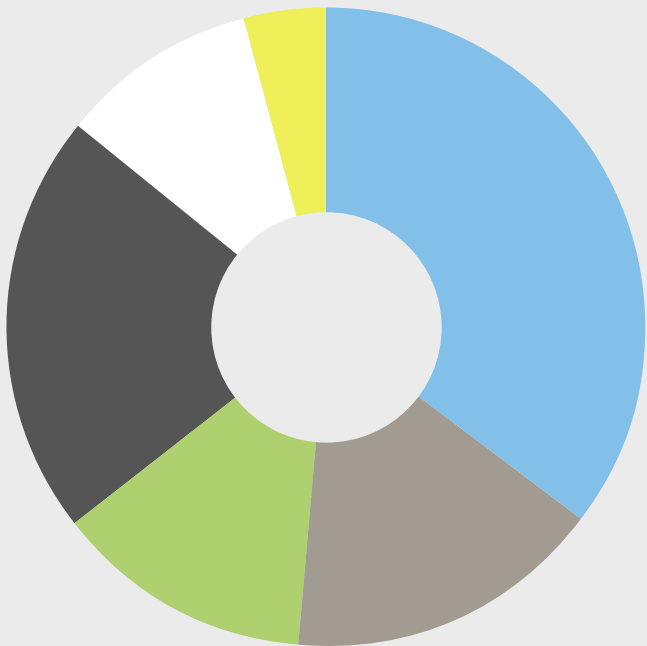
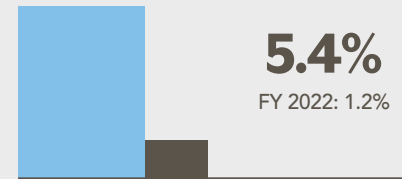


Total Revenues

- Continuing Care Retirement Communities, 93.8%
- CovenantCare at Home, 4.6%
- Senior Living Rental Communities, 1.3%
- Other, 0.2%

Operating Margin

- FY 2023
- FY 2022



Cost of Resident Care

- Nursing Services, 36%
- Dining Services, 16%
- Maintenance and Utilities, 12%
- Administrative and General, 21%
- Resident Benefits and Services, 10%
- Other, 4%

Consolidated Balance Sheet (in thousands)

As of September 30,	2022	2023
ASSETS		
Cash and cash equivalents	\$ 62,419	\$ 74,092
Notes and accounts receivable, net	22,089	23,471
Board designated investments:		
Benevolent care	80,400	90,964
Capital reserve	38,608	18,950
Other	219,413	239,567
Total board designated investments	338,421	349,481
Investments restricted under debt agreements	118,126	116,387
Property and equipment, net	772,056	777,593
Other assets	130,838	124,983
TOTAL ASSETS	\$ 1,443,949	\$ 1,466,007
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 44,534	\$ 43,490
Long-term debt	581,144	556,271
Other liabilities	267,298	265,220
Refundable contract liabilities	185,698	188,042
Deferred revenue from entrance fees	272,029	280,620
TOTAL LIABILITIES	1,350,703	1,333,643
Net assets:		
Without donor restrictions	73,727	111,317
With donor restrictions	19,519	21,047
Total net assets	93,246	132,364
TOTAL LIABILITIES AND NET ASSETS	\$ 1,443,949	\$ 1,466,007

Consolidated Statement of Operations (in thousands)

As of September 30,	2022	2023
OPERATING REVENUES		
Operating revenues	\$ 331,956	\$ 369,941
Amortization of deferred entrance fees	53,491	58,797
Total operating revenues	385,447	428,738
OPERATING EXPENSES		
Cost of resident care	309,143	327,391
Interest expense	17,439	19,842
Sales and marketing	16,453	17,435
Depreciation and amortization	61,173	65,088
Total operating expenses	404,208	429,756
INCOME (LOSS) FROM OPERATIONS	(18,761)	(1,018)
NONOPERATING REVENUE (EXPENSE), NET		
Investment income (loss)	(54,325)	40,834
Unrealized loss on derivative instrument	3,820	125
Contributions, net	(1,123)	(840)
Other nonoperating expense	(11,868)	(2,277)
Derivative instruments interest expense	(693)	517
INCOME (LOSS)	(82,950)	37,341
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Net assets released from restriction for capital purposes	357	249
Net asset transfer to related organization	-	-
Total other changes in unrestricted net assets	357	249
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (82,593)	\$ 37,590







Learn more at **CovLiving.org**



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