



*Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information*

Covia Communities
(an Affiliate of Covia Group)

March 31, 2019 and 2018

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Report of Independent Auditors

To the Audit Committee
Covia Communities
(an Affiliate of Covia Group)

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Covia Communities (the “Communities”), an affiliate of Covia Group (the “Group”), which comprise the consolidated statements of financial position as of March 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Communities as of March 31, 2019 and 2018, and the consolidated results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the consolidated financial statements, as of and for the year ended March 31, 2019, the Communities adopted Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classifications of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the consolidated financial statements, on April 1, 2018, the Communities adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). The adoption of the standard resulted in additional footnote disclosures and has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules of consolidating statements of financial position, consolidating statements of activities and changes in net assets without donor restrictions information by location, and statements of cash flows (Covia Communities Obligated Group) as of and for the years ended March 31, 2019 and 2018, presented as supplementary information, are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

San Francisco, California
June 28, 2019

Consolidated Financial Statements

Covia Communities
(an Affiliate of Covia Group)
Consolidated Statements of Financial Position
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,238,418	\$ 9,107,370
Assets held by bond indenture trustee for current debt service	5,700,727	5,578,603
Marketable securities	144,192,515	138,912,363
Receivables, net of allowance for doubtful accounts of \$1,043,533 in 2019 and \$872,678 in 2018	13,538,503	9,110,632
Current portion of receivables - affiliated organizations	-	107,388
Current portion of pledges receivable, net of discount	363,698	71,504
Prepaid expenses, deposits, and other assets	<u>2,589,158</u>	<u>2,381,554</u>
Total current assets	<u>176,623,019</u>	<u>165,269,414</u>
ASSETS WHOSE USE IS LIMITED		
Assets held by bond indenture trustee and restricted for construction and debt service	14,442,422	19,355,737
Less portion available to satisfy current debt service	<u>(5,700,727)</u>	<u>(5,578,603)</u>
Noncurrent portion	8,741,695	13,777,134
Investments held in trust	4,445,654	3,856,383
Restricted investments	3,533,714	3,560,764
Other	<u>-</u>	<u>155,000</u>
Total long-term assets whose use is limited	<u>16,721,063</u>	<u>21,349,281</u>
LONG-TERM PLEDGES RECEIVABLE, NET OF CURRENT PORTION AND DISCOUNT	735,644	730,103
RECEIVABLES - AFFILIATED ORGANIZATIONS, NET OF CURRENT PORTION	625,067	505,067
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	302,869,300	320,441,991
DEFERRED CHARGES AND OTHER ASSETS	<u>10,653,266</u>	<u>8,763,137</u>
Total assets	<u>\$ 508,227,359</u>	<u>\$ 517,058,993</u>

Covia Communities
(an Affiliate of Covia Group)
Consolidated Statements of Financial Position (continued)
March 31, 2019 and 2018

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 12,302,914	\$ 5,955,864
Accounts payable - affiliated organization	301,955	-
Accrued payroll and payroll taxes	6,238,486	6,125,583
Current portion of long-term debt	3,021,000	2,973,000
Accrued interest	2,679,727	2,605,603
Self-insurance and other liabilities	3,766,111	3,229,937
Total current liabilities	28,310,193	20,889,987
REFUNDABLE DEPOSITS	1,027,700	855,700
REPAYABLE ENTRANCE FEES	4,227,940	4,892,940
REFUNDABLE ENTRANCE FEES	76,987,164	82,566,608
PENSION BENEFIT OBLIGATION	7,194,971	7,745,825
LONG-TERM DEBT, NET	154,551,491	157,795,658
DEFERRED REVENUE FROM ENTRANCE FEES	168,015,229	158,263,330
LIABILITIES FOR PAYMENTS TO TRUST BENEFICIARIES	1,729,733	1,695,754
OTHER LIABILITIES	8,017,862	3,932,403
Total liabilities	450,062,283	438,638,205
NET ASSETS		
Without donor restriction	49,224,379	69,385,675
With donor restriction	8,940,697	9,035,113
Total net assets	58,165,076	78,420,788
Total liabilities and net assets	\$ 508,227,359	\$ 517,058,993

Covia Communities
(an Affiliate of Covia Group)
Consolidated Statements of Activities and Changes in Net Assets
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and gains		
Resident fees	\$ 74,239,673	\$ 70,881,897
Amortization of deferred revenue from entrance fees	21,406,424	19,312,572
Nursing center	45,363,304	42,032,252
Outside and other medical fees	608,206	730,097
Other	2,451,664	2,273,096
Contributions	355,334	564,580
Net assets released from restriction for assistance and operations	2,101,762	1,876,747
	<u>146,526,367</u>	<u>137,671,241</u>
Total revenues and gains		
Expenses		
Nursing expenses	33,581,195	31,914,813
Outside and other medical expenses	5,587,138	5,455,704
Dining services	22,603,263	21,665,917
Environmental services	7,568,876	7,152,012
Maintenance	9,506,798	8,834,326
General and administrative expenses	20,792,756	19,784,859
Marketing	3,167,403	3,198,635
Utility expenses	6,294,725	6,196,112
Other	5,389,178	4,978,182
Program expenses	2,714,294	1,510,062
Fundraising activities	16,970	18,918
Depreciation and amortization	23,483,960	23,782,414
Loss on disposal of property and equipment	560,496	1,340,318
Interest	7,908,749	7,962,320
Impairment of property and equipment	11,410,130	-
Exit costs	11,136,109	-
	<u>171,722,040</u>	<u>143,794,592</u>
Total expenses		
LOSS BEFORE INVESTMENT INCOME AND UNREALIZED LOSS (GAINS) ON INVESTMENTS	(25,195,673)	(6,123,351)
INVESTMENT INCOME		
Investment income	3,546,887	3,217,938
Net realized gains on investments	2,156,407	1,908,746
	<u>5,703,294</u>	<u>5,126,684</u>
Total investment income		

Covia Communities
(an Affiliate of Covia Group)

Consolidated Statements of Activities and Changes in Net Assets (continued)
Years Ended March 31, 2019 and 2018

	2019	2018
NET LOSS	(19,492,379)	(996,667)
NET UNREALIZED (LOSS) GAIN ON INVESTMENTS	(72,700)	9,984,576
CHANGE IN PENSION BENEFIT OBLIGATION	(596,217)	(287,042)
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(20,161,296)	8,700,867
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,758,806	1,569,628
Investment income	105,749	80,040
Net realized gains on investments	18,644	11,650
Net unrealized gains on investments	44,411	114,259
Changes in split interest gift agreements	79,736	50,582
Net assets released from restrictions for assistance and operations	(2,101,762)	(1,876,747)
Decrease in net assets with donor restrictions	(94,416)	(50,588)
(DECREASE) INCREASE IN NET ASSETS	(20,255,712)	8,650,279
NET ASSETS, beginning of year	78,420,788	69,770,509
NET ASSETS, end of year	\$ 58,165,076	\$ 78,420,788

Covia Communities
(an Affiliate of Covia Group)
Consolidated Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	\$ 122,390,651	\$ 118,552,794
Proceeds from entrance fees	31,409,358	26,810,926
Investment gains	5,601,567	4,992,254
Cash paid to employees and suppliers	(118,524,334)	(112,465,760)
Interest paid	(8,131,917)	(8,185,484)
	<u>32,745,325</u>	<u>29,704,730</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisitions and construction in progress	(17,182,270)	(23,475,533)
Proceeds from property disposition	-	500
Changes in deferred charges and other assets	(1,064,510)	(3,829,413)
Change in funds held by bond indenture trustee	4,647,610	1,472,066
Marketable securities sold	7,658,094	26,745,913
Marketable securities acquired	(13,223,741)	(36,389,592)
Change in investment held in trust	143,823	-
	<u>(19,020,994)</u>	<u>(35,476,059)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayment	(2,973,000)	(2,926,000)
Refunds of deposits and entrance fees	(9,620,283)	(5,352,323)
	<u>(12,593,283)</u>	<u>(8,278,323)</u>
NET INCREASE (DECREASE) IN CASH	1,131,048	(14,049,652)
CASH AND CASH EQUIVALENTS, beginning of year	<u>9,107,370</u>	<u>23,157,022</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,238,418</u>	<u>\$ 9,107,370</u>

Covia Communities
(an Affiliate of Covia Group)
Consolidated Statements of Cash Flows (continued)
Years Ended March 31, 2019 and 2018

	2019	2018
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (20,255,712)	\$ 8,650,279
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Amortization of deferred revenue from entrance fees	(21,406,424)	(19,312,572)
Proceeds from entrance fees	31,409,358	26,810,926
Exit costs	11,136,109	-
Depreciation and amortization	23,483,960	23,782,414
Impairment of property and equipment	11,410,130	-
Loss on disposal of property and equipment	560,496	1,340,318
Amortization of debt issuance costs and other	99,681	99,681
Amortization of bond issue premium	(322,848)	(322,845)
Amortization of investment contract	(226,120)	(226,120)
Change in net unrealized gains on investments	(51,447)	(10,149,417)
Change in pension benefit obligation	596,217	287,042
Effects of changes in		
Receivables, net	(2,558,336)	200,344
Other assets	(196,427)	(259,618)
Accounts payable	5,766,728	(829,505)
Other liabilities	(6,089,143)	1,344,958
Accrued retirement benefits	(1,147,071)	(1,172,623)
Self-insurance liabilities	536,174	(538,532)
Net cash provided by operating activities	\$ 32,745,325	\$ 29,704,730
Noncash disclosure		
Noncash property acquisition and construction in progress	\$ 580,322	\$ 928,782
Conversion of accounts receivable to notes receivable	\$ 944,922	\$ -

Covia Communities
(an Affiliate of Covia Group)
Notes to Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Covia Communities (the “Communities”), a California nonprofit public benefit corporation, provides housing related facilities and services for elderly persons on a nonprofit, religious, and charitable basis. The Communities operates six life plan communities: Canterbury Woods in Pacific Grove, St. Paul’s Towers in Oakland, Los Gatos Meadows in Los Gatos, Spring Lake Village in Santa Rosa, San Francisco Towers in San Francisco, and Webster House in Palo Alto, under licenses from the California Department of Social Services. The Communities’ sole member is Covia Group (the “Group”), which is also a California nonprofit public benefit corporation providing housing and services to elderly persons, in addition to providing support to its subsidiary entities. Covia Group is not included in the consolidated financial statements of the Communities.

On February 19, 2019, Covia Communities announced the closure of one of its life plan communities, Los Gatos Meadows. After extensive review of the facility and to ensure the safety of residents and staff, the Board of Directors determined closure was the best course of action. Operations will cease no later than September 30, 2019 and resident relocation and staff reduction processes are in accordance with Covia Guiding Principles and all applicable regulations. On February 19, 2019, management accrued \$22,546,239 in expenses related to the Los Gatos Meadows wind-down consisting of \$11,410,130 in impairment costs and \$11,136,109 for exit and disposal costs relating to contract terminations, moving expenses, salaries, retention bonuses and benefits. As of March 31, 2019 the following exit costs have been incurred to date:

	<u>Original Accrual</u>	<u>Incurred as of March 31, 2019</u>
Life Care contract terminations	\$ 5,271,870	\$ 15,879
Employee benefits	913,852	-
Other	<u>4,950,387</u>	<u>651,624</u>
Total	<u>\$ 11,136,109</u>	<u>\$ 667,503</u>

The Communities controls a supporting organization, Covia Foundation (the “Foundation”), a California nonprofit public benefit corporation. The primary purpose of the Foundation is to raise funds on behalf of the Communities and to administer those funds for the needs of the Communities. The Communities is the sole member of the Foundation, and the Foundation is included in the consolidated financial statements of the Communities.

Covia Communities
(an Affiliate of Covia Group)
Notes to Consolidated Financial Statements

Covia Group is affiliated with Covia Affordable Communities (the “Affordable Communities”), established in 2000, and is its sole member. The Affordable Communities is the sole member of Community Housing, Inc. (“CHI”), which owns and operates a 220 apartment affordable senior residential community (“Lytton I”) and a 100-unit apartment complex, consisting of 50 residential care apartments and 50 independent living apartments (“Lytton II”). The Affordable Communities is also the sole corporate member of Lytton IV Housing Corporation (“Lytton IV”) which owns and operates a 51 apartment affordable senior residential community. CHI and Lytton IV are California nonprofit public benefit corporations located in Palo Alto. The Affordable Communities is also the sole member of three other California nonprofit public benefit corporations that own and operate affordable senior housing communities, namely, Oak Center Towers (“OCT”), a 196 apartment complex for elderly or disabled persons in Oakland, California; Presidio Gate Apartments (“PGA”), a 54 apartment complex for elderly or disabled persons in Santa Francisco, California; and Jennings Senior Housing, Inc. (“JSH”), a 54 apartment complex for elderly or disabled persons in Santa Rosa, California, all of which are operated under Regulatory Agreements with the U.S. Department of Housing and Urban Development. OCT, in turn, is the general partner of Oak Centers, L.P. (“OCLP”), a California limited partnership organized as a low income housing tax credit vehicle that purchased the Project from OCT in order to refinance, rehabilitate, own, and operate OCLP. In April 2018, Affordable Communities entered into an affiliation agreement with Bethany Center Senior Housing (“BCSH”), which operates a 133 apartment complex for low income seniors located in San Francisco, California, and became the sole member. In 2018, the Affordable Communities became the sole corporate member of Shires Memorial Center (“SMC”), a 99 apartment complex for low income and senior restricted community in San Jose, California. In 2019 and 2018, CHI, Lytton IV, PGA, JSH, SMC, BCSH, OCT, and OCLP are not included in the consolidated financial statements of the Communities.

Covia Group was the sole member of Senior Resources @ Home, LLC (“SR@H”) which provides unlicensed home care in Sonoma and Marin counties. SR@H is not included in the consolidated financial statements of the Communities. On December 15, 2017, the sale of SR@H was completed by the Group.

Basis of presentation – The accompanying consolidated financial statements include the accounts of Covia Communities, and its supporting organization, Covia Foundation. All significant intercompany balances and transactions have been eliminated.

Performance indicator – “Net loss” as reflected in the accompanying consolidated statements of activities and changes in net assets is the performance indicator. Net loss includes all changes in net assets without donor restrictions other than primarily noncash changes in unrealized gains and losses on investments, certain pension provisions, and gains or losses for extinguishment of debt.

Cash and cash equivalents – Cash and cash equivalents include cash held in demand deposit, sweep, savings accounts and certain investments in highly liquid instruments with original maturities of three months or less.

Concentration of risk – Financial instruments potentially subjecting the Communities to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

Marketable securities – Marketable securities, including those held by the bond indenture trustee and restricted investments, are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the change in net assets without donor restrictions unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the performance indicator (Note 2).

Covia Communities **(an Affiliate of Covia Group)** **Notes to Consolidated Financial Statements**

Receivables – In addition to receiving payment from residents and from non-residents for services provided, the Communities also receives payment for health services from insurance companies, Medicare, Medi-Cal and other third-party payers. The Communities regularly reviews its accounts and provides allowances for uncollectible accounts. Also included in receivables are amounts due to the Communities under short-term notes receivable issued as consideration by the residents for all or part of their entrance fees. These notes receivable are generally due in 90-120 days.

Assets whose use is limited – Assets whose use is limited include assets restricted by bond indenture for construction and debt service. Such assets consist of government securities carried at fair value and a Guaranteed Investment Contract (“GIC”) which is carried at fair value plus accrued interest (Note 2).

Investments held in trust and restricted investments – Investment held in trust and restricted investments consist primarily of marketable securities which are restricted by the donor as to use (Note 2), and are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is reported in the consolidated statements of activities and changes in net assets. Investment income is reported as an increase in net assets without donor restrictions, depending on donor-imposed restrictions on the use of the income.

Property and equipment – Property and equipment are stated at cost. Acquisitions of \$5,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon straight-line method at rates based on the estimated useful lives of the various classes of property which range from 3 to 40 years. The Communities periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the year ended March 31, 2018. An impairment of \$11,410,130 was recorded for the year ended March 31, 2019 (Note 3).

Deferred charges and other assets – Deferred charges and other assets include predevelopment costs of \$6,815,457 and \$5,735,371 as of March 31, 2019 and 2018, respectively. Deferred charges and other assets also includes 457(f) investments of \$1,495,410 and \$1,576,237 as of March 31, 2019 and 2018, respectively (Note 7).

Deferred revenue from investment contract – In 2003, the Communities entered into a contract related to certain bond reserve funds, which are included in assets whose use is limited, whereby the Communities received approximately \$5,115,000 in cash proceeds representing the discounted cash value of the investment earnings over the remaining 16-year life of those reserve funds. This amount was recorded as deferred revenue and is being amortized into revenue using the effective interest method over the term of the arrangement. The Communities recognized \$55,666 and \$226,120 as revenue during the years ended March 31, 2019 and 2018, respectively. In July 2018, the guaranteed investment contract reached its maturity and was settled. The distribution from the settlement totaled \$5,237,760.

Covia Communities
(an Affiliate of Covia Group)
Notes to Consolidated Financial Statements

Obligations under charitable annuity agreements – In exchange for an irrevocable deferred gift, the Foundation is required to pay a certain sum of money to the donor(s), and, consequently, a liability is reflected in obligations under annuity agreements. These liabilities are included in other liabilities in the accompanying consolidated statements of financial position. These types of arrangements are summarized as follows:

Charitable gift annuities – As consideration for certain gifts made to the Foundation, the Foundation enters into agreements to pay fixed annual payments to the donors for the life of the contract. In accordance with Section 11521 of the California Insurance Code, a liability has been established for the future payments under the outstanding annuity contracts. The annual computation of the temporarily restricted amount of the gift is based upon a 2005 Group Annuity Mortality Table, with an interest assumption at approximately 3.85% and 3.95% per annum for 2019 and 2018, respectively. Assets in excess of liabilities, if any, related to these annuities are available for the use of the Communities with the approval of the California Department of Insurance.

Charitable remainder unitrusts – Unitrusts are trust agreements that provide for a fixed annual payment of not less than 5% of the market value as of the first business day of the calendar year of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed pursuant to the donor's intent.

Charitable remainder annuity trusts – Annuity trusts are trust agreements that provide for a fixed annual specified payment based on the initial appraised value of the trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed pursuant to the donor's intent.

Self-insurance liabilities – The Communities is self-insured for workers' compensation and unemployment, which includes a reinsurance policy covering individual claims in excess of \$1,500,000 per incident at March 31, 2019 and 2018. The undiscounted liability includes estimates of the ultimate costs for both known claims and claims incurred but not reported based on actuarial studies. At March 31, 2019 and 2018, The Communities had \$3,742,459 and \$3,200,428 accrued related to such claims, respectively. These amounts are included in self-insurance and other liabilities in the consolidated statements of financial position. Any related insurance recovery receivables are recorded under deferred charges and other assets in the consolidated statements of financial position. There were no recovery receivables at March 31, 2019 and 2018.

Professional liability insurance – The Communities has secured claims-made policies for malpractice and general liability insurance with self-insured retentions over the past three years of \$35,000 for each claim. No accrual has been made for the estimated costs of known claims incurred prior to March 31, 2019 and 2018, which are within the retention amount. In addition, no accrual has been made at March 31, 2019 and 2018 for estimated costs of claims incurred but not yet reported. Accounting principles generally accepted in the United States of America require that a healthcare organization disclose the estimated costs of claims in the period of the incident, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Management is unable to reasonably estimate the range of future costs, if any, of unasserted claims arising from incidents in current and prior periods. Management believes that any unreported liability will not have a material adverse effect on the Communities' financial position or results of operations.

Covia Communities **(an Affiliate of Covia Group)** **Notes to Consolidated Financial Statements**

Repayable and refundable entrance fees – The Communities offers a variety of contract options, from nonrepayable entrance fees to repayable entrance fees. Repayable and refundable entrance fees have been recorded as a liability in the consolidated statements of financial position. Entrance fees on repayable 75%, 80%, and 90% Classic Continuing Care and Lifetime Contracts are repayable upon contract termination, resale, and reoccupancy. The repayable portion of entrance fees as of March 31, 2019 and 2018 were \$76,987,164 and \$82,566,608, respectively. Actual refunds of such entrance fees were \$7,544,603 and \$4,544,739 for the years ended March 31, 2019 and 2018, respectively.

It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

As a part of the transaction with Sunrise Webster House, L.P. ("Sunrise") in September 2011, Webster House assumed Sunrise's liabilities for the repayments of entrance fees in the amount of \$9,768,013. No amortization is recognized with respect to these continuing care contracts purchased in the acquisition. As of March 31, 2019 and 2018, this liability was \$4,227,940 and \$4,892,940, respectively, as included in the repayable entrance fees in the consolidated statements of financial position.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Communities has determined that no accrual for the obligation to provide future services and use of facilities to current residents is required at March 31, 2019 and 2018. The discount rate used to calculate the obligation to provide future services is 5.5% for both years.

Net assets – The Communities classifies net assets as follows:

Net assets without donor restriction represent unrestricted resources available to support the Communities' operations and temporarily restricted resources which have become available for use by the Communities in accordance with the intention of the donor.

Net assets with donor restriction represent contributions that are limited in use by the Communities in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Communities according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions. Net assets with donor restrictions are available primarily for assistance, outreach, and other projects as designated by the donors.

Covia Communities
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Net assets with donor restrictions also represent net assets subject to donor imposed stipulations that they be maintained by the Communities in perpetuity. The Board of Directors of the Communities has interpreted the California Prudent Management of Institutional Funds Act (“CPMIFA”) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Communities classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent endowment is available for appropriation for expenditure by the Communities in a manner consistent with the standard for expenditure prescribed CPMIFA. The endowment fund has a spending policy of appropriating all of the net income earned on the investment of these funds for distribution according to the instructions of the donor at the time the gift is made. The original value of the gifts donated to the permanent endowment is to be classified as permanently restricted and any earnings are classified as temporarily restricted until appropriated for expenditure. The spending policy and return objective is supported by maintaining a strategic asset allocation of 50% equity securities and 50% fixed income securities and further enhanced by allowing up to half of the fixed income allocation to be invested in securities with greater risk and potential return such as high yield, global, and emerging market debt.

Revenue recognition – On April 1, 2018, the Communities adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) applying the full retrospective method. All periods presented have been adjusted and are reported in accordance with ASC 606. The adoption of ASC 606 did not have a material impact on the measurement nor on the recognition of revenue.

Resident services revenue

Resident services revenue is reported at the amount that reflects the consideration to which the Communities expect to be entitled to in exchange for the services provided. Under the Communities’ resident services agreement, the Communities provide senior living services to residents for a stated monthly fee. The Communities recognizes revenue for senior living services under the resident services agreement for independent living, assisted living and memory care in accordance with the provisions of ASC 840, *Leases* (“ASC 840”).

Nursing center revenue

Nursing center revenue on the consolidated statements of activities and changes in net assets includes revenue for assisted living and memory care of \$9,001,805 and \$8,680,928 for the years ended March 31, 2019 and 2018, respectively, which is recognized in accordance with ASC 840 as noted above. The remaining nursing center revenue is reported at the amount that reflects the consideration to which the Communities expect to be entitled to in exchange for providing care. These amounts are due to patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, the Communities bill patients and third-party payors at the end of the month in which services are provided or in the month following. Revenue is recognized in the month in which the performance obligations are satisfied.

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Revenue for nursing center performance obligations satisfied over time is recognized based on actual charges incurred. The Communities believe this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in our skilled nursing facilities. The Communities measure the performance obligation from admission into the skilled nursing facility to the point when it is no longer required to provide health care services to that resident, which is typically at the time of discharge.

The Communities determine the transaction price based on standard charges for goods and services provided reduced by contractual adjustments provided to third-party payors. The Communities determine their estimate of contractual adjustments based on contractual agreements and historical experience.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain health care services are paid at prospectively determined rates per discharge based on clinical, diagnostic or other factors. Certain services are paid based on a cost-reimbursement methodologies subject to certain limits. Physical services are paid based upon established fee schedules.
- Secondary Insurance: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Communities' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Communities.

Settlements with third-party payors for retroactive adjustments due to audits, review or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Communities' historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price, were not significant in 2018 or 2019.

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Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Communities estimate the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments determined on a resident by resident basis. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to nursing center revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended March 31, 2019 and 2018 was not significant.

The following table shows nursing center revenue by line of service:

	<u>Year ended</u> <u>March 31, 2019</u>	<u>Year ended</u> <u>March 31, 2018</u>
Nursing Center line of service		
Medicare and Medicaid programs	\$ 21,448,394	\$ 18,369,734
Other services, private pay and other third party payer SNF service	<u>14,913,105</u>	<u>14,981,590</u>
	<u>\$ 36,361,499</u>	<u>\$ 33,351,324</u>

Amortization of entrance fees

The Communities receive an upfront entrance fee when the basic residency agreement is signed. The basic residency agreement is inclusive of care and services which is dictated by specific contract types and can vary accordingly. All contracted residents are provided with services such as housekeeping, number of meals, 24-hour security, defined apartment maintenance, utility and prearranged transportation. In exchange for this fixed entrance fee and the monthly resident service fees the resident has the right to occupy a unit and continue to live in the Communities. The basic residency agreement creates a performance obligation to be satisfied over the resident's remaining life at the Communities. The Communities recognize the revenue associated with the entrance fee using a straight-line method over the actuarially determined estimated life of each resident. Resident life expectancies are reevaluated annually and any changes in the revenue as a result of that revaluation will be recognized in the period noted. As of March 31, 2019 and 2018, the Communities had \$168,015,229 and \$158,263,330 in deferred revenue from entrance fees to be recognized as the performance obligations are satisfied. See Note 11 for changes in the unearned entrance fee revenue for the years ended March 31, 2019 and 2018. The performance obligation is satisfied upon termination of the residency agreement.

Management fee revenues

The Communities provide management services to third parties and affiliated organizations. Under these management services agreements, the Communities oversee and manage the general operations of the communities. Management fee revenue is recognized in the month in which it's earned in accordance with the terms of the individual agreements. Revenue recognized under these agreements was \$900,200 and \$770,668 for the years ended March 31, 2019 and 2018, respectively.

Contribution income – Other than deferred gifts such charitable gift annuities or charitable remainder annuity trusts, contributions are recognized as revenue when received or unconditionally promised.

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Statutory reserve requirements – The Communities is subject to statutory reserve requirements. At March 31, 2019 and 2018, the Communities’ reserves, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code, were in excess of such requirements (Note 10).

Tax-exempt status – The Communities is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

The Communities adopted the provisions of the ASC Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to the Communities. The Communities recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Communities recognizes interest and penalties related to income tax matters in operating expenses.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Major items requiring estimates and assumptions include deferred revenues and amortization of entrance fees, accrued self-insurance liabilities, useful lives of fixed assets, obligation to provide future services, obligation for payment to trust beneficiaries, valuation of financial instruments, valuation of assets acquired and liabilities assumed in the acquisition of BCSH and valuation of pension and retirement obligations.

Fair value of financial instruments – Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values due to their short term nature. The Communities’ policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. Liabilities for payment to trust beneficiaries and deferred revenue from investment contracts are classified as Level 2 in the fair value hierarchy. Please see Note 2 for fair value hierarchy disclosures of available for sale marketable securities, guaranteed investment contract, and assets whose use is limited, which includes assets held by bond indenture trustee and restricted for construction and debt service, investments held in trust, and restricted investments.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

New accounting pronouncements – In January 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendment is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASU No. 2016-01 on the Communities’ consolidated financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASU No. 2016-18 on the Communities' consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which provides guidance on eight specific cash flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of ASU 2016-15 is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASU No. 2016-18 on the Communities' consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2016-18 on the Communities' consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit-Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This update is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASU 2018-08 on the Communities' consolidated financial statements.

NOTE 2 – MARKETABLE SECURITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As required by ASC Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which the Communities' investments have been classified, the Communities has assessed factors including, but not limited to the ability to redeem at NAV at the measurement date and the existence or absence of certain restrictions at the measurement date. In accordance with this guidance, if the Communities has the ability to redeem from the investment at the measurement date or in the near-term at NAV, the investment would not be required to be classified in the fair value hierarchy. Alternatively, if the Communities will never have the ability to redeem from the investment or is restricted from redeeming for an uncertain or extended period of time from the measurement date, the investment would be classified as a Level 3 fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position at March 31, 2019 and 2018, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Marketable securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities and cash equivalents included in money market funds. Level 2 securities include certificate of deposit and nonpublicly exchanged equity securities. Asset holdings are reviewed within the investment managers' audited financial statements, interim financial statements, and fund manager communications, for purposes of assessing valuation.

Guaranteed investment contract – The fair value is estimated by a third-party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

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The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the ASC Topic 820 fair value hierarchy in which the fair value measurements fall at March 31:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance at March 31, 2019</u>
Cash equivalents	\$ 17,971,050	\$ -	\$ -	\$ 17,971,050
Available for sale				
Fixed income bonds				
Government bonds	946,738	-	-	946,738
Corporate bonds	814,675	-	-	814,675
Equity securities				
U.S. equities	61,596,851	-	-	61,596,851
Non U.S. equities	34,912,066	-	-	34,912,066
Fixed income securities	46,750,486	-	-	46,750,486
Total	<u>\$ 162,991,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,991,866</u>
Investments valued at Net Asset Value ("NAV"):				
Hedge fund				\$ 39,413
Limited partnership				3,583,026
Total investments valued at NAV				<u>\$ 3,622,439</u>

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance at March 31, 2018</u>
Cash equivalents	\$ 18,384,321	\$ -	\$ -	\$ 18,384,321
Available for sale				
Fixed income bonds				
Government bonds	667,254	-	-	667,254
Corporate bonds	827,471	-	-	827,471
Equity securities				
U.S. equities	56,468,160	180,035	-	56,648,195
Non U.S. equities	35,480,961	-	-	35,480,961
Fixed income securities	43,472,719	-	-	43,472,719
Guaranteed investment contract	-	5,206,748	-	5,206,748
Total	<u>\$ 155,300,886</u>	<u>\$ 5,386,783</u>	<u>\$ -</u>	<u>\$ 160,687,669</u>
Investments valued at Net Asset Value ("NAV"):				
Hedge fund				\$ 1,973,605
Limited partnership				3,023,973
Total investments valued at NAV				<u>\$ 4,997,578</u>

The following table provides the fair value and redemption terms and restrictions for investments redeemable at net asset value at March 31:

<u>Major Category</u>	<u>2019 Fair Value</u>	<u>2018 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge fund (a)	\$ 39,413	\$ 1,973,605	\$ -	Quarterly	95 business days
Limited partnership (b)	\$ 3,583,026	\$ 3,023,973	\$ -	Quarterly	60 business days

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(a) This category invests in investment funds. The investment objective is to preserve and grow capital. The Investment Manager assists the Fund by identifying high-quality investment managers with above-average investment histories and/or prospects (the “Portfolio Managers”), and allocating and reallocating the Fund’s assets to discretionary investment accounts and/or private investment vehicles (the “Investment Funds”) managed by such Portfolio Managers. The Fund may invest in any type of Investment Fund. Generally, these Investment Funds may be liquidated and other Investment Funds may be added or liquidated at the discretion of the Investment Manager. The fair values of investments in this category have been estimated using the NAV per share of investments.

(b) This category invests in multi-asset classes. (1) Common Stock that are traded on a national securities exchange. (2) Fixed Income Securities include bank loans, high yield corporate bonds and restricted high yield corporate bonds. (3) Forward Foreign Currency Contracts include forward foreign currency contracts entered for hedging against fluctuations in foreign exchange rates. The fair values of investments in this category have been estimated using the NAV per share of investments at the percentage of the Communities ownership shares, which is 0.67% and 0.67% at March 31, 2019 and 2018, respectively.

There were no significant transfers in or out of Level 1 and Level 2 fair value measurements for the years ended March 31, 2019 and 2018.

The Communities has an investment committee that meets at least quarterly with management and the investment advisors to review the strategy and ongoing performance of all investments, including analyzing changes in fair value measurements from period to period.

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Marketable securities at fair value consisted of the following at March 31:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 17,971,050	\$ 18,384,321
Available for sale		
Fixed income bonds		
Government bonds	946,738	667,254
Corporate bonds	814,675	827,471
Equity securities		
U.S. equities	61,596,851	56,648,195
Non U.S. equities	34,912,066	35,480,961
Fixed income securities	46,750,486	43,472,719
Investments valued at NAV:		
Hedge fund	39,413	1,973,605
Limited partnership	3,583,026	3,023,973
Guaranteed investment contract	-	5,206,748
	<u>166,614,305</u>	<u>165,685,247</u>
Less assets held by bond indenture trustee and restricted for construction and debt service	(14,442,422)	(19,355,737)
Less marketable securities included in restricted investments and investments held in trust	<u>(7,979,368)</u>	<u>(7,417,147)</u>
Total marketable securities	<u>\$ 144,192,515</u>	<u>\$ 138,912,363</u>

According to the trust agreements for the Series 2011 Certificates, the Series 2012 Certificates, and the Series 2015 Certificates, certain funds are to be maintained and held by a trustee, primarily for debt service. Such funds, at fair value of \$14,442,422 and \$19,355,737 were classified as assets whose use is limited and were invested in government securities at March 31, 2019 and 2018, respectively. The portion of these assets available to satisfy current debt service is shown as a current asset in the accompanying consolidated statements of financial position.

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The following tables show the gross unrealized losses and fair value of investments and assets limited as to use with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Fair Value Below Cost as of March 31, 2019					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income bonds	\$ 25,587	(1,421)	\$ 793,489	\$ (8,805)	\$ 819,076	\$ (10,226)
Equities	5,987,689	(440,497)	-	-	5,987,689	(440,497)
Fixed income securities	18,766,876	(837,937)	22,404,303	(375,496)	41,171,179	(1,213,433)
Total temporarily impaired securities	<u>\$ 24,780,152</u>	<u>\$ (1,279,855)</u>	<u>\$ 23,197,792</u>	<u>\$ (384,301)</u>	<u>\$ 47,977,944</u>	<u>\$ (1,664,156)</u>

	Fair Value Below Cost as of March 31, 2018					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income bonds	\$ 1,370,169	\$ (21,550)	\$ 124,556	\$ (2,398)	\$ 1,494,725	\$ (23,948)
Fixed income securities	23,680,164	(328,411)	5,130,734	(224,029)	28,810,898	(552,440)
Total temporarily impaired securities	<u>\$ 25,050,333</u>	<u>\$ (349,961)</u>	<u>\$ 5,255,290</u>	<u>\$ (226,427)</u>	<u>\$ 30,305,623</u>	<u>\$ (576,388)</u>

The fair market value of these investments have declined due to volatility in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other-than-temporary impairment under management's policy. The Communities follows a policy of evaluating securities for impairment which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended March 31, 2019 and 2018, no securities were determined to be other-than-temporarily impaired.

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NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 489,729,722	\$ 485,242,943
Furniture and equipment	<u>32,352,201</u>	<u>32,858,097</u>
Total	522,081,923	518,101,040
Less accumulated depreciation	<u>(275,476,674)</u>	<u>(249,359,213)</u>
Total	246,605,249	268,741,827
Land	47,004,520	46,915,578
Construction in progress	<u>9,259,531</u>	<u>4,784,586</u>
Property and equipment, net of accumulated depreciation	<u>\$ 302,869,300</u>	<u>\$ 320,441,991</u>

Depreciation expense was \$23,364,657 and \$23,496,087 for the years March 31, 2019 and 2018, respectively. As a result of the pending closure of the Los Gatos Meadows community, management reevaluated the carrying value of property and equipment in the amount of \$34,292,298 as of February 19, 2019. The result of this reevaluation was an impairment of all fixed assets for the year ended March 31, 2019, which consisted of the write-down of all land improvements, buildings, building improvements, furniture, fixtures and equipment. Total impairment cost as a result of the disposal was \$11,410,130 as of March 31, 2019. Refer to Note 1 for additional details regarding the closure of the Los Gatos Meadows community and the overall impact to Covia.

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NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at March 31:

	<u>2019</u>	<u>2018</u>
ABAG Finance Authority for Nonprofit Corporations, Refunding Revenue Certificates of Participation, Series 2011, dated October 1, 2011, in the original amount of \$62,200,000; interest from 3.00% to 6.125% paid semiannually; principal paid annually at July 1; maturing in installments at July 1, 2022, July 1, 2024, July 1, 2026, July 1, 2031, and July 1, 2041.	\$ 55,415,000	\$ 56,570,000
ABAG Finance Authority for Nonprofit Corporations, Revenue Certificates of Participation, Series 2012A, dated December 20, 2012, in the original amount of \$68,835,000; interest at 5.00% paid semiannually; principal paid annually at July 1; maturing in installments at July 1, 2032, July 1, 2042, and July 1, 2047.	68,835,000	68,835,000
ABAG Finance Authority for Nonprofit Corporations, Refunding Revenue Certificates of Participation, Series 2012B, dated December 20, 2012, in the original amount of \$19,870,000; interest from 2.00% to 5.00% paid semiannually; principal paid annually at July 1; maturing in installments at July 1, 2018, July 1, 2019, July 1, 2020, July 1, 2021, July 1, 2022, July 1, 2023, July 1, 2024, and July 1, 2025.	10,410,000	11,975,000
Private bank placement with JPMorgan, California Statewide Communities Development Authority, Revenue Refunding Bonds, Series 2015, dated June 1, 2015, in the original amount of \$8,718,000; variable interest at 67% of 1 month LIBOR plus 97 basis points paid semiannually; principal paid annually. The rates as of March 31, 2019 and 2018 were 3.11% and 2.44%.	8,000,000	8,253,000
Promissory note with The Board of Pensions of the Presbyterian Church, dated October 26, 2015, in the original amount of \$11,200,000; interest at 5% per annum paid monthly; principal paid at maturity November 1, 2020.	<u>11,200,000</u>	<u>11,200,000</u>
Total	153,860,000	156,833,000
Less current portion	(3,021,000)	(2,973,000)
Less debt issuance costs, net	(1,987,207)	(2,086,885)
Plus bond premium, net	<u>5,699,698</u>	<u>6,022,543</u>
Long-term debt	<u>\$ 154,551,491</u>	<u>\$ 157,795,658</u>

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The Series 2011, 2012, and 2015 bonds are secured by a security interest in the gross revenues of Covia Communities Obligated Group and a mortgage and security interest in the real and personal property pursuant to the Communities' deeds of trust.

Costs incurred in connection with the issuance of debt are amortized over the life of the related debt using the effective interest method. Amortization of debt issuance cost for the years ended March 31, 2019 and 2018, were \$99,681 and \$99,681, respectively, as included in interest expense in the consolidated statements of activities and changes in net assets.

The Communities is subject to financial covenants on its obligated group debt which include a debt service coverage ratio and a minimum days cash on hand requirement. Management believes that the Communities was in compliance with these financial covenants as of March 31, 2019 and 2018.

Annual maturities of long-term debt consist of the following:

Year Ending March 31,

2020	\$	3,021,000
2021		14,278,000
2022		3,142,000
2023		3,200,000
2024		3,259,000
Thereafter		126,960,000
Total		\$ 153,860,000

NOTE 5 – NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions in the consolidated statements of financial position at March 31, are available for the following:

	2019	2018
Assistance fund	\$ 1,782,968	\$ 2,380,439
Community fund and other	6,665,555	6,261,874
Deferred contribution to pooled annuities and trusts	492,174	392,800
Total net assets with donor restrictions	\$ 8,940,697	\$ 9,035,113

Assistance funds have been established from donations and bequests. Management defines assistance provided to residents as the difference between monthly maintenance fees and the fees charged to assisted residents. The total cost of resident assistance was \$1,795,605 and \$2,040,529 for the years March 31, 2019 and 2018, respectively. Total resident assistance covered by the Covia Foundation was approximately \$1,801,362 and \$601,677 for the years ended March 31, 2019 and 2018, respectively.

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NOTE 6 – OPERATING LEASES

The Communities is obligated under various equipment and building operating leases expiring at various dates. Rental expense included in general and administrative expenses were \$901,378 and \$805,743 for 2019 and 2018, respectively. Future minimum rental payments required under noncancellable leases as of March 31, 2019, consist of the following:

<u>Year Ending March 31,</u>	
2020	\$ 753,420
2021	753,038
2022	743,077
2023	702,198
2024	673,783
Thereafter	<u>972,168</u>
	<u>\$ 4,597,684</u>

NOTE 7 – RETIREMENT PLAN

The Communities has a defined benefit pension plan which provides benefits under retirement annuity contracts. Salaried and hourly employees who have attained the age of 21 and have performed 1,000 hours of service in the plan year are eligible to participate in the plan upon completion of one-year continuous employment. Benefits are based on years of service and compensation prior to retirement. The Communities makes all contributions, which are funded based on actuarially determined amounts. Amortization is based on the average remaining lives of active employees.

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A reconciliation of the plan's benefit obligations, fair value of assets, funded status, and amounts recognized in the Communities' consolidated statements of financial position are as follows as of March 31:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 53,251,839	\$ 48,969,019
Service cost	2,013,391	1,645,721
Interest cost	2,056,048	1,986,356
Actuarial (gain) loss	(417,360)	2,584,405
Benefits paid	<u>(2,225,994)</u>	<u>(1,933,662)</u>
Benefit obligation at measurement date	<u>54,677,924</u>	<u>53,251,839</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	45,506,014	40,337,613
Actual return on plan assets	1,802,933	4,702,063
Employer contribution	2,400,000	2,400,000
Benefits paid	<u>(2,225,994)</u>	<u>(1,933,662)</u>
Fair value of plan assets at measurement date	<u>47,482,953</u>	<u>45,506,014</u>
Funded status at measurement date	<u>\$ (7,194,971)</u>	<u>\$ (7,745,825)</u>
Amounts recognized in the consolidated statements of financial position consist of:		
Noncurrent liabilities	<u>\$ (7,194,971)</u>	<u>\$ (7,745,825)</u>
Amounts recognized in net assets without donor restriction consist of:		
Unrecognized net actuarial loss	\$ 14,935,091	\$ 14,437,194
Unrecognized prior service credit	<u>(89,725)</u>	<u>(188,045)</u>
Amounts recognized in net assets without donor restriction at measurement date	<u>\$ 14,845,366</u>	<u>\$ 14,249,149</u>
Accumulated benefit obligation	<u>\$ 52,589,240</u>	<u>\$ 51,312,437</u>

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The components of net periodic benefit cost included as part of employee costs in the Communities' consolidated statements of activities and changes in net assets are as follows for the years ended March 31:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 2,013,391	\$ 1,645,721
Interest cost	2,056,048	1,986,356
Expected return on plan assets	(3,424,000)	(3,030,746)
Amortization of prior service credit	705,810	(98,320)
Amortization of net loss	<u>(98,320)</u>	<u>724,366</u>
Net periodic benefit cost	<u>1,252,929</u>	<u>1,227,377</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	1,203,707	913,088
Amortization of net loss	(705,810)	(724,366)
Amortization of prior service credit	<u>98,320</u>	<u>98,320</u>
Amounts recognized in net assets without donor restriction at measurement date	<u>596,217</u>	<u>287,042</u>
Total recognized in net periodic benefit (cost) and net assets without donor restriction at measurement date	<u>\$ 1,849,146</u>	<u>\$ 1,514,419</u>

The following assumptions were used for the March 31 measurement date:

	<u>2019</u>	<u>2018</u>
Actuarial present value of the benefit obligation		
Weighted-average discount rate	3.85%	3.95%
Rate of increase in future compensation levels	3.00%	3.00%
Long-term rate of return on plan assets	7.50%	7.50%
Net periodic benefit cost		
Weighted-average discount rate	3.95%	4.15%
Rate of increase in future compensation levels	3.00%	3.00%
Long-term rate of return on plan assets	7.50%	7.50%

The expected long term rate of return on plan assets of 7.5% is based on an investment allocation of 65% equities, 30% fixed income securities, and 5% real estate securities.

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Notes to Consolidated Financial Statements

Pension plan assets as of the March 31 measurement date were as follows:

	2019	2018
Equity securities	62%	65%
Fixed income securities	32%	30%
Real estate securities	6%	5%
Total	100%	100%

The fair value of the Communities' pension plan assets by asset category are as follows:

Description	Level 1	Level 2	Level 3	Balance at March 31, 2019
Mutual funds				
Small/mid U.S. equity	\$ 2,428,089	\$ -	\$ -	\$ 2,428,089
International equity	14,535,568	-	-	14,535,568
Fixed income	15,208,746	-	-	15,208,746
Total mutual funds	\$ 32,172,403	\$ -	\$ -	\$ 32,172,403
Investments valued at Net Asset Value ("NAV"): Pooled separate accounts				\$ 15,310,550

Description	Level 1	Level 2	Level 3	Balance at March 31, 2018
Mutual funds				
Small/mid U.S. equity	\$ 2,410,650	\$ -	\$ -	\$ 2,410,650
International equity	13,645,910	-	-	13,645,910
Fixed income	13,666,707	-	-	13,666,707
Total mutual funds	\$ 29,723,267	\$ -	\$ -	\$ 29,723,267
Investments valued at Net Asset Value ("NAV"): Pooled separate accounts				\$ 15,782,747

Pooled separate accounts – Includes investment in large and small cap funds that invests mainly in domestic equity and a real estate fund. The PSAs can be redeemed at NAV as of the measurement date, redeemed on a daily basis, and unfunded commitments are not applicable to PSAs. Investments are valued using the NAV per share of the fund. The NAV per share is based on the value of the underlying assets owned by the fund, minus its liabilities, divided by the shares outstanding.

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Explanation of investment strategies and policies – The Communities employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews.

The Communities expects to contribute at least \$2,400,000 to its pension plan in the fiscal year ending March 31, 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2020	\$	2,950,000
2021	\$	2,370,000
2022	\$	2,480,000
2023	\$	2,610,000
2024	\$	2,700,000
Years 2025 - 2029	\$	15,260,000

Supplementary deferred compensation plan – The Communities also maintains, for certain key employees, a Supplementary Deferred Compensation Plan (“Supplementary Plan”) which is a nonqualified, deferred compensation plan which provides a defined contribution benefit pursuant to 409A and 457(f) of the Internal Revenue Code. All participants are awarded an Annual Retention Benefit in each year. Each award will vest on the earlier of the participant’s death or disability, reaching the age of 65, or five years after the award is made. The accrued liability as of March 31, 2019 and 2018, was \$1,315,740 and \$1,530,698, respectively, included in other liabilities in the consolidated statements of financial position.

NOTE 8 – RELATED PARTIES

During fiscal years 2019 and 2018, the Communities purchased general and professional liability insurance for \$819,665 and \$764,490, respectively, from an insurance company in which the Communities is a shareholder. At March 31, 2019 and 2018, The Communities’ investment was \$301,104. This investment is recorded at cost as it represents less than 5% of the shares of the insurance company.

The Communities charges management fees directly to the Affordable Communities and SR@H as included in other revenue. Total fees collected for the years ended March 31, 2019 and 2018, was \$900,200 and \$770,688, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation – The Communities is party to various claims and legal actions in the normal course of business. In the opinion of management, the Communities has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Communities.

Asbestos – The Communities is aware of the existence of asbestos in certain buildings. The Communities has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, the Communities will record an estimate of the costs of the required asbestos abatement.

Operating deficit guarantee – With respect to OCT's obligations as the General Partner of OCLP, the Communities has guaranteed that it will advance funds to OCT in an amount necessary for OCT to make the required Operating Deficit Contribution when such Operating Deficit cannot be satisfied from Partnership funds including OCLP's Operating Reserve and OCT does not have sufficient funds to make an Operating Deficit Contribution to OCLP. The advances shall be interest free and payable out of Capital proceeds. The operating deficit period begins after the completion date and ends on the date that the following have occurred: (1) the Project has operated at break-even for at least three consecutive calendar years following the stabilization date of the Project; and (2) the balance in the Operating Reserve equals or exceeds the Operating Reserve amount. As of March 31, 2019 and 2018, no advances have been made under the agreement.

Credit adjuster and additional advance guaranty – With respect to OCT's obligations as the general partner of OCLP, the Communities has guaranteed to advance funds to OCT in the amount necessary for OCT to make the required Credit Adjuster Advance or Additional Advance. The Credit Adjuster Advance is limited to \$835,799.

Health care reform – The Patient Protection and Affordable Care Act ("PPACA") allowed for the expansion of Medicaid members in the State of California. Any further federal or state changes funding could have an impact on the Communities. With the changes in the executive branch, the future of PPACA and impact of future changes in Medicaid to the Company is uncertain at this time.

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Notes to Consolidated Financial Statements

NOTE 10 – HEALTH AND SAFETY CODE SECTION 1790(A)(3) DISCLOSURE

The following disclosure is made pursuant to section 1790(a)(3) of the California Health & Safety Code: The Board of Directors have identified certain contingencies listed below to which the net assets without donor restrictions of the Communities may be exposed and, therefore, directed that prudent reserves be established as a safeguard against such contingencies. Although not restricted in accordance with ASC Topic 958, *Not-for-Profit Entities*, Board of Director’s designated funds represent the current intentions of the Board of Directors.

	<u>2019</u>	<u>2018</u>
Plant replacement fund	\$ 21,340,332	\$ 30,543,594
Income fund	15,773,289	22,575,700
Self-insurance fund	<u>9,278,405</u>	<u>13,279,823</u>
 Total	 <u>\$ 46,392,026</u>	 <u>\$ 66,399,117</u>

Maintaining such reserves meets the needs of the life plan communities by providing a source of funds to replace plant, either in the normal course of its operations and/or with respect to uninsured losses, and to otherwise meet its obligations as they become due in periods of reduced entrance or monthly fee revenue.

In addition, the Board has designated the initial amount of \$1,000,000 to be held in the Dr. Darby Betts Fund to promote needed services to seniors either by making grants to other organizations or expanding the Communities’ own efforts to support seniors in the larger community and who are not residents of its retirement or affordable housing communities. This fund is jointly administered by the Communities and Episcopal Diocese of California. This commitment meets the needs of the life plan communities by demonstrating a broader community benefit in support of and to preserve its tax exempt status. As of March 31, 2019, the balance of the fund was \$1,268,662, and \$70,925 was expended from the fund for such purposes during the year then ended. As of March 31, 2018, the balance of the fund was \$1,181,386, and \$60,600 was expended from the fund for such purposes during the year then ended.

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Notes to Consolidated Financial Statements

NOTE 11 – DEFERRED REVENUE FROM ENTRANCE FEES

Deferred revenue from entrance fees activity for the years ended March 31, 2019 and 2018 are as follows:

	<u>April 1, 2018</u>	<u>Additions</u>	<u>Refunds back to resident</u>	<u>Deaths and Withdrawals (nonrefundable advance fee)</u>	<u>Amortization</u>	<u>March 31, 2019</u>
Unearned entrance fee	\$ 158,263,330	32,569,004	(1,410,681)	(4,635,911)	(16,770,513)	\$ 168,015,229
	<u>April 1, 2017</u>	<u>Additions</u>	<u>Refunds back to resident</u>	<u>Deaths and Withdrawals (nonrefundable advance fee)</u>	<u>Amortization</u>	<u>March 31, 2018</u>
Unearned entrance fee	\$ 155,736,546	22,646,938	(807,582)	(2,985,916)	(16,326,656)	\$ 158,263,330

NOTE 12 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of March 31, 2019, comprise the following:

Cash and cash equivalents	\$ 10,238,418
Marketable securities	144,192,515
Receivables, net	<u>13,538,503</u>
	167,969,436
Less amount unavailable for general expenditures within one year	<u>(1,427,446)</u>
	<u>\$ 166,541,990</u>

As part of the Communities' liquidity management plan, it invests cash in excess of its daily requirements in short-term investments which can be sold and used for operations if necessary.

Covia Communities
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Notes to Consolidated Financial Statements

NOTE 13 – FUNCTIONAL EXPENSES

	Year Ended March 31, 2019						
	Residential Services	Assisted Living & Memory Care	Skilled Nursing	Program Services	Fundraising Services	General and Administrative	Total
Salaries and benefits	\$ 21,425,292	\$ 6,081,739	\$ 26,607,772	\$ -	\$ -	\$ 17,145,867	\$ 71,260,670
Supplies	5,330,443	729,244	2,465,190	-	-	869,821	9,394,698
Other purchased services	5,516,489	576,709	1,823,289	-	-	2,493,681	10,410,168
Repairs and maintenance	2,904,006	265,468	488,850	-	-	1,478,522	5,136,846
Utilities	3,731,459	339,338	626,481	-	-	1,414,081	6,111,359
Depreciation and amortization	9,579,569	1,908,474	3,555,366	-	-	8,440,551	23,483,960
Impairment of property and equipment	11,410,130	-	-	-	-	-	11,410,130
Exit costs	11,136,109	-	-	-	-	-	11,136,109
Special event costs of direct benefit to donors	-	-	-	-	-	53,347	53,347
Assistance for resident fees	-	-	-	1,801,362	-	-	1,801,362
Other	4,062,890	1,267,015	6,788,138	859,585	16,970	8,528,793	21,523,391
	<u>\$ 75,096,387</u>	<u>\$ 11,167,987</u>	<u>\$ 42,355,086</u>	<u>\$ 2,660,947</u>	<u>\$ 16,970</u>	<u>\$ 40,424,663</u>	<u>\$ 171,722,040</u>

	Year Ended March 31, 2018						
	Residential Services	Assisted Living & Memory Care	Skilled Nursing	Program Services	Fundraising Services	General and Administrative	Total
Salaries and benefits	\$ 20,334,022	\$ 5,771,522	\$ 24,944,032	\$ -	\$ -	\$ 16,100,969	\$ 67,150,545
Supplies	5,419,103	612,145	2,231,867	-	-	858,555	9,121,670
Other purchased services	5,692,271	480,450	1,390,235	-	-	2,530,785	10,093,741
Repairs and maintenance	2,720,193	247,253	456,476	-	-	981,503	4,405,425
Utilities	3,834,127	348,675	643,718	-	-	1,369,592	6,196,112
Depreciation and amortization	14,266,304	1,297,050	2,426,564	-	-	5,792,496	23,782,414
Special event costs of direct benefit to donors	-	-	-	-	-	55,771	55,771
Assistance for resident fees	-	-	-	601,677	-	-	601,677
Other	8,921,131	706,446	5,504,129	852,614	18,918	6,383,999	22,387,237
	<u>\$ 61,187,151</u>	<u>\$ 9,463,541</u>	<u>\$ 37,597,021</u>	<u>\$ 1,454,291</u>	<u>\$ 18,918</u>	<u>\$ 34,073,670</u>	<u>\$ 143,794,592</u>

The consolidated financial statements report certain expense categories that are attributable to more than one residential, health care or support services function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest and other occupancy costs, are allocated to a function based on a square footage, meals or census.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Communities recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Communities' consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before consolidated financial statements are issued.

The Communities has evaluated subsequent events through June 28, 2019, which is the date the consolidated financial statements are issued.

Supplementary Information

Covia Communities
(an Affiliate of Covia Group)
Consolidating Statements of Financial Position
March 31, 2019

	Covia Obligated Group	Covia Foundation	Eliminations	Consolidated Covia Communities
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,691,493	\$ 5,546,925	\$ -	\$ 10,238,418
Assets held by bond indenture trustee for current debt service	5,700,727	-	-	5,700,727
Marketable securities	144,192,515	-	-	144,192,515
Receivables, net of allowance for doubtful accounts	13,538,503	-	-	13,538,503
Current portion of receivables - affiliated organizations	509,422	-	(509,422)	-
Current portion of pledges receivable, net of discount	-	363,698	-	363,698
Prepaid expenses, deposits, and other assets	2,566,406	22,752	-	2,589,158
Total current assets	171,199,066	5,933,375	(509,422)	176,623,019
Assets whose use is limited				
Assets held by bond indenture trustee and restricted for construction and debt service	14,442,422	-	-	14,442,422
Less portion available to satisfy current debt service	(5,700,727)	-	-	(5,700,727)
Noncurrent portion	8,741,695	-	-	8,741,695
Investments held in trust	-	4,445,654	-	4,445,654
Restricted investments	-	3,533,714	-	3,533,714
Other	-	-	-	-
Total long-term assets whose use is limited	8,741,695	7,979,368	-	16,721,063
Long-term pledge receivables, net of current portion and discount	-	735,644	-	735,644
Receivables - affiliated organizations, net of current portion	625,067	-	-	625,067
Property and equipment, net of accumulated depreciation	302,869,300	-	-	302,869,300
Deferred charges and other assets	10,653,266	-	-	10,653,266
Total assets	\$ 494,088,394	\$ 14,648,387	\$ (509,422)	\$ 508,227,359

Covia Communities
(an Affiliate of Covia Group)
Consolidating Statements of Financial Position (continued)
March 31, 2019

	Covia Obligated Group	Covia Foundation	Eliminations	Consolidated Covia Communities
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 12,300,240	\$ 2,674	\$ -	\$ 12,302,914
Current portion of accounts payable - affiliated organizations	301,955	509,422	(509,422)	301,955
Accrued payroll and payroll taxes	6,238,486	-	-	6,238,486
Current portion of long-term debt	3,021,000	-	-	3,021,000
Accrued interest	2,679,727	-	-	2,679,727
Self-insurance and other liabilities	3,766,111	-	-	3,766,111
Total current liabilities	28,307,519	512,096	(509,422)	28,310,193
Refundable deposits	1,027,700	-	-	1,027,700
Repayable entrance fees	4,227,940	-	-	4,227,940
Refundable entrance fees	76,987,164	-	-	76,987,164
Pension benefit obligation	7,194,971	-	-	7,194,971
Long-term debt, net	154,551,491	-	-	154,551,491
Deferred revenue from entrance fees	168,015,229	-	-	168,015,229
Liabilities for payments to trust beneficiaries	-	1,729,733	-	1,729,733
Other liabilities	6,115,693	1,902,169	-	8,017,862
Total liabilities	446,427,707	4,143,998	(509,422)	450,062,283
Net assets				
Without donor restriction	47,660,687	1,563,692	-	49,224,379
With donor restriction	-	8,940,697	-	8,940,697
Total net assets	47,660,687	10,504,389	-	58,165,076
Total liabilities and net assets	<u>\$ 494,088,394</u>	<u>\$ 14,648,387</u>	<u>\$ (509,422)</u>	<u>\$ 508,227,359</u>

Covia Communities
(an Affiliate of Covia Group)
Consolidating Statements of Financial Position
March 31, 2018

	<u>Covia Obligated Group</u>	<u>Covia Foundation</u>	<u>Eliminations</u>	<u>Consolidated Covia Communities</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,486,160	\$ 6,621,210	\$ -	\$ 9,107,370
Assets held by bond indenture trustee for current debt service	5,578,603	-	-	5,578,603
Marketable securities	138,912,363	-	-	138,912,363
Receivables, net of allowance for doubtful accounts	9,110,632	-	-	9,110,632
Current portion of receivables - affiliated organizations	494,973	-	(387,585)	107,388
Current portion of pledges receivable, net of discount	-	71,504	-	71,504
Prepaid expenses, deposits, and other assets	2,370,453	11,101	-	2,381,554
Total current assets	<u>158,953,184</u>	<u>6,703,815</u>	<u>(387,585)</u>	<u>165,269,414</u>
Assets whose use is limited				
Assets held by bond indenture trustee and restricted for construction and debt service	19,355,737	-	-	19,355,737
Less portion available to satisfy current debt service	<u>(5,578,603)</u>	<u>-</u>	<u>-</u>	<u>(5,578,603)</u>
Noncurrent portion	13,777,134	-	-	13,777,134
Investments held in trust	-	3,856,383	-	3,856,383
Restricted investments	-	3,560,764	-	3,560,764
Other	<u>-</u>	<u>155,000</u>	<u>-</u>	<u>155,000</u>
Total long-term assets whose use is limited	<u>13,777,134</u>	<u>7,572,147</u>	<u>-</u>	<u>21,349,281</u>
Long-term pledge receivables, net of current portion and discount	-	730,103	-	730,103
Receivables - affiliated organizations, net of current portion	505,067	-	-	505,067
Property and equipment, net of accumulated depreciation	320,441,991	-	-	320,441,991
Deferred charges and other assets	<u>8,763,137</u>	<u>-</u>	<u>-</u>	<u>8,763,137</u>
Total assets	<u>\$ 502,440,513</u>	<u>\$ 15,006,065</u>	<u>\$ (387,585)</u>	<u>\$ 517,058,993</u>

Covia Communities
(an Affiliate of Covia Group)
Consolidating Statements of Financial Position (continued)
March 31, 2018

	<u>Covia Obligated Group</u>	<u>Covia Foundation</u>	<u>Eliminations</u>	<u>Consolidated Covia Communities</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 5,955,864	\$ -	\$ -	\$ 5,955,864
Accounts payable - affiliated organizations	-	387,585	(387,585)	-
Accrued payroll and payroll taxes	6,125,583	-	-	6,125,583
Current portion of long-term debt	2,973,000	-	-	2,973,000
Accrued interest	2,605,603	-	-	2,605,603
Self-insurance and other liabilities	3,229,937	-	-	3,229,937
Total current liabilities	20,889,987	387,585	(387,585)	20,889,987
Refundable deposits	855,700	-	-	855,700
Repayable entrance fees	4,892,940	-	-	4,892,940
Refundable entrance fees	82,566,608	-	-	82,566,608
Pension benefit obligation	7,745,825	-	-	7,745,825
Long-term debt, net	157,795,658	-	-	157,795,658
Deferred revenue from entrance fees	158,263,330	-	-	158,263,330
Liabilities for payments to trust beneficiaries	-	1,695,754	-	1,695,754
Other liabilities	1,849,962	2,082,441	-	3,932,403
Total liabilities	434,860,010	4,165,780	(387,585)	438,638,205
Net assets				
Without donor restrictions	67,580,503	1,805,172	-	69,385,675
With donor restrictions	-	9,035,113	-	9,035,113
Total net assets	67,580,503	10,840,285	-	78,420,788
Total liabilities and net assets	<u>\$ 502,440,513</u>	<u>\$ 15,006,065</u>	<u>\$ (387,585)</u>	<u>\$ 517,058,993</u>

Covia Communities
(an Affiliate of Covia Group)

Consolidating Statements of Activities and Changes in Net Assets Without Donor Restrictions Information by Location
Year Ended March 31, 2019

	Canterbury Woods	St. Paul's Towers	Los Gatos Meadows	Spring Lake Village	San Francisco Towers	Webster House	Support Services	Obligated Group Total	Covia Foundation	Eliminations	Total
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS											
Revenues and gains											
Resident fees	\$ 8,595,583	\$ 13,476,896	\$ 8,656,323	\$ 20,740,082	\$ 20,197,898	\$ 2,572,891	\$ -	\$ 74,239,673	\$ -	\$ -	\$ 74,239,673
Amortization of deferred revenue from entrance fees	933,178	4,210,389	343,461	7,023,366	8,194,971	701,059	-	21,406,424	-	-	21,406,424
Nursing center	2,425,704	6,053,041	6,507,320	10,470,528	3,199,775	16,706,936	-	45,363,304	-	-	45,363,304
Outside and other medical fees	58,504	100,747	95,287	92,600	240,253	20,815	-	608,206	-	-	608,206
Other	21,540	30,600	20,228	85,153	97,339	173,471	2,023,333	2,451,664	-	-	2,451,664
Contributions from affiliates	-	812	3,420	23,892	8,171	1,333	2,195,188	2,232,816	3,111,041	(5,343,857)	-
Contributions	-	-	-	-	-	-	-	-	355,334	-	355,334
Net assets released from restriction for assistance and operations	-	-	-	-	-	-	-	-	2,101,762	-	2,101,762
Total revenues and gains	12,034,509	23,872,485	15,626,039	38,435,621	31,938,407	20,176,505	4,218,521	146,302,087	5,568,137	(5,343,857)	146,526,367
Expenses											
Nursing expenses	2,974,665	3,976,588	4,103,936	8,114,872	3,443,830	10,967,304	-	33,581,195	-	-	33,581,195
Outside and other medical expenses	360,331	1,042,173	794,646	1,675,421	1,370,146	344,421	-	5,587,138	-	-	5,587,138
Dining services	2,611,033	3,475,117	2,488,899	6,145,101	5,516,031	2,367,082	-	22,603,263	-	-	22,603,263
Environmental services	920,340	1,302,292	613,267	2,114,747	1,672,298	945,932	-	7,568,876	-	-	7,568,876
Maintenance	926,009	1,486,779	1,768,211	1,996,773	2,630,390	698,636	-	9,506,798	-	-	9,506,798
General and administrative expenses	1,008,609	1,447,867	1,271,122	1,846,121	1,631,814	1,452,754	11,288,932	19,947,219	845,537	-	20,792,756
Allocated management and accounting service fees	1,097,944	1,706,518	1,367,722	2,716,620	1,750,441	1,085,391	(9,724,636)	-	-	-	-
Marketing	369,575	907,725	354,720	702,797	486,836	345,750	-	3,167,403	-	-	3,167,403
Utility expenses	551,113	1,069,971	733,563	1,693,105	1,543,307	703,666	-	6,294,725	-	-	6,294,725
Other	258,624	451,754	344,500	909,438	517,652	343,731	5,674,520	8,500,219	-	(3,111,041)	5,389,178
Program expenses	-	-	-	-	-	-	-	-	4,947,110	(2,232,816)	2,714,294
Fundraising activities	-	-	-	-	-	-	-	-	16,970	-	16,970
Depreciation and amortization	1,580,894	4,609,772	1,903,046	7,306,143	5,684,922	1,456,159	943,024	23,483,960	-	-	23,483,960
Loss on disposal of property and equipment	94,105	126,508	110,333	13,078	28,477	145,609	42,386	560,496	-	-	560,496
Interest	71,917	211,753	675,865	4,357,898	1,441,585	222,999	926,732	7,908,749	-	-	7,908,749
Impairment of property and equipment	-	-	11,410,130	-	-	-	-	11,410,130	-	-	11,410,130
Exit costs	-	-	11,136,109	-	-	-	-	11,136,109	-	-	11,136,109
Total expenses	12,825,159	21,814,817	39,076,069	39,592,114	27,717,729	21,079,434	9,150,958	171,256,280	5,809,617	(5,343,857)	171,722,040
(LOSS) INCOME BEFORE INVESTMENT INCOME AND UNREALIZED LOSS ON INVESTMENTS	(790,650)	2,057,668	(23,450,030)	(1,156,493)	4,220,678	(902,929)	(4,932,437)	(24,954,193)	(241,480)	-	(25,195,673)
INVESTMENT INCOME											
Investment income	-	-	-	-	-	-	3,546,887	3,546,887	-	-	3,546,887
Net realized gains on investments	-	-	-	-	-	-	2,156,407	2,156,407	-	-	2,156,407
Total investment income	-	-	-	-	-	-	5,703,294	5,703,294	-	-	5,703,294
NET (LOSS) INCOME	(790,650)	2,057,668	(23,450,030)	(1,156,493)	4,220,678	(902,929)	770,857	(19,250,899)	(241,480)	-	(19,492,379)
NET UNREALIZED LOSS ON INVESTMENTS	-	-	-	-	-	-	(72,700)	(72,700)	-	-	(72,700)
CHANGE IN PENSION BENEFIT LIABILITY	-	-	-	-	-	-	(596,217)	(596,217)	-	-	(596,217)
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (790,650)	\$ 2,057,668	\$ (23,450,030)	\$ (1,156,493)	\$ 4,220,678	\$ (902,929)	\$ 101,940	\$ (19,919,816)	\$ (241,480)	\$ -	\$ (20,161,296)

Covia Communities
(an Affiliate of Covia Group)

Consolidating Statements of Activities and Changes in Net Assets Without Donor Restrictions Information by Location
Year Ended March 31, 2018

	Canterbury Woods	St. Paul's Towers	Los Gatos Meadows	Spring Lake Village	San Francisco Towers	Webster House	Support Services	Obligated Group Total	Covia Foundation	Eliminations	Total
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS											
Revenues and gains											
Resident fees	\$ 8,364,721	\$ 12,009,069	\$ 9,024,859	\$ 19,508,299	\$ 19,431,047	\$ 2,543,902	\$ -	\$ 70,881,897	\$ -	\$ -	\$ 70,881,897
Amortization of deferred revenue from entrance fees	1,082,998	2,902,728	445,098	6,607,987	7,758,071	515,690	-	19,312,572	-	-	19,312,572
Nursing center	2,131,364	5,813,692	6,288,189	9,002,856	3,372,290	15,423,861	-	42,032,252	-	-	42,032,252
Outside and other medical fees	80,255	107,811	138,712	97,849	305,470	-	-	730,097	-	-	730,097
Other	42,338	30,600	14,834	135,749	65,601	167,269	1,816,705	2,273,096	-	-	2,273,096
Contributions from ESC	-	-	-	-	-	-	-	-	804,216	(804,216)	-
Contributions	-	-	-	-	-	-	-	-	564,580	-	564,580
Net assets released from restriction for assistance and operations	-	-	-	-	-	-	-	-	1,876,747	-	1,876,747
Total revenues and gains	11,701,676	20,863,900	15,911,692	35,352,740	30,932,479	18,650,722	1,816,705	135,229,914	3,245,543	(804,216)	137,671,241
Expenses											
Nursing expenses	2,584,868	4,016,265	3,928,384	7,194,752	3,798,258	10,392,286	-	31,914,813	-	-	31,914,813
Outside and other medical expenses	331,621	980,618	812,687	1,582,179	1,361,941	386,658	-	5,455,704	-	-	5,455,704
Dining services	2,451,442	3,471,892	2,646,591	5,752,440	5,132,125	2,211,427	-	21,665,917	-	-	21,665,917
Environmental services	856,939	1,306,570	649,966	1,907,406	1,541,721	889,410	-	7,152,012	-	-	7,152,012
Maintenance	787,162	1,438,809	1,725,931	1,742,167	2,487,401	652,856	-	8,834,326	-	-	8,834,326
General and administrative expenses	903,796	1,273,594	1,133,401	1,800,044	1,634,652	1,792,305	10,461,769	18,999,561	785,298	-	19,784,859
Allocated management and accounting service fees	1,015,033	1,584,442	1,264,429	2,511,722	1,711,296	1,003,422	(9,090,344)	-	-	-	-
Marketing	341,382	820,104	488,231	809,234	513,824	225,860	-	3,198,635	-	-	3,198,635
Utility expenses	536,793	1,005,410	712,849	1,743,091	1,516,138	681,831	-	6,196,112	-	-	6,196,112
Other	234,277	455,401	284,280	821,719	469,555	331,641	3,185,525	5,782,398	-	(804,216)	4,978,182
Program expenses	-	-	-	-	-	-	-	-	1,510,062	-	1,510,062
Fundraising activities	-	-	-	-	-	-	-	-	18,918	-	18,918
Depreciation and amortization	1,705,179	4,494,972	1,825,654	8,108,871	5,445,854	1,501,491	700,393	23,782,414	-	-	23,782,414
Loss on disposal of property and equipment	80,803	748,185	165,472	(4,429)	377,691	(27,404)	-	1,340,318	-	-	1,340,318
Interest	83,164	244,868	693,985	4,375,436	1,466,603	158,346	939,918	7,962,320	-	-	7,962,320
Total expenses	11,912,459	21,841,130	16,331,860	38,344,632	27,457,059	20,200,129	6,197,261	142,284,530	2,314,278	(804,216)	143,794,592
(LOSS) INCOME BEFORE INVESTMENT INCOME AND UNREALIZED GAINS ON INVESTMENTS	(210,783)	(977,230)	(420,168)	(2,991,892)	3,475,420	(1,549,407)	(4,380,556)	(7,054,616)	931,265	-	(6,123,351)
INVESTMENT INCOME											
Investment income	-	-	-	-	-	-	3,217,938	3,217,938	-	-	3,217,938
Net realized gains on investments	-	-	-	-	-	-	1,908,746	1,908,746	-	-	1,908,746
Total investment income	-	-	-	-	-	-	5,126,684	5,126,684	-	-	5,126,684
NET (LOSS) INCOME	(210,783)	(977,230)	(420,168)	(2,991,892)	3,475,420	(1,549,407)	746,128	(1,927,932)	931,265	-	(996,667)
NET UNREALIZED GAINS ON INVESTMENTS	-	-	-	-	-	-	9,984,576	9,984,576	-	-	9,984,576
CHANGE IN PENSION BENEFIT OBLIGATION	-	-	-	-	-	-	(287,042)	(287,042)	-	-	(287,042)
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (210,783)	\$ (977,230)	\$ (420,168)	\$ (2,991,892)	\$ 3,475,420	\$ (1,549,407)	\$ 10,443,662	\$ 7,769,602	\$ 931,265	\$ -	\$ 8,700,867

Covia Communities
(an Affiliate of Covia Group)
Statements of Cash Flows (Covia Communities Obligated Group)
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	\$ 122,685,225	\$ 116,229,655
Proceeds from entrance fees	31,409,358	26,810,926
Investment gains	5,647,628	4,900,564
Cash paid to employees and suppliers	(118,125,361)	(111,029,564)
Interest paid	(8,131,917)	(8,185,485)
	<u>33,484,933</u>	<u>28,726,096</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisitions and construction in progress	(17,182,270)	(23,475,533)
Proceeds from property disposition	-	500
Changes in deferred charges and other assets	(1,064,510)	(3,829,413)
Change in funds held by bond indenture trustee	4,647,610	1,472,066
Marketable securities sold	5,893,736	24,581,172
Marketable securities acquired	(10,980,883)	(34,137,124)
	<u>(18,686,317)</u>	<u>(35,388,332)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayment	(2,973,000)	(2,926,000)
Refunds of deposit and entrance fees	(9,620,283)	(5,352,323)
	<u>(12,593,283)</u>	<u>(8,278,323)</u>
NET INCREASE (DECREASE) IN CASH	2,205,333	(14,940,559)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,486,160</u>	<u>17,426,719</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,691,493</u>	<u>\$ 2,486,160</u>

Covia Communities
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Statements of Cash Flows (Covia Communities Obligated Group) (continued)
For the Years Ended March 31, 2019 and 2018

	2019	2018
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (19,919,816)	\$ 7,769,602
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Amortization of deferred revenue from entrance fees	(21,406,424)	(19,312,572)
Proceeds from entrance fees	31,409,358	26,810,926
Exit costs	11,136,109	-
Depreciation and amortization	23,483,960	23,782,414
Impairment of property and equipment	11,410,130	-
Loss on disposal of property and equipment	560,496	1,340,318
Amortization of debt issuance costs and other	99,681	99,681
Amortization of bond issue premium	(322,848)	(322,845)
Amortization of investment contract	(55,666)	(226,120)
Change in net unrealized gain on investments	72,700	(9,984,576)
Change in pension benefit obligation	596,217	287,042
Effects of changes in		
Receivables, net	(2,382,438)	11,413
Other assets	(195,953)	(256,686)
Accounts payable	5,764,054	(829,318)
Other liabilities	(6,153,730)	1,267,972
Accrued retirement benefits	(1,147,071)	(1,172,623)
Self-insurance liabilities	536,174	(538,532)
Net cash provided by operating activities	\$ 33,484,933	\$ 28,726,096
Noncash disclosure		
Noncash property acquisition and construction in progress	\$ 580,322	\$ 928,782
Conversion of accounts receivable to notes receivable	\$ 944,922	\$ -

