

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 6, 2025

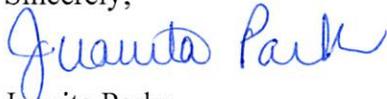
Covenant Woods, the obligated party on the above captioned bonds, is making this filing as the adopted annual budget for FY2026 related to Covenant Woods required in connection with the issuance of its Bonds.

Included in this package are:

1. Discussion & analysis for assumptions in the annual budget
2. FY2026 operating budget
3. Capital budget
4. FY2026 entrance fee and monthly service fee pricing

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

Sincerely,



Juanita Parks
Chief Financial Officer
Covenant Woods

FY26 Budget Discussion and Analysis

As FY2025 ends, Covenant Woods (CW) remains committed to enhancing income from operations and achieving a positive net operating income. The Financial Management focus in CW's strategic plan emphasized the goal of becoming a financially sustainable community that efficiently and effectively meets the needs of both current and future residents. This priority is reflected in the goals set forth in the FY26 budget. A few key factors for a successful financial year include the labor market, occupancy levels, and fiscal responsibility across the management team. The proposed FY26 budget aligns with the goals management established at the start of the budget process. This was accomplished using reasonable and attainable expense assumptions, a 5.5% increase in Independent Living monthly service fees, a 2.5% increase in Assisted Living, Memory Support, and Nursing monthly service fees, and a 10% increase in entrance fees to new residents, while also providing staff with a 3.5% increase in wages.

Ensuring the FY26 budget is realistic and achievable for management, the Board, and other stakeholders was a key priority in this year's budget process. This includes factoring in overtime, agency staff, capital expenditure allowances, and other potential costs. Overtime is projected at \$456k, or 3.3% of salaries, compared to the FY25 budgeted \$346k, or 2.4% of salaries. Similarly, agency staffing is projected to be \$330k, or 2.4% of salaries in FY25, and the FY26 budget forecasts \$289k, or 2.0% of salaries. Total salaries are budgeted to fully staff departments, allowing a slight cushion, as some departments do not replace staff immediately when positions become vacant. Total payroll-related expenses, including benefits and taxes, have increased by \$1 million (5.3%) from FY25 to FY26, now accounting for 66.9% of total operating expenses. Ensuring proper scheduling to minimize overtime and agency staff, reducing turnover, and maintaining adequate staffing levels are crucial to achieving the FY26 budget and represent significant risk areas.

We collaborated closely with Marketing to establish the appropriate Independent Living (IL) occupancy levels for the FY26 budget. This includes 27 sales and 27 turnovers, resulting in a stable IL occupancy rate of 91.7%, generating \$11.9 million in new entrance fees. After factoring in the proposed 5.5% increase in IL monthly service fees and a 10% increase in entrance fees, we found that while our entrance fees are still below our competition, our monthly service fees are in line. Additionally, we worked with Nursing Administration to determine appropriate occupancy levels for Assisted Living (AL), Memory Support (MS), and Nursing Services (NS), as outlined below, and recommend a 2.5% 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 FY26 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)	91.7%	211	230
Assisted Living (AL)	87.2%	34	39
Memory Support (MS)	81.0%	17	21
Nursing (NS)	<u>88.7%</u>	<u>55</u>	<u>62</u>
Total	90.1%	317	352

The assumptions included in the FY26 budget result in growth in both reported covenants, with Debt Service Coverage Ratio at 2.46x and Days Cash on Hand at 403 days, both exceeding the 1.0x and 150 days requirements, respectively.

FY26 capital budget totals \$3.6m, or \$1.4m over the FY25 budget. This includes two remaining cottage replacements that are currently not vacant but budgeted for in case they do become vacant.

This budget will serve as a tool for monitoring financial performance throughout the year, guiding decision-making, and ensuring we stay aligned with our mission and strategic plan. Management will continue to prioritize expense reduction, improve efficiencies, and identify opportunities to address the financial gap caused by the excess capacity mentioned above. Fiscal Year 2026 is a crucial year for returning to the core fundamentals of operations, demonstrating to the Board, lenders, and other stakeholders that Covenant Woods will become a profitable, leading CCRC with a strong financial future.

Covenant Woods
Income Statement by Category
FY26 - April 1, 2025 - March 31, 2026

	FY26	FY25		%	FY25		%
	Budget	Projection	\$ Variance	Variance	Budget	\$ Variance	Variance
Unrestricted revenue, gains, and other support:							
Residential Services - Independent	\$17,623,111	\$16,568,376	\$1,054,735	6.4%	16,350,115	1,272,996	7.8%
Residential Services - Assisted Living	4,967,258	4,712,493	\$254,765	5.4%	5,065,543	(98,285)	-1.9%
Residential Services - Nursing	8,706,361	7,903,822	\$802,539	10.2%	8,350,359	356,002	4.3%
Therapy, net of contractals	654,013	649,681	\$4,332	0.7%	483,042	170,971	35.4%
Amortization of Entrance Fees	7,469,960	7,501,645	(\$31,685)	-0.4%	7,379,987	89,973	1.2%
Covenant Program	(528,330)	(500,852)	(\$27,478)	5.5%	(420,000)	(108,330)	25.8%
Contractual Adjustment	(3,337,278)	(3,255,590)	(\$81,688)	2.5%	(3,564,021)	226,743	-6.4%
Gifts and donations	198,000	275,078	(\$77,078)	-28.0%	330,000	(132,000)	-40.0%
Interest and dividend income	1,193,764	1,227,385	(\$33,621)	-2.7%	1,117,151	76,613	6.9%
Net realized gain (loss) on sale of investments	0	66,875	(\$66,875)	-100.0%	250,000	(250,000)	-100.0%
Other	2,114,321	1,627,272	\$487,049	29.9%	1,691,424	422,897	25.0%
	39,061,180	36,776,185	2,284,995	6.2%	37,033,600	2,027,580	5.5%
Expenses:							
Salaries	18,171,570	16,842,231	(1,329,339)	-7.9%	16,186,359	(1,985,211)	-12.3%
Benefits	1,773,112	1,687,212	(85,900)	-5.1%	1,744,485	(28,627)	-1.6%
Supplies and materials	925,574	794,000	(131,574)	-16.6%	853,790	(71,784)	-8.4%
Depreciation and amortization	6,423,248	6,366,699	(56,549)	-0.9%	6,202,984	(220,264)	-3.6%
Repairs and maintenance	1,013,343	1,031,997	18,654	1.8%	1,037,301	23,958	2.3%
Professional fees	555,362	595,254	39,892	6.7%	413,817	(141,545)	-34.2%
Food	1,937,853	1,727,074	(210,779)	-12.2%	1,865,105	(72,748)	-3.9%
Occupancy costs	1,942,287	1,903,629	(38,658)	-2.0%	1,878,464	(63,823)	-3.4%
Taxes	1,016,721	1,020,389	3,668	0.4%	1,014,281	(2,440)	-0.2%
Insurance	590,684	604,969	14,285	2.4%	602,941	12,257	2.0%
Interest	3,761,645	3,813,229	51,584	1.4%	3,949,200	187,555	4.7%
Other	1,871,932	1,635,765	(236,167)	-14.4%	2,302,183	430,251	18.7%
	39,983,331	38,022,448	(1,960,883)	-5.2%	38,050,910	(1,932,421)	-5.1%
Operating Income (Loss)	(922,151)	(1,246,263)	324,112	-26.0%	(1,017,310)	(95,159)	9.4%
Excess of revenues, gains and other support over expenses	(922,151)	(1,246,263)	324,112	-26.0%	(1,017,310)	(95,159)	9.4%
Other changes in unrestricted net assets:							
Net unrealized gain (loss) on investments	0	879,461	(879,461)	-100.0%	550,000	550,000	100.0%
Increase (decrease) in unrestricted net assets	(922,151)	(366,802)	(555,349)	-151.4%	(467,310)	(454,841)	-97.3%

Covenant Woods
Operating Income Statement by Department
FY26 - April 1, 2025 - March 31, 2026

	FY26	FY25		%	FY25		%
	Budget	Projection	\$ Variance	Variance	Budget	\$ Variance	Variance
Operating Revenues							
Independent Living	\$17,623,111	\$16,568,376	\$1,054,735	6.4%	16,350,115	1,272,996	7.8%
Residential Services - Assisted Living	2,585,104	2,397,006	\$188,098	7.8%	2,397,809	187,295	7.8%
Residential Services - Memory Support	1,425,173	1,379,525	\$45,648	3.3%	1,493,502	(68,329)	(4.6%)
Residential Services - Nursing	6,326,064	6,080,774	\$245,290	4.0%	5,960,570	365,494	6.1%
Therapy, Net of Contractual	654,013	649,681	\$4,332	0.7%	483,042	170,971	35.4%
Covenant Program	(528,330)	(500,852)	(\$27,478)	5.5%	(420,000)	(108,330)	25.8%
Catering	459,100	449,550	\$9,550	2.1%	612,899	(153,799)	(25.1%)
Other Revenues	1,655,221	1,177,722	\$477,499	40.5%	1,078,525	576,696	53.5%
Total Operating Revenues	30,199,456	28,201,782	1,997,674	7.1%	27,956,462	2,242,994	8.0%
Operating Expenses							
Accounting	940,151	902,261	(37,890)	(4.2%)	920,654	(19,497)	(2.1%)
Administration	1,680,065	1,615,125	(64,940)	(4.0%)	1,672,351	(7,714)	(0.5%)
Assisted Living	2,128,947	2,095,793	(33,154)	(1.6%)	1,897,826	(231,121)	(12.2%)
Catering	458,139	496,217	38,078	7.7%	396,614	(61,525)	(15.5%)
Development	199,096	174,065	(25,031)	(14.4%)	170,344	(28,752)	(16.9%)
Dining	5,367,676	5,133,112	(234,564)	(4.6%)	5,082,890	(284,786)	(5.6%)
Facilities	3,476,094	3,333,116	(142,978)	(4.3%)	3,325,476	(150,618)	(4.5%)
Housekeeping	1,464,817	1,248,577	(216,240)	(17.3%)	1,298,193	(166,624)	(12.8%)
Human Resources	2,460,881	2,264,323	(196,558)	(8.7%)	2,343,543	(117,338)	(5.0%)
Information Technology	878,688	930,556	51,868	5.6%	973,812	95,124	9.8%
Insurance & Taxes	1,607,405	1,597,308	(10,097)	(0.6%)	1,616,022	8,617	0.5%
Laundry	180,204	165,389	(14,815)	(9.0%)	177,065	(3,139)	(1.8%)
Marketing	1,061,539	1,032,112	(29,427)	(2.9%)	1,075,451	13,912	1.3%
Nursing	3,782,059	3,773,733	(8,326)	(0.2%)	3,332,362	(449,697)	(13.5%)
Nursing Administration	1,240,097	1,139,634	(100,463)	(8.8%)	1,111,415	(128,682)	(11.6%)
Spiritual Care	171,440	144,695	(26,745)	(18.5%)	126,619	(44,821)	(35.4%)
Resident Services	1,050,910	960,344	(90,566)	(9.4%)	1,008,613	(42,297)	(4.2%)
Security	347,977	309,227	(38,750)	(12.5%)	277,817	(70,160)	(25.3%)
Therapy	1,063,791	795,303	(268,488)	(33.8%)	872,890	(190,901)	(21.9%)
Transportation	227,818	212,594	(15,224)	(7.2%)	218,768	(9,050)	(4.1%)
Total Operating Expenses	29,787,794	28,323,484	(1,464,310)	(5.2%)	27,898,725	(1,889,069)	(6.8%)
Net Operating Income	411,662	(121,702)	533,364		57,737	353,925	
Net Operating Margin	1.4%	-0.4%	1.8%		0.2%	1.2%	
Non-Operating Income							
Interest & Dividend Income	1,193,764	1,227,385	(33,621)	(2.7%)	1,117,151	76,613	6.9%
Realized Gain (Loss) on Investments	0	66,875	(66,875)	(100.0%)	250,000	(250,000)	(100.0%)
Unrealized Gain (Loss) on Investments	0	879,461	(879,461)	(100.0%)	550,000	(550,000)	(100.0%)
Amortization of Entrance Fees	7,469,960	7,501,645	(31,685)	(0.4%)	7,379,987	89,973	1.2%
Gifts & Donations	198,000	275,078	(77,078)	(28.0%)	330,000	(132,000)	(40.0%)
Total Non-Operating Revenues	8,861,724	9,950,444	(1,088,720)	(10.9%)	9,627,138	(765,414)	(8.0%)
Non-Operating Expenses							
Depreciation & Amortization	6,423,248	6,366,699	(56,549)	(0.9%)	6,074,824	(348,424)	(5.7%)
Interest Expense	3,761,645	3,813,229	51,584	1.4%	4,077,360	315,715	7.7%
Gift Related Expenses	10,644	16,262	5,618	34.5%	-	(10,644)	0.0%
Net Realized Loss (Gain) on Disposal of Assets	0	(645)	(645)	100.0%	-	0	0.0%
Total Non-Operating Expense	10,195,537	10,195,545	8	0.0%	10,152,184	43,353	0.4%
Net Income (Loss)	(922,151)	(366,803)	(555,348)		(467,309)	(454,842)	

**Covenant Woods
Covenants - FY26**

Debt Service Coverage Ratio (requirement 1.00)	
Change in Unrestricted Net Assets	(921,999)
Non-cash Transactions:	
Add: Depreciation	6,423,248
Add: Unrealized Loss / Subtract Unrealized Gain	-
Less: Entrance Fee Amortization	(7,469,960)
Change in Investment in Subsidiary	-
Cash Transactions:	
Add: Interest Expense	3,761,645
Add: Loss of Disposal of Assets / Subtract Gain on Disposal	-
Add: Entrance Fees Received	11,926,513
Less: Entrance Fee Refunded	(925,316)
Income Available for Debt Service	12,794,131
Maximum/Required Annual Debt Service	5,209,122
Long-Term Debt Service Coverage Ratio	2.46

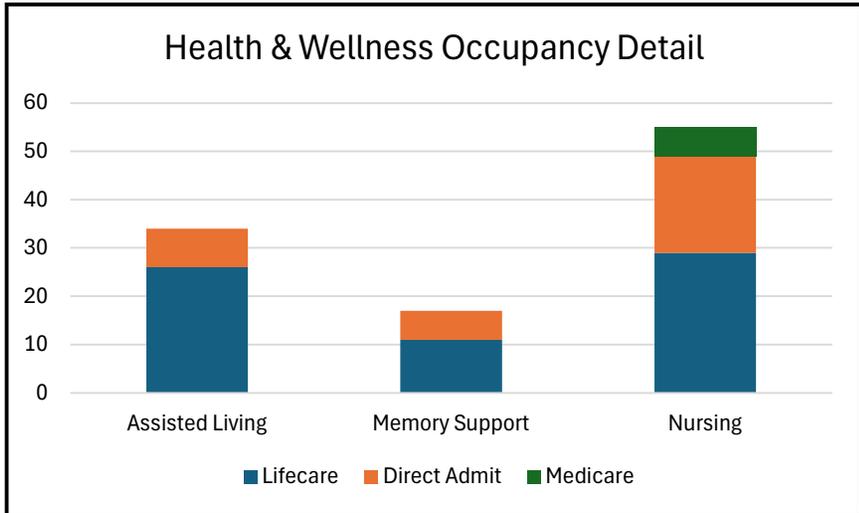
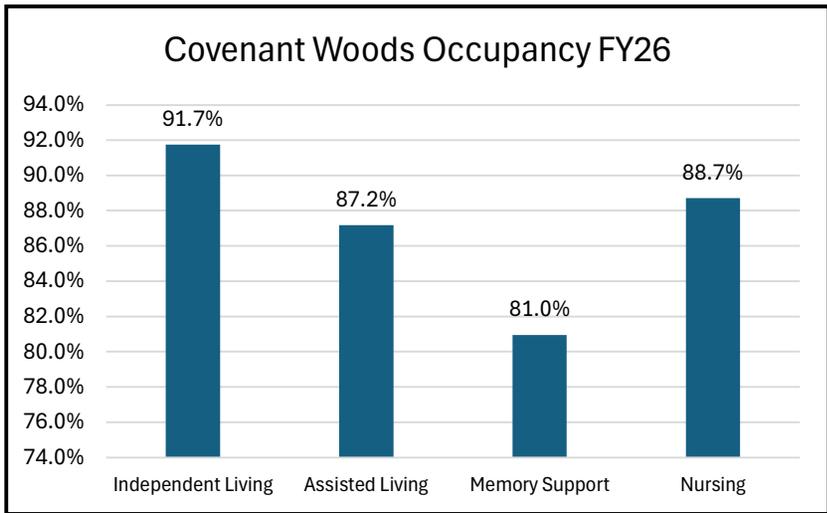
Days Cash on Hand (requirement 150)	
Cash & Cash Equivalents	2,706,133
Investments	34,305,363
Total Unrestricted Cash	37,011,496
Total Expenses	39,983,331
Less: Depreciation & Amortization	(6,423,248)
Total Cash Expenses	33,560,083
Daily Cash Operating Expenses	91,945
Days Cash on Hand	403

**Covenant Woods
FY026 Budgeted Occupancy**

Occupancy by Level of Care	Available Units	Budgeted Occupied	% Occupied
Independent Living	230	211	91.7%
Assisted Living	39	34	87.2%
Memory Support	21	17	81.0%
Nursing	62	55	88.7%
Overall	352	317	90.1%

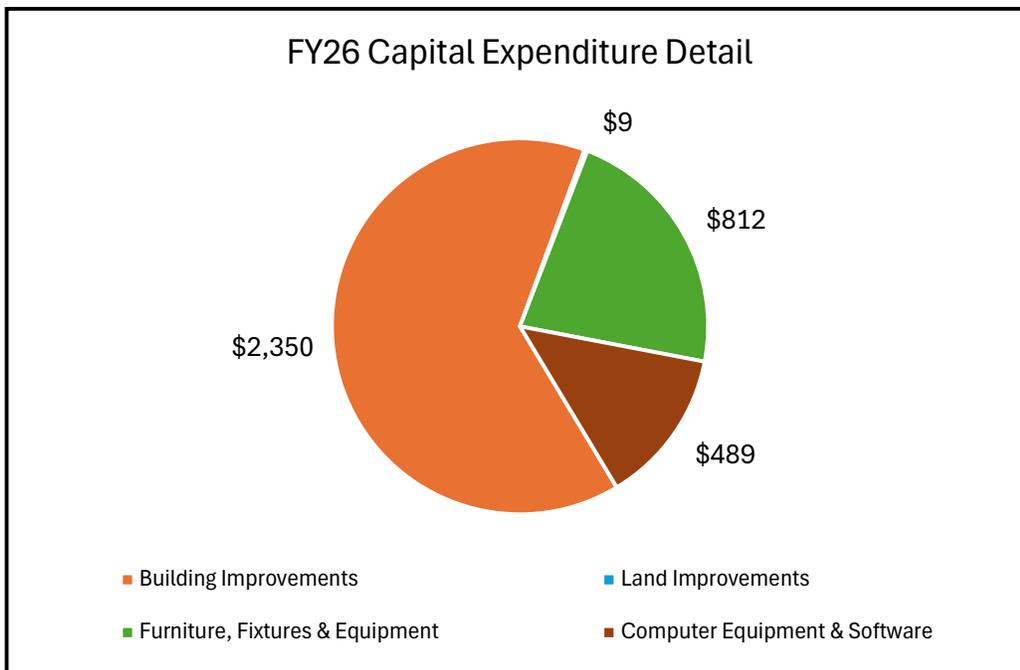
Independent Living Detail	
Number of IL Settlements	27
Entrance Fees (27)	11,926,513
Refunds	(925,316)
Net Entrance Fees	11,001,197
<i>Average Entrance Fee</i>	<i>441,723</i>

Health & Wellness Occupancy	Lifecare	Direct Admit	Medicare	Total	Available	% Occupied
Assisted Living	26	8	0	34	39	87.2%
Memory Support	11	6	0	17	21	81.0%
Nursing	29	20	6	55	62	88.7%
Health & Wellness Overall	66	34	6	106	122	86.9%
<i>Payor Percentage</i>	<i>62.3%</i>	<i>32.1%</i>	<i>5.7%</i>			



Covenant Woods FY26 Capital Budget

	FY26	% of Budget
Land	-	0.0%
Building	-	0.0%
Building Improvements	\$ 2,350	64.2%
Land Improvements	\$ 9	0.2%
Furniture, Fixtures & Equipment	\$ 812	22.2%
Computer Equipment & Software	\$ 489	13.4%
Vehicles	\$ -	0.0%
Total Capital Spending	3,659	100.0%
% of Revenue	12.1%	



Lifecare Contract - FY26

			<u>Declining</u>	<u>50% Guaranteed</u>	<u>Guaranteed</u>	
	<u>Square</u>	<u>Balance (Full</u>	<u>Refund (Full</u>	<u>Refund</u>	<u>(Full Life</u>	<u>Monthly</u>
<u># Of Units</u>	<u>Footage</u>	<u>Life Care)</u>	<u>Life Care)</u>	<u>(Full Life</u>	<u>Care)</u>	<u>Fee</u>
<u>Apartments (The Manor)</u>						
Rowan/Primrose/Bayberry	28	770	291,500	408,100	539,275	4,525
Hawthorn	17	975	372,712	521,797	689,517	5,021
Laurel	2	1100	416,566	583,193	770,647	5,664
Laurel Deluxe	6	1214	459,737	643,632	850,515	6,012
Aster	2	1131	428,306	599,628	792,365	5,599
Camellia	12	1299	491,927	688,697	910,064	6,174
Cypress	12	1319	499,500	699,301	924,076	6,269
Holly	6	1317	498,743	698,240	922,675	6,260
Holly II	6	1317	498,743	698,240	922,675	6,260
Willow	12	1332	504,424	706,193	933,184	6,331
<u>Apartments (The Lodge)</u>						
Iris	17	1028	385,627	539,878	713,411	5,293
Azalea	5	1230	465,796	652,115	861,724	6,091
Violet	18	1336	505,938	708,314	935,986	6,615
Sage	22	1462	564,101	789,741	1,043,585	7,239
Wisteria	10	1582	610,401	854,563	1,129,242	7,519
Heather	6	1625	615,382	861,534	1,139,556	7,724
Hyacinth	5	1660	621,842	870,579	1,150,408	7,890
Garden Hyacinth	1	1505	569,938	797,914	1,054,385	6,459
<u>Cottages</u>						
Bartlett	4	1510	584,434	818,209	1,081,204	6,060
Cortland	4	1628	630,105	882,148	1,165,695	6,535
York	9	1762	681,969	954,757	1,260,543	7,072
Magnolia	5	1987	746,655	1,045,316	1,381,311	7,975
Mulberry	4	1520	588,305	823,627	1,088,364	6,101
Spruce	6	1710	661,844	926,581	1,224,410	6,863
Poplar	5	1785	690,872	967,220	1,278,112	7,163
Hickory	6	1855	717,965	1,005,150	1,328,234	7,445
Second Person Entrance Fee			99,600	136,800	189,600	2,057
<i>Total / Weighted Average</i>	<i>230</i>	<i>1,318</i>	<i>502,496</i>	<i>703,495</i>	<i>929,604</i>	<i>6,249</i>

Fee for Service Contract - FY26

	<u># Of Units</u>	<u>Square Footage</u>	<u>Declining Balance</u>	<u>Monthly Fee</u>
<u>Apartments (The Manor)</u>				
Rowan/Primrose/Bayberry	28	770	233,200	3,202
Hawthorn	17	975	298,169	3,765
Laurel	2	1100	333,253	4,248
Laurel Deluxe	6	1214	367,789	4,509
Aster	2	1131	342,645	4,200
Camellia	12	1299	393,542	4,630
Cypress	12	1319	399,600	4,702
Holly	6	1317	398,994	4,695
Holly II	6	1317	398,994	4,695
Willow	12	1332	403,539	4,749
<u>Apartments (The Lodge)</u>				
Iris	17	1028	308,502	3,970
Azalea	5	1230	372,637	4,568
Violet	18	1336	404,751	4,962
Sage	22	1462	451,281	5,430
Wisteria	10	1582	488,321	5,639
Heather	6	1625	492,305	5,793
Hyacinth	5	1660	497,474	5,917
Garden Hyacinth	1	1505	455,950	4,845
<u>Cottages</u>				
Bartlett	4	1510	467,547	4,545
Cortland	4	1628	504,085	4,902
York	9	1762	545,576	5,303
Magnolia	5	1987	656,723	5,981
Mulberry	4	1520	470,644	4,576
Spruce	6	1710	529,474	5,147
Poplar	5	1785	612,097	5,373
Hickory	6	1855	633,772	5,584
Second Person Entrance Fee			64,800	2,057
Total / Weighted Average	230	1,318	406,129	4,663

10.0% 5.5%

	<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	253	253
Assisted Living - Memory Care	21	340	294	294
Nursing Care	62	290	412	412