# CHRISTIAN LIVING VENTURES

## CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

## YEARS ENDED DECEMBER 31, 2015 AND 2014

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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Christian Living Ventures
Greenwood Village, Colorado

We have audited the accompanying consolidated financial statements of Christian Living Ventures (the Organization), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, 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.

***Auditors' 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 auditors' 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.

Board of Directors
Christian Living Ventures

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christian Living Ventures as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Broomfield, Colorado
April, 26, 2016

**CHRISTIAN LIVING VENTURES**
**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2015 AND 2014**

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 8,928,000 | $ 9,232,949 |
| Short-Term Investments | 6,044,247 | 3,907,847 |
| Current Portion of Assets Limited as to Use | 10,749,150 | 10,306,365 |
| Resident Accounts Receivable, Net of Allowance | 2,252,163 | 2,412,663 |
| Other Receivables | 123,995 | 191,149 |
| Supply Inventories | 124,139 | 128,290 |
| Prepaid Expenses | 777,852 | 526,225 |
| Total Current Assets | 28,999,546 | 26,705,488 |
| **ASSETS LIMITED AS TO USE** | | |
| Held by Trustee Under Indenture Agreement | 20,663,627 | 20,597,409 |
| Resident Funds and Deposits | 4,630,089 | 4,246,795 |
| Liquidity Agreement | 1,000,000 | - |
| Endowment Fund | 705,322 | 741,177 |
| Less: Current Portion Shown Above | (10,749,150) | (10,306,365) |
| Total Assets Limited as to Use (Net of Current Portion Shown Above) | 16,249,888 | 15,279,016 |
| **PROPERTY AND EQUIPMENT** | | |
| Land and Land Improvements | 7,582,860 | 7,582,860 |
| Building and Leasehold Improvements | 165,233,356 | 161,124,796 |
| Furniture, Equipment and Vehicles | 13,258,369 | 13,413,612 |
| Construction in Progress | 327,349 | 968,031 |
| Total Property and Equipment | 186,401,934 | 183,089,299 |
| Less: Accumulated Depreciation | (48,732,611) | (43,401,849) |
| Property and Equipment, Net | 137,669,323 | 139,687,450 |
| **OTHER ASSETS** | | |
| Deferred Financing Costs, Net | 3,979,648 | 4,160,254 |
| Deferred Marketing Costs, Net | 3,292,459 | 3,921,606 |
| Investments | 19,585,035 | 19,318,884 |
| Investment In Affiliate | 342,621 | 416,196 |
| Total Other Assets | 27,199,763 | 27,816,940 |
| Total Assets | $ 210,118,520 | $ 209,488,894 |

*See accompanying Notes to Consolidated Financial Statements.*

# CHRISTIAN LIVING VENTURES
# CONSOLIDATED BALANCE SHEETS (CONTINUED)
# DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Current Maturities of Long-Term Debt | $ 2,575,000 | $ 2,587,886 |
| Accounts Payable | 1,332,321 | 1,176,234 |
| Accounts Payable-Construction | 143,234 | 351,903 |
| Accrued Expenses | 1,895,797 | 1,873,611 |
| Accrued Interest | 3,544,062 | 3,598,931 |
| Current Portion of Refundable Advance Fees | 7,604,000 | 6,694,000 |
| Deposits from Residents | 1,881,754 | 1,853,536 |
| Total Current Liabilities | 18,976,168 | 18,136,101 |
| **LONG-TERM DEBT, LESS CURRENT MATURITIES** | 128,480,696 | 131,219,539 |
| **OTHER LIABILITIES** | | |
| Refundable Advance Fees | 72,023,707 | 67,471,311 |
| Deferred Revenue from Advance Fees | 8,683,909 | 8,605,981 |
| Total Other Liabilities | 80,707,616 | 76,077,292 |
| Total Liabilities | 228,164,480 | 225,432,932 |
| **NET ASSETS** | | |
| Unrestricted: | | |
| Board-Designated | 301,835 | 301,835 |
| Undesignated | (19,385,008) | (17,297,571) |
| Total Unrestricted Net Assets | (19,083,173) | (16,995,736) |
| Temporarily Restricted | 346,939 | 361,424 |
| Permanently Restricted | 690,274 | 690,274 |
| Total Net Assets | (18,045,960) | (15,944,038) |
| Total Liabilities and Net Assets | $ 210,118,520 | $ 209,488,894 |

*See accompanying Notes to Consolidated Financial Statements.*

**CHRISTIAN LIVING VENTURES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | 2015 | 2014 |
|---|---|---|
| **UNRESTRICTED REVENUES AND OTHER SUPPORT** | | |
| Resident and Client Services Revenue | $ 49,976,248 | $ 48,276,808 |
| Amortization of Advance Fees | 1,613,082 | 1,606,664 |
| Other Revenue | 1,858,457 | 1,931,663 |
| Contributions | 448,760 | 564,715 |
| Net Assets Released From Restrictions Used for Operations | 141,085 | 91,125 |
| Total Unrestricted Revenues and Other Support | 54,037,632 | 52,470,975 |
| **EXPENSES** | | |
| Salaries and Benefits | 25,973,400 | 25,382,224 |
| Purchased Services | 5,620,500 | 5,251,290 |
| Medical Supplies and Drugs | 787,428 | 854,257 |
| Dietary Expenses | 3,383,697 | 3,331,532 |
| Administrative Expenses | 1,602,111 | 1,732,029 |
| Insurance | 567,180 | 565,882 |
| Bond Fees | 46,178 | 71,124 |
| Utilities | 1,663,228 | 1,688,141 |
| Depreciation and Amortization | 6,756,913 | 6,591,278 |
| Interest | 7,018,103 | 7,134,403 |
| Other | 2,141,597 | 2,184,807 |
| Provision for Uncollectible Accounts | 456,438 | 484,388 |
| Total Expenses | 56,016,773 | 55,271,355 |
| **OPERATING LOSS** | (1,979,141) | (2,800,380) |
| **OTHER INCOME (EXPENSE)** | | |
| Interest Income | 739,549 | 761,505 |
| Realized Gains on Investments | 246,731 | 607,662 |
| Unrealized Losses on Investments | (1,702,178) | (571,369) |
| Gain on Sale of Property and Equipment | 571,389 | 143,243 |
| Rental Income | 44,114 | 39,240 |
| Change in Investment in Affiliate | (7,901) | 57,608 |
| Total Other Income (Expense) | (108,296) | 1,037,889 |
| **DEFICIT OF REVENUES OVER EXPENSES** | $ (2,087,437) | $ (1,762,491) |

*See accompanying Notes to Consolidated Financial Statements.*

# CHRISTIAN LIVING VENTURES
# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
# YEARS ENDED DECEMBER 31, 2015 AND 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **NET ASSETS DECEMBER 31, 2013** | $ (15,233,245) | $ 359,178 | $ 690,274 | $ (14,183,793) |
| Deficit of Revenues Over Expenses | (1,762,491) | - | - | (1,762,491) |
| Net Assets Released from Restrictions | - | (91,125) | - | (91,125) |
| Contributions | - | 67,347 | - | 67,347 |
| Interest Income | - | 26,024 | - | 26,024 |
| Change in Net Assets | (1,762,491) | 2,246 | - | (1,760,245) |
| **NET ASSETS DECEMBER 31, 2014** | (16,995,736) | 361,424 | 690,274 | (15,944,038) |
| Deficit of Revenues Over Expenses | (2,087,437) | - | - | (2,087,437) |
| Net Assets Released from Restrictions | - | (141,085) | - | (141,085) |
| Contributions | - | 102,929 | - | 102,929 |
| Interest Income | - | 23,671 | - | 23,671 |
| Change in Net Assets | (2,087,437) | (14,485) | - | (2,101,922) |
| **NET ASSETS DECEMBER 31, 2015** | $ (19,083,173) | $ 346,939 | $ 690,274 | $ (18,045,960) |

*See accompanying Notes to Consolidated Financial Statements.*

**CHRISTIAN LIVING VENTURES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Changes in Net Assets | $ (2,101,922) | $ (1,760,245) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 5,947,160 | 5,795,479 |
| Amortization on Loan Fees | 180,606 | 180,609 |
| Amortization of Deferred Marketing Costs | 629,147 | 615,190 |
| Amortization on Bond Discount (Premium) | (62,763) | (62,763) |
| Amortization of Advance Fees | (1,613,082) | (1,606,664) |
| Provision for Uncollectible Accounts | 456,438 | 484,388 |
| Gain on Disposal of Property and Equipment | (571,389) | (143,243) |
| Change in Investment in Affiliate | 7,901 | (57,608) |
| Unrealized Losses on Investments | 1,702,178 | 571,369 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (295,938) | 652,644 |
| Other Receivables | 67,154 | (115,132) |
| Prepaid Expenses and Other Assets | (247,476) | (152,614) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | 123,404 | 118,829 |
| Resident Deposits | 28,218 | (57,305) |
| Net Cash Provided by Operating Activities | 4,249,636 | 4,462,934 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Investments | (10,578,777) | (4,652,356) |
| Proceeds from Sale of Investments | 6,474,048 | 3,516,835 |
| Purchase of Property and Equipment | (4,924,948) | (2,730,432) |
| Proceeds from Insurance for Property and Equipment | 1,358,635 | 202,401 |
| Distribution from Affiliate | 65,674 | 65,290 |
| Payment of Marketing Costs | - | (59,115) |
| Net Change in Assets Limited as to Use | (1,413,657) | (80,376) |
| Net Cash Used by Investing Activities | (9,019,025) | (3,737,753) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Principal Payments on Long-Term Debt | (2,688,966) | (2,487,662) |
| Proceeds from Entrance Fees, Net of Refunds | 7,153,406 | 4,389,954 |
| Net Cash Provided by Financing Activities | 4,464,440 | 1,902,292 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (304,949) | 2,627,473 |
| Cash and Cash Equivalents - Beginning of Year | 9,232,949 | 6,605,476 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 8,928,000 | $ 9,232,949 |
| **SUPPLEMENTAL CASH FLOW INFORMATION** | | |
| Interest Paid (Net of Amount Capitalized) | $ 7,128,795 | $ 7,223,341 |
| Property and Equipment Included in Accounts Payable | $ 143,234 | $ 351,903 |

*See accompanying Notes to Consolidated Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations**

The mission of Christian Living Ventures is: Christian Living Ventures, embracing our Christian heritage and using our expertise and experience, enriches the quality and living experiences for seniors and their families through oversight of our retirement communities, through affiliated business operations and services, through offering seniors access to housing they can afford, and through information and educational opportunities for seniors and their service providers.

The consolidated financial statements of Christian Living Ventures include the following controlled entities and divisions:

Controlled Entities:

- Christian Living Communities
- Stewardship Foundation
- Christian Living Services

Divisions of Christian Living Communities include:

- Management
- Home and Community Based Services (HCBS)
- Someren Glen
- Clermont Park
- Holly Creek
- Adult Day Services

The services and activities of the various entities and divisions are as follows:

- Management provides administrative services for the other entities
- HCBS provides homecare services to senior adults
- Someren Glen provides housing, health care and other related services to residents
- Holly Creek and Clermont Park are a continuing care retirement communities that provide housing, health care and other related services to residents
- Stewardship Foundation – formed for the purpose of soliciting and receiving charitable contributions for the purpose of enhancing the mission, ministry and the financial viability of Christian Living Communities
- Christian Living Services provides management and consulting services on a contract basis for owner/operators of other senior communities
- Adult day services provided at Someren Glen and Clermont Park

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Nature of Operations (Continued)**

Christian Living Ventures and Christian Living Services began operations in 2014. During 2015 and 2014, upon the approval of the Christian Living Ventures Board of Directors, Christian Living Communities transferred $4 million and $2 million, respectively, to Christian Living Ventures. The purpose of the transfer was to capitalize the newly formed organization and provide funds for growth opportunities. The transfer was eliminated in the consolidation of the financial statements.

The Obligated Group for the outstanding tax-exempt bonds payable consists of Christian Living Communities and Stewardship Foundation.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Christian Living Ventures, Christian Living Communities, the Stewardship Foundation, and Christian Living Services (the Organization). Intercompany accounts and transactions have been eliminated in consolidation.

**Tax Status**

Christian Living Ventures, Christian Living Communities, and the Stewardship Foundation are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision for state law. However, the Christian Living Ventures, Christian Living Communities, and the Stewardship Foundation are subject to federal income tax on any unrelated business taxable income. These three organizations are not aware of any activities that would jeopardize their tax-exempt status.

Christian Living Services is not a charitable organization and is liable for taxes on its taxable income.

**Financial Statement Presentation**

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Those resources over which the Boards of Directors have discretionary control. Designated amounts represent those revenues that the Board of Directors has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions that will be satisfied by actions of the Organization or through the passage of time.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for program purposes.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial Statement Presentation (Continued)

The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions are satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period as received are recorded as unrestricted contributions.

### Use of Estimates

The preparation of financial statements in conformity with auditing standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

### Resident Services Revenue

Resident services revenue includes room charges and ancillary services to residents and is recorded at established rates, net of contractual adjustments, resulting from agreements with third-party payors, if applicable.

### Other Revenue

Other revenue includes resident income derived from meals, beauty shop, laundry room charges and other ancillary services charged to residents. Christian Living Services also records revenues related to consulting services in other revenue.

### Third Party Reimbursement Agreements

#### Medicaid

The skilled nursing facilities participate in the Medicaid program administered by the Colorado Department of Health Care Financing and Policy. The Medicaid rates are established prospectively; based on the facility's annual cost report; subject to limitations for the health care related services; administration is based on a price and the capital component is based on the fair rental allowance system. The direct health care related services component is adjusted quarterly, based on the facility's resident acuity.

#### Medicare

The Organization participates in the Medicare program. The program is administered by the Centers for Medicare and Medicaid Services. The Organization is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare eligible. The PPS is a per diem price-based system. Annual cost reports are submitted to the designated intermediary; however, they do not contain a cost settlement.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Occupancy Percentages

During the years ended December 31, 2015 and 2014, the occupancy percentages for all of the Christian Living Communities and facilities were as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Communities | Nursing Facility | Assisted Living | Independent Living | Nursing Facility | Assisted Living | Independent Living |
| Holly Creek | 94.2% | 98.9% | 97.9% | 94.4% | 98.1% | 98.4% |
| Someren Glen | 93.0% | 91.5% | 96.1% | 94.3% | 96.6% | 98.9% |
| Clermont Park | 95.0% | 98.8% | 99.0% | 95.1% | 98.2% | 99.1% |

During the years ended December 31, 2015 and 2014, the occupancy percentages and the percentages of residents covered under the Medicaid and Medicare programs for the nursing facilities were as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Communities | Private and Other | Medicaid | Medicare | Private and Other | Medicaid | Medicare |
| Holly Creek | 71.4% | - | 28.6% | 73.8% | - | 26.2% |
| Someren Glen | 52.9% | 40.9% | 6.2% | 51.3% | 41.8% | 6.9% |
| Clermont Park | 51.8% | 28.8% | 19.4% | 51.9% | 29.8% | 18.3% |

### Cash and Cash Equivalents

The Organization considers all money market accounts and certificates of deposit with maturity dates of three months or less to be cash equivalents. Certificates of deposit are stated at cost, which approximates market value. The Organization deposits its temporary cash investments in financial institutions. At times, such investments may be in excess of the FDIC insurance limit.

### Accounts Receivable

The Organization reports resident accounts receivable for services rendered at net realizable amounts from third-party payors, residents and others. An allowance for doubtful accounts is provided based upon the review of outstanding receivables, historical collection information and existing economic conditions. As a service to the resident, the Organization bills third-party payors directly and bills the resident when the resident's liability is determined. Resident accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. As of December 31, 2015 and 2014, the allowance for uncollectible accounts was approximately $341,000 and $423,000, respectively.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Assets Limited as to Use

Assets limited as to use includes assets held by trustees, assets that are to be used by the residents of the Organization, security and other deposits being held for residents and assets limited as to use by donors. Amounts required to meet current liabilities of the Organization are included in current assets.

### Supply Inventories

Supply inventories are stated at the lower of cost or market, determined using the first-in, first-out method.

### Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives by the straight-line method of depreciation. Assets under capital leases and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Gifts of long-lived assets such as land, buildings or equipment are reported as additions to unrestricted net assets, and are excluded from deficit of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

### Construction in Progress

Construction in progress as of December 31, 2015 is related to various campus improvement projects and a time keeping system upgrade. The projects are expected to be completed throughout the first half of fiscal year 2016 at an expected total cost of approximately $407,000. The projects are being funded internally through operations.

Construction in progress as of December 31, 2014 was related to improvement to the Organization’s Someren Glen campus. The project costs included amounts related to the Phase II remodel, which was completed in the spring of 2015, and various other remodeling projects. The projects were funded internally through operations.

### Deferred Financing Costs

Total financing costs of $5,011,647 are shown net of accumulated amortization of $1,031,999 and $851,393 as of December 31, 2015 and 2014, respectively. The 2012 deferred financing costs are being amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. Amortization expense for the years ended December 31, 2015 and 2014 was $180,606 and $180,609, respectively.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred Marketing Costs

Marketing costs of $4,403,011 related to Holly Creek are being amortized over the average life expectancy of the initial residents using the straight-line method of amortization. Amortization expense related to the Holly Creek Project for the years ended December 31, 2015 and 2014 was $366,918. During 2015 and 2014, marketing costs of $-0- and $59,115, respectively, were incurred in connection with securing the Clermont Park Project initial continuing care contracts. Total marketing costs of $3,038,375 were incurred as part of the Clermont Park Project. These costs began being amortized in April 2013 over the average life expectancy of the initial residents using the straight-line method of amortization. Amortization expense related to the Clermont Park Project for the years ended December 31, 2015 and 2014 was $262,229 and $248,272, respectively.

As of December 31, 2015 and 2014, deferred marketing costs for both projects total $7,441,386. These costs are shown net of accumulated amortization of $4,148,927 and $3,519,780, respectively.

### Deposits from Residents

Deposits from residents represent amounts received from prospective residents who either are holding signed agreements reserving a particular apartment or waiting for a specific type of apartment to become available. These deposits are recorded under the deposit method until the applicant signs a residency agreement and moves into the facility.

### Deferred Revenue from Advance Fees

At Holly Creek Retirement Community and Clermont Park Retirement Community, fees paid by a resident upon entering into a resident contract, net of the portion thereof that is refundable, are recorded as deferred revenue and are amortized to income using the straight-line method over the life expectancy of the resident. The period of amortization is adjusted annually based on the actuarially determined remaining life expectancy of each individual resident or on the joint and last survivor life expectancy of each pair of residents occupying the same unit. The Organization relies upon an external actuary to calculate and track the entrance fees.

In consideration for an entrance fee and, thereafter, monthly service fees, the Organization provides individuals with a residence for the remainder of their lives. The original resident contract provided for a 90% refundable entrance fee upon death or move-out from the Independent Living Unit, after the first 10 months of residency. The contract offered a refund benefit that declined at 1% per month, but not to exceed 90% of the original entry fee. This refund was offered upon the earlier of (a) re-occupancy of the unit or (b) 180 days after the unit was vacated, whichever came first.

The contract was revised for all new residents, effective January 1, 2010. This revision changed the terms of the 90% refundable entrance fee upon death or move-out from Holly Creek, which defers refunding when the resident moves to a higher level of care. The contracts are refundable upon the earlier of re-occupancy of the unit or 180 days; unless upon death which it is refundable upon re-occupancy. Entrance fees are not refundable until a resident leaves their highest level of care at the Organization.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Deferred Revenue from Advance Fees (Continued)**

Clermont Park opened in February 2013 and residents were offered two contract options. The contract included a 50% or 90% refundable entrance fee option. The remaining terms of these contracts are consistent with the revised contract previously mentioned.

Should residents need to temporarily or permanently relocate to a higher level of care, they shall receive a discounted rate at Holly Creek, Clermont Park, or an alternative Christian Living Communities facility. The first ten days at any higher level of care are free to Holly Creek and Clermont Park residents.

In the event of death or move-out after the above time period, the unamortized balance of the nonrefundable entrance fee is recognized as income. The estimated liability for refundable entrance fees is recorded based upon the Organization's experience of refunding such fees.

Future revenues are dependent on various actuarial assumptions, occupancy rates and other matters that are subject to change.

The State of Colorado requires that the Organization refund the residents refundable fees within 180 days of termination of the agreement and not just on re-occupancy of the unit. When a refund is due to a resident's estate and the unit has been re-occupied within 180 days, the Organization will refund the balance owed to the estate in less than 180 days.

Management has estimated a current portion of the amount of the remaining refundable balances as of December 31, 2015 and 2014 to be $7,604,000 and $6,694,000, respectively, based on the average refunds payable over prior years. This estimate includes actual refunds subsequent to year end.

**Obligation to Provide Future Services**

The Organization has calculated the present value of the net cost of future services and use of facilities to be provided to current residents and compared that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future service) with the corresponding charge to income. The obligation is discounted at 5.5% as of December 31, 2015 and 2014. The Organization's calculation indicated no liability needed to be recorded as of December 31, 2015 and 2014.

**Advertising Expenses**

Advertising expenses, excluding capitalized marketing costs, approximated $205,000 and $179,000 for the periods ended December 31, 2015 and 2014, respectively. Advertising costs are expensed when incurred.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. The Organization classifies their investments as trading securities and accordingly investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in deficit of revenues over expenses unless the income or loss is restricted by donor or law.

### Deficit of Revenues over Expenses

The consolidated statements of operations includes deficit of revenues over expenses. Changes in unrestricted net assets which are excluded from deficit of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

### Charity Care

Christian Living Communities strives to enhance life of seniors through offering high quality care and support through their retirement living communities and facilities. The Organization provides services to residents and the community regardless of their ability to pay for those services.

The Organization defines and measures this “investment in” and “partnership with” the community primarily through its benevolent care and community benefits programs. The Organization provides care to residents and clients who meet certain criteria under its financial assistance policy without charge. The key element used to determine eligibility is assessing the residents need based on a review of their assets and their monthly revenues and expenses. Because the Organization does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

The Organization has estimated its direct and indirect costs of providing charity care under its financial assistance policy. In order to estimate the cost or providing such care, management has used actual costs and operational projections. Using this methodology, the Organization has estimated the costs foregone for services and supplies furnished under the Organization’s financial assistance policy aggregated approximately $546,000 and $517,000 for the years ended December 31, 2015 and 2014, respectively.

The Organization receives donations under its benevolent care program and other fundraising efforts. For the years ended December 31, 2015 and 2014, the Organization received donations of approximately $485,000 and $347,000, respectively.

### Uncompensated Balances

The Organization provided care to residents under the Medicaid program for which the costs to provide such care exceeds reimbursement. The Organization funds this difference through its operations. The shortfall associated for care provided under this program for the years ended December 31, 2015 and 2014 was approximately $1,890,000 and $2,012,000, respectively.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Contributed Services

The Organization receives substantial contributed services from constituents, the general public and Board members. Such services are not recorded in the accompanying consolidated financial statements. Estimated hours contributed were approximately 39,000 and 39,700 in 2015 and 2014, respectively.

### Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets.

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value, however may elect to measure newly acquired financial instruments at fair value.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New Accounting Pronouncements**

During the year ended December 31, 2015, the Organization early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Organization has omitted this disclosure for the years ended December 31, 2015 and 2014. The early adoption of this provision did not have an impact on the Organization's financial position or results of operations.

**Reclassifications**

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the Organization's overall net assets.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has considered events and transactions that have occurred through April, 26, 2016, the date the consolidated financial statements were available for issuance.

## NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE

**Investments**

Investments at December 31, 2015 and 2014 are carried at market value as follows:

| | 2015 | 2014 |
|---|---|---|
| Cash and Cash Equivalents | $ 2,945,878 | $ 822,213 |
| Certificates of Deposit | 3,098,369 | 3,085,634 |
| Total Short-Term Investments | $ 6,044,247 | $ 3,907,847 |
| | | |
| Equity Securities | $ 740,059 | $ 629,719 |
| Equity Funds | 13,633,717 | 15,048,631 |
| Real Estate Funds | 5,100 | 35,100 |
| Fixed Income Funds | 3,779,309 | 2,016,745 |
| Corporate Bonds | 1,426,850 | 1,588,689 |
| Total Investments | $ 19,585,035 | $ 19,318,884 |

## NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

### Assets Limited as to Use

Assets limited as to use at December 31, 2015 and 2014 are carried at market value as follows:

| | 2015 | 2014 |
|---|---|---|
| Held by Trustee Under Indenture Agreement: | | |
| Cash | $ 2,608,652 | $ 2,579,818 |
| U.S. Treasury Obligations | 1,721,355 | 1,733,384 |
| U.S. Government Securities | 3,387,575 | 3,058,914 |
| U.S. Government Money Funds | 6,011,347 | 5,985,645 |
| Corporate Debt Securities | 6,884,925 | 7,189,234 |
| Interest Receivable | 49,773 | 50,414 |
| | 20,663,627 | 20,597,409 |
| Resident Funds and Deposits: | | |
| Cash | 4,630,089 | 4,246,795 |
| | 4,630,089 | 4,246,795 |
| Liquidity Agreement: | | |
| Cash | 1,000,000 | - |
| | 1,000,000 | - |
| Other Internally Designated Funds: | | |
| Cash | 43,954 | 81,120 |
| Equity Funds | 661,368 | 660,057 |
| | 705,322 | 741,177 |
| Total Assets Limited as to Use | 26,999,038 | 25,585,381 |
| Less: Current Portion | (10,749,150) | (10,306,365) |
| Assets Limited as to Use, Net of Current Portion | $ 16,249,888 | $ 15,279,016 |

### Liquidity Agreement

In December 2015, Christian Living Ventures entered into a liquidity support agreement with a non-affiliated senior living organization (Non-Affiliate). The liquidity support agreement was entered into with the Non-Affiliate organization to assist it with refinancing its outstanding bonds and to issue new debt to finance the construction of a new assisted living facility. Christian Living Ventures has agreed to provide to and for the support of the Non-Affiliate organization up to $1,000,000 of liquidity support. The liquidity support can be reduced to $500,000 for any fiscal year beginning on or after January 1, 2018 (initial reduction period) if certain occupancy and debt covenant requirements have been met by the Non-Affiliate. The liquidity support can be reduced to $-0- for any fiscal year beginning after the initial reduction period if certain occupancy and debt covenant requirements have been met by the Non-Affiliate. The Non-Affiliate has entered into a management agreement with Christian Living Services to provide consulting and management services for the construction of the new assisted living facility. Upon completion of the new assisted living facility Christian Living Services will manage the new assisted living facility.

## NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

### Investment Income

Investment income and gains for cash and cash equivalents, assets limited as to use, and investments are comprised of the following for the years ended December 31:

| | 2015 | 2014 |
|---|---|---|
| Interest Income | $ 763,220 | $ 787,529 |
| Realized Gains on Investments | 246,731 | 607,662 |
| Unrealized Losses on Investments | (1,702,178) | (571,369) |
| Total Investment Income (Loss) | $ (692,227) | $ 823,822 |

## NOTE 3 INVESTMENT IN AFFILIATE

### CSP Holdings, LLC

The Organization accounts for its investment in CSP Holdings, LLC under the equity method, as it has a 15.9% ownership interest and CSP Holdings, LLC identifies separate capital accounts. CSP Holdings, LLC was the sole member of Charitable Service Providers Reciprocal Risk Retention Group (CSPRRRG). CSPRRRG was a captive insurance corporation organized by and for the benefit of eldercare service providers that are similar in operation as the Organization. On January 1, 2015, CSPRRRG was changed to a reciprocal group captive and is now called Charitable Service Providers Reciprocal Group Captive. The investment balance consists of the following at December 31:

| | 2015 | 2014 |
|---|---|---|
| Investment | $ 342,621 | $ 416,196 |
| Note Receivable | - | 31,591 |
| Total | $ 342,621 | $ 447,787 |

The Organization loaned CSPRRRG $31,591 on December 1, 2004. The note bore interest at 6% annually. The note and accrued interest was payable in full on December 1, 2009. The borrower chose the option to extend the maturity date for five years from December 1, 2009 to December 1, 2014. During fiscal year 2014 the maturity date was extended through December 1, 2015. The note receivable plus interest was collected by the Organization during fiscal year 2015. The note receivable was included in current assets in other receivables on the consolidated balance sheets as of December 31, 2014.

## NOTE 4 LONG-TERM DEBT

At December 31, 2015 and 2014, long-term debt consisted of the following:

| | 2015 | 2014 |
|---|---|---|
| Bond Payable, Series 2012 | $ 46,535,000 | $ 47,885,000 |
| Bond Payable, Series 2011 | 24,445,000 | 24,445,000 |
| Bond Payable, Series 2006 | 58,800,000 | 59,920,000 |
| Promissory Note | - | 218,966 |
| Total Long-Term Debt | 129,780,000 | 132,468,966 |
| Less: Unamortized Discount on Series 2011 Bonds | (241,020) | (250,653) |
| Add: Unamortized Premium on Series 2006 Bonds | 1,516,716 | 1,589,112 |
| Less: Current Maturities | (2,575,000) | (2,587,886) |
| Total Long-Term Debt, Less Current Maturities | $ 128,480,696 | $ 131,219,539 |

**Bond Payable, Series 2012**

On October 25, 2012, the Organization issued tax exempt revenue bonds, Series 2012 in the amount of $49,195,000. The net proceeds of the Series 2012 Bonds were used to (a) refund the Series 2004 A and Series 2004 B-2 Bonds; (b) refund the Series 2006 B-1 Bonds, and (c) refund the Series 2009 Bonds. Proceeds were also used to pay issuance costs and fund a reserve fund for the Series 2012 Bonds. The Series 2012 Bonds have principal payments due in varying amounts through January 1, 2037. Interest is payable semi-annually at 2.5% to 5.25%.

**Bond Payable, Series 2011**

On November 2, 2011, the Organization issued tax exempt revenue bonds, Series 2011 A (Series 2011 Bonds), in the amounts of $24,445,000. The net proceeds of the Series 2011 Bonds will be used pay the cost of constructing and equipping 74 new independent living apartments and a new adult day services building, renovating a portion of the existing independent living facility and expanding the Town Center at the Clermont Park campus. Proceeds will also be used to pay issuance costs and fund reserves. The Series 2011A Bonds have principal payments due in varying amounts through January 1, 2041. Interest is payable semi-annually at 4.25% to 6.38% for the Series 2011 A Bonds.

**Bond Payable, Series 2006**

On November 16, 2006, the Organization issued tax exempt revenue bonds, Series 2006 A, B, C-1 and C-2 (Series 2006 Bonds), in the amounts of $63,895,000, $2,000,000, $14,685,000 and $1,315,000, respectively. The net proceeds of the Series 2006 Bonds were used to pay off the Series 1997 Bonds, Series 2001 Bonds, Series 2002 Bonds and Series 2004 B Bonds.

The net proceeds were also used to pay outstanding construction, costs of constructing 84 independent living units, 28 assisted living units, 12 assisted living memory care units and 24 skilled nursing beds at the Holly Creek Campus, as well as pay issuance costs and fund reserves. The Series 2006 A Bonds have principal payments due in varying amounts through January 1, 2037. The Series B, C-1 and C-2 Bonds were all paid in full prior to or during the year ended 2010. Interest is payable semi-annually at 4.70% to 5.75% for the Series A Bonds.

## NOTE 4 LONG-TERM DEBT (CONTINUED)

**Bond Payable, Series 2006**

In conjunction with the issuance of the Series 2012 Revenue Refunding Bonds, the Organization refunded the 2006 Series B Bonds in the amount of $2,000,000.

**Promissory Note**

On October 31, 2013, the Organization issued a promissory note in the amount of $350,000. The proceeds were used to fund the purchase of a new phone system for the Organization. Monthly payments of $10,302 were due over 36 months, beginning November 30, 2013. Interest was payable monthly at 3.75% and the promissory note was secured by the equipment. The Organization paid off the promissory note in full in December 2015.

Aggregate annual maturities of long term debt are as follows:

| Year Ending December 31, | Principal |
|---|---|
| 2016 | $ 2,575,000 |
| 2017 | 3,120,000 |
| 2018 | 3,260,000 |
| 2019 | 3,395,000 |
| 2020 | 3,575,000 |
| Thereafter | 113,855,000 |
| Total | $ 129,780,000 |

**Restrictive Covenants**

The provisions of the debt agreements of the bonds payable described above contain various restrictive covenants that limit the occurrence of additional debt and require certain measures of financial performance be satisfied as long as the bonds and lease are outstanding. Management believes the Organization is in compliance with such covenants at December 31, 2015 and 2014.

## NOTE 5 NET ASSETS

**Designated Net Assets**

Net assets designated by the board of directors for various purposes, as stated in the consolidated balance sheets, are available as follows at December 31:

| | 2015 | 2014 |
|---|---|---|
| Designated Endowment | $ 293,049 | $ 293,049 |
| Resident Care | 8,786 | 8,786 |
| Total Board Designated Net Assets | $ 301,835 | $ 301,835 |

## NOTE 5 NET ASSETS (CONTINUED)

**Temporarily Restricted Net Assets**

Temporary restricted net assets are available for the following purposes at December 31:

| | 2015 | 2014 |
|---|---|---|
| Benevolent Care | $ 332,760 | $ 341,310 |
| Staff Appreciation | 1,250 | 6,884 |
| Memory Support | 2,384 | 2,384 |
| Other Resident Needs | 10,545 | 10,846 |
| Total Temporarily Restricted Net Assets | $ 346,939 | $ 361,424 |

During 2015 and 2014, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amounts of $141,085 and $91,125, respectively.

At December 31, 2015 and 2014, permanently restricted net assets of $690,274 are held in perpetuity, the revenue of which is expendable to support the activities of the Organization.

**Interpretation of Relevant Law**

The State of Colorado adopted Uniform Prudent Management of Institutional Funds Act (the Act) in 2008. The Board of Directors of the Organization has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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.

**Permanently Restricted Net Assets**

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

## NOTE 5 NET ASSETS (CONTINUED)

The following is the changes in endowment net assets for the years ended December 31, 2015 and 2014:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Net Assets - | | | | |
| January 1, 2014 | $ 15,779 | $ 42,296 | $ 690,274 | $ 748,349 |
| Interest Income | - | 26,024 | - | 26,024 |
| Net Depreciation | (33,196) | - | - | (33,196) |
| Endowment Net Assets - | | | | |
| December 31, 2014 | (17,417) | 68,320 | 690,274 | 741,177 |
| Interest Income | - | 23,671 | - | 23,671 |
| Net Depreciation | (59,526) | - | - | (59,526) |
| Endowment Net Assets - | | | | |
| December 31, 2015 | $ (76,943) | $ 91,991 | $ 690,274 | $ 705,322 |

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of December 31, 2015 and 2014 there was $76,943 and $17,417 of deficiencies reported in unrestricted net assets, respectively.

**Return Objectives and Risk Parameters**

The Organization has adopted an investment policy for their investment funds, including the permanent endowments that attempt to provide a balance of maintenance of adequate cash reserves, preservation of principal for funds designated as cash reserves, and growth of remaining assets within reasonable and prudent levels of risk. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide a total return, growth in income and a predictive and dependable source of income.

**Strategies Employed for Achieving Results**

To satisfy its capital appreciation and expected results, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a balance of equity-based investments and fixed income investments to achieve its objectives within the risk constraints.

## NOTE 5 NET ASSETS (CONTINUED)

**Spending Policy**

The Organization has a policy (the spending policy) of appropriating for expenditure each year the investment return on the endowment funds. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term.

## NOTE 6 PENSION PLANS

**Qualified Plan**

The Organization has a 403(b) tax sheltered retirement plan covering substantially all employees. After two years of service, the employer has discretion to make contributions to the plan. The employer typically contributes a set percentage on an eligible employee's contributions. Pension expense was $102,608 and $80,258 for the years ended December 31, 2015 and 2014, respectively.

The Organization has a 457(b) deferred compensation plan for eligible members of management. There is no vesting period for the contributions made by the Organization to the plan. The Organization may make contributions to the plan as approved by the Board of Directors whereby contributions can be made to the plan - not to exceed the maximum deferral limit in a traditional 403(b) plan. The Organization typically contributes a set percentage on an eligible employee's contributions. The Organization contributed $39,277 and $33,939 for the years ended December 31, 2015 and 2014, respectively.

## NOTE 7 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK

The Organization grants credit without collateral to its residents. The mix of accounts receivable from residents and third party payors at December 31, 2015 and 2014 was:

| | 2015 | 2014 |
|---|---|---|
| Medicare | 24 % | 31 % |
| Medicaid | 16 | 11 |
| Private Pay | 34 | 29 |
| Other Third-Party Payers | 26 | 29 |
| | 100 % | 100 % |

## NOTE 8 COMMITMENTS AND CONTINGENCIES

**Operating Leases**

The Organization leases office space under an agreement that requires a monthly payment ranging from approximately $17,500 to $21,000 through lease expiration in 2020.

A summary of future minimum operating lease payments under this lease is a follows:

| Year Ending December 31, | Amount |
|---|---|
| 2016 | $ 237,115 |
| 2017 | 245,864 |
| 2018 | 254,613 |
| 2019 | 262,390 |
| 2020 | 180,735 |
| Total | $ 1,180,717 |

Total rent expense for the years ended December 31, 2015 and 2014 was $225,420 and $221,910, respectively.

**Litigation**

The Organization is subject to asserted and unasserted claims encountered in the normal course of business. The Organization's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise in judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, disposition of these matters will not have a material effect on the Organization's financial condition or results of operations.

**Health Care**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for resident services previously billed.

## NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

**Government Regulations-Medicaid**

The Organization participates in the Medicaid program that is administered by the Colorado Department of Public Health and Environment, Health Facilities and Emergency Medical Services Division. The program requires an annual cost report filing, and the cost reports are subject to audit, which could result in retroactive rate adjustments.

**Government Regulations-Medicare**

The Medicare intermediary has the authority to audit the skilled nursing facilities records any time within a three-year period after the date the skilled nursing facilities receive a final notice of program reimbursement for each cost reporting period. Any adjustments resulting from these audits could retroactively adjust Medicare revenue.

**Medical Malpractice Coverage**

The Organization pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. There were no claims outstanding at December 31, 2015 and 2014, and the Organization is not aware of any unasserted claims or unreported incidents that are expected to exceed malpractice insurance coverage limits.

## NOTE 9 FUNCTIONAL CLASSIFICATION OF EXPENSES

Functional classification of expenses for the years ended December 31, 2015 and 2014 consisted of the following:

| | 2015 | 2014 |
|---|---|---|
| Program Services | $ 47,120,576 | $ 46,155,243 |
| General and Administrative | 8,401,932 | 8,345,042 |
| Fundraising | 494,265 | 771,070 |
| Total Operating Expenses | $ 56,016,773 | $ 55,271,355 |

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on the best estimates of management.

## NOTE 10 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 - Summary of Significant Accounting Policies.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

## NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

**Assets Limited As To Use and Investments**

The fair values of the assets limited as to use and investments are estimated based on quoted market prices for those or similar investments.

The following tables present the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of December 31, 2015 and 2014:

| | 2015 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| **Investments:** | | | | |
| Equity Securities | $ 740,059 | 740,059 | $ - | $ - |
| Equity Funds | 13,633,717 | 13,633,717 | - | - |
| Real Estate Fund | 5,100 | - | - | 5,100 |
| Fixed Income Funds | 3,779,309 | 3,779,309 | - | - |
| Corporate Debt Securities | 1,426,850 | - | 1,426,850 | - |
| **Assets Limited As To Use:** | | | | |
| U.S. Treasury Obligations | 1,721,355 | 1,721,355 | - | - |
| U.S. Government Securities | 3,387,575 | 3,387,575 | - | - |
| Corporate Debt Securities | 6,884,925 | - | 6,884,925 | - |
| Equity Funds | 661,368 | 661,368 | - | - |
| Total | $ 32,240,258 | $ 23,923,383 | $ 8,311,775 | $ 5,100 |

| | 2014 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| **Investments:** | | | | |
| Equity Securities | $ 629,719 | $ 629,719 | $ - | $ - |
| Equity Funds | 15,048,631 | 15,048,631 | - | - |
| Real Estate Fund | 35,100 | - | - | 35,100 |
| Fixed Income Funds | 2,016,745 | 2,016,745 | - | - |
| Corporate Debt Securities | 1,588,689 | - | 1,588,689 | - |
| **Assets Limited As To Use:** | | | | |
| U.S. Treasury Obligations | 1,733,384 | 1,733,384 | - | - |
| U.S. Government Securities | 3,058,914 | 3,058,914 | - | - |
| Corporate Debt Securities | 7,189,234 | - | 7,189,234 | - |
| Equity Funds | 660,057 | 660,057 | - | - |
| Total | $ 31,960,473 | $ 23,147,450 | $ 8,777,923 | $ 35,100 |

## NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31, 2015 and 2014:

| | Real Estate Fund |
|---|---|
| Balance at January 1, 2014 | $ 80,199 |
| Unrealized Losses | (45,099) |
| Balance at December 31, 2014 | 35,100 |
| Unrealized Losses | (30,000) |
| Balance at December 31, 2015 | $ 5,100 |

## NOTE 11 GAIN FROM INSURANCE PROCEEDS

During fiscal year 2014, the Organization incurred hail damage to its buildings and as a result the roofs needed to be replaced on the buildings. The Organization replaced the roofs on the buildings in fiscal year 2015 and at that time disposed of the roofs that had previously been capitalized. The Organization had insurance coverage and filed a claim with its insurance carrier for the hail damage that occurred. In fiscal years 2015 and 2014, the Organization received $1,358,635 and $202,401, respectively, in insurance proceeds to cover the costs of the roof replacement. As a result the Organization recorded a gain from insurance proceeds of $569,151 and $143,228 during fiscal years 2015 and 2014, respectively, which have been included in the gain on sale of property and equipment in the consolidated statement of operations.

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**INDEPENDENT AUDITORS' REPORT ON**
**SUPPLEMENTARY INFORMATION**

Board of Directors
Christian Living Ventures
Greenwood Village, Colorado

We have audited the consolidated financial statements of Christian Living Ventures as of and for the year ended December 31, 2015, and have issued our report thereon dated April, 26, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the 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. The information has been subjected to the auditing procedures applied in the audit of the 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.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Broomfield, Colorado
April, 26, 2016

# CHRISTIAN LIVING VENTURES
# CONSOLIDATING STATEMENT OF OPERATIONS
# YEAR ENDED DECEMBER 31, 2015

| | Consolidated Obligated Group Total | Christian Living Ventures | Christian Living Services | Eliminating Entries | Consolidated Total |
|---|---|---|---|---|---|
| **UNRESTRICTED REVENUES AND OTHER SUPPORT** | | | | | |
| Resident and Client Services Revenue | $ 49,976,248 | $ - | $ - | $ - | $ 49,976,248 |
| Amortization of Advance Fees | 1,613,082 | - | - | - | 1,613,082 |
| Other Revenue | 1,547,326 | 5,000 | 430,204 | (124,073) | 1,858,457 |
| Contributions | 448,760 | - | - | - | 448,760 |
| Net Assets Released From Restrictions Used for Operations | 141,085 | - | - | - | 141,085 |
| Total Unrestricted Revenues and Other Support | 53,726,501 | 5,000 | 430,204 | (124,073) | 54,037,632 |
| **EXPENSES** | | | | | |
| Salaries and Benefits | 25,973,400 | - | - | - | 25,973,400 |
| Purchased Services | 4,579,658 | 223,443 | 817,399 | - | 5,620,500 |
| Medical Supplies and Drugs | 787,428 | - | - | - | 787,428 |
| Dietary Expenses | 3,382,219 | - | 1,643 | (165) | 3,383,697 |
| Administrative Expenses | 1,533,017 | 40,568 | 152,434 | (123,908) | 1,602,111 |
| Insurance | 567,180 | - | - | - | 567,180 |
| Bond Fees | 46,178 | - | - | - | 46,178 |
| Utilities | 1,663,228 | - | - | - | 1,663,228 |
| Depreciation and Amortization | 6,747,164 | 7,500 | 2,249 | - | 6,756,913 |
| Interest | 7,018,103 | - | - | - | 7,018,103 |
| Other | 2,140,258 | - | 1,339 | - | 2,141,597 |
| Provision for Uncollectible Accounts | 456,438 | - | - | - | 456,438 |
| Total Expenses | 54,894,271 | 271,511 | 975,064 | (124,073) | 56,016,773 |
| **OPERATING LOSS** | (1,167,770) | (266,511) | (544,860) | - | (1,979,141) |
| **OTHER INCOME (EXPENSE)** | | | | | |
| Interest Income | 739,549 | - | - | - | 739,549 |
| Realized Gains on Investments | 246,731 | - | - | - | 246,731 |
| Unrealized Losses on Investments | (1,702,178) | - | - | - | (1,702,178) |
| Gain on Sale of Property and Equipment | 571,389 | - | - | - | 571,389 |
| Rental Income | 44,114 | - | - | - | 44,114 |
| Change in Investment in Affiliate | (7,901) | - | - | - | (7,901) |
| Total Other Income (Expense) | (108,296) | - | - | - | (108,296) |
| **DEFICIT OF REVENUES OVER EXPENSES** | $ (1,276,066) | $ (266,511) | $ (544,860) | $ - | $ (2,087,437) |

**CHRISTIAN LIVING VENTURES**
**CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS**
**YEAR ENDED DECEMBER 31, 2015**

| | Consolidated Obligated Group Total | Christian Living Ventures | Christian Living Services | Subtotal | Eliminating Entries | Consolidated Total |
|---|---|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS** | | | | | | |
| Deficit of Revenues Over Expenses | $ (1,276,066) | $ (266,511) | $ (544,860) | $ (2,087,437) | $ - | $ (2,087,437) |
| Transfer of Net Assets | (4,000,000) | 3,839,604 | 160,396 | - | - | - |
| Change in Unrestricted Net Assets | (5,276,066) | 3,573,093 | (384,464) | (2,087,437) | - | (2,087,437) |
| **TEMPORARILY RESTRICTED NET ASSETS** | | | | | | |
| Contributions | 102,929 | - | - | 102,929 | - | 102,929 |
| Interest Income | 23,671 | - | - | 23,671 | - | 23,671 |
| Net Assets Released from Restrictions | (141,085) | - | - | (141,085) | - | (141,085) |
| Change in Temporarily Restricted Net Assets | (14,485) | - | - | (14,485) | - | (14,485) |
| **TOTAL CHANGE IN NET ASSETS** | (5,290,551) | 3,573,093 | (384,464) | (2,101,922) | - | (2,101,922) |
| **NET ASSETS - BEGINNING OF YEAR** | (17,361,766) | 1,533,241 | (115,513) | (15,944,038) | - | (15,944,038) |
| **NET ASSETS - END OF YEAR** | $ (22,652,317) | $ 5,106,334 | $ (499,977) | $ (18,045,960) | $ - | $ (18,045,960) |

## CHRISTIAN LIVING VENTURES
## CONSOLIDATING STATEMENT OF OPERATIONS – OBLIGATED GROUP
## YEAR ENDED DECEMBER 31, 2015

| | Management | Homecare Services | Holly Creek | Someren Glen | Clermont Park | Stewardship Fund | Obligated Group Total | Obligated Group Eliminating Entries | Consolidated Obligated Group Total |
|---|---|---|---|---|---|---|---|---|---|
| **UNRESTRICTED REVENUES AND OTHER SUPPORT** | | | | | | | | | |
| Resident and Client Services Revenue | $ - | $ 1,735,952 | $17,619,024 | $ 16,365,695 | $ 14,860,597 | $ 30 | $ 50,581,298 | $ (605,050) | $ 49,976,248 |
| Amortization of Advance Fees | - | - | 1,026,046 | - | 587,036 | - | 1,613,082 | - | 1,613,082 |
| Other Revenue | 4,829,773 | 4,992 | 330,441 | 483,447 | 826,737 | - | 6,475,390 | (4,928,064) | 1,547,326 |
| Contributions | - | - | - | - | - | 448,760 | 448,760 | - | 448,760 |
| Net Assets Released From Restrictions Used for Operations | - | - | - | - | - | 141,085 | 141,085 | - | 141,085 |
| Total Unrestricted Revenues and Other Support | 4,829,773 | 1,740,944 | 18,975,511 | 16,849,142 | 16,274,370 | 589,875 | 59,259,615 | (5,533,114) | 53,726,501 |
| **EXPENSES** | | | | | | | | | |
| Salaries and Benefits | 3,521,385 | 1,515,152 | 6,089,326 | 7,906,182 | 6,847,100 | 94,255 | 25,973,400 | - | 25,973,400 |
| Purchased Services | 371,348 | 75,311 | 1,425,503 | 1,170,946 | 1,568,405 | 3,392 | 4,614,905 | (35,247) | 4,579,658 |
| Medical Supplies and Drugs | - | 3,847 | 182,889 | 277,766 | 322,926 | - | 787,428 | - | 787,428 |
| Dietary Expenses | 16,641 | 250 | 940,930 | 1,245,683 | 1,291,385 | - | 3,494,889 | (112,670) | 3,382,219 |
| Administrative Expenses | 788,383 | 40,947 | 691,618 | 260,623 | 343,265 | 17,353 | 2,142,189 | (609,172) | 1,533,017 |
| Management Fees | - | 132,276 | 1,540,800 | 1,510,440 | 1,342,104 | 42,072 | 4,567,692 | (4,567,692) | - |
| Insurance | 26,997 | 4,944 | 121,152 | 197,806 | 216,281 | - | 567,180 | - | 567,180 |
| Bond Fees | - | - | 1,728 | 8,319 | 36,131 | - | 46,178 | - | 46,178 |
| Utilities | - | - | 752,456 | 449,858 | 460,914 | - | 1,663,228 | - | 1,663,228 |
| Depreciation and Amortization | 199,019 | 139 | 2,913,362 | 899,564 | 2,739,030 | - | 6,751,114 | (3,950) | 6,747,164 |
| Interest | (21,859) | - | 2,740,765 | 954,706 | 3,343,787 | 704 | 7,018,103 | - | 7,018,103 |
| Other | 41,869 | 24,801 | 1,167,840 | 338,183 | 361,075 | 414,823 | 2,348,591 | (208,333) | 2,140,258 |
| Provision for Uncollectible Accounts | - | 9,899 | 3,666 | 289,061 | 153,812 | - | 456,438 | - | 456,438 |
| Total Expenses | 4,943,783 | 1,807,566 | 18,572,035 | 15,509,137 | 19,026,215 | 572,599 | 60,431,335 | (5,537,064) | 54,894,271 |
| **OPERATING INCOME (LOSS)** | (114,010) | (66,622) | 403,476 | 1,340,005 | (2,751,845) | 17,276 | (1,171,720) | 3,950 | (1,167,770) |
| **OTHER INCOME (EXPENSE)** | | | | | | | | | |
| Interest Income | 10,686 | - | 328,670 | 208,010 | 169,711 | 22,472 | 739,549 | - | 739,549 |
| Realized Gains (Losses) on Investments | - | - | (22,776) | 199,772 | 36,973 | 32,762 | 246,731 | - | 246,731 |
| Unrealized Losses on Investments | - | - | (639,255) | (677,111) | (245,171) | (140,641) | (1,702,178) | - | (1,702,178) |
| Gain on Sale of Property and Equipment | - | - | 313,039 | 256,112 | 2,238 | - | 571,389 | - | 571,389 |
| Rental Income | 16,248 | - | 27,866 | - | - | - | 44,114 | - | 44,114 |
| Change in Investment in Affiliate | (7,901) | - | - | - | - | - | (7,901) | - | (7,901) |
| Total Other Income (Expense) | 19,033 | - | 7,544 | (13,217) | (36,249) | (85,407) | (108,296) | - | (108,296) |
| **EXCESS (DEFICIT) OF REVENUES OVER EXPENSES** | $ (94,977) | $ (66,622) | $ 411,020 | $ 1,326,788 | $ (2,788,094) | $ (68,131) | $ (1,280,016) | $ 3,950 | $ (1,276,066) |

# CHRISTIAN LIVING VENTURES
# CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS – OBLIGATED GROUP
# YEAR ENDED DECEMBER 31, 2015

| | Management | Homecare Services | Holly Creek | Someren Glen | Clermont Park | Stewardship Fund | Obligated Group Total | Obligated Group Eliminating Entries | Consolidated Obligated Group Total |
|---|---|---|---|---|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS** | | | | | | | | | |
| Excess (Deficit) of Revenues Over Expenses | $ (94,977) | $ (66,622) | $ 411,020 | $ 1,326,788 | $ (2,788,094) | $ (68,131) | $ (1,280,016) | $ 3,950 | $ (1,276,066) |
| Transfer of Net Assets to CLV | (591,013) | - | (1,026,697) | (1,343,537) | (1,038,753) | - | (4,000,000) | - | (4,000,000) |
| Change in Unrestricted Net Assets | (685,990) | (66,622) | (615,677) | (16,749) | (3,826,847) | (68,131) | (5,280,016) | 3,950 | (5,276,066) |
| **TEMPORARILY RESTRICTED NET ASSETS** | | | | | | | | | |
| Contributions | - | - | - | - | - | 102,929 | 102,929 | - | 102,929 |
| Interest Income | - | - | - | - | - | 23,671 | 23,671 | - | 23,671 |
| Net Assets Released from Restrictions | - | - | - | - | - | (141,085) | (141,085) | - | (141,085) |
| Change in Interest in Net Assets of Christian Living Communities Stewardship Fund | (890) | - | 26,740 | 8,381 | 4,184 | - | 38,415 | (38,415) | - |
| Change in Temporarily Restricted Net Assets | (890) | - | 26,740 | 8,381 | 4,184 | (14,485) | 23,930 | (38,415) | (14,485) |
| **TOTAL CHANGE IN NET ASSETS** | (686,880) | (66,622) | (588,937) | (8,368) | (3,822,663) | (82,616) | (5,256,086) | (34,465) | (5,290,551) |
| **NET ASSETS - BEGINNING OF YEAR** | (36,126,788) | (635,698) | (12,515,944) | 34,053,324 | (3,864,136) | 2,098,709 | (16,990,533) | (371,233) | (17,361,766) |
| **NET ASSETS - END OF YEAR** | $ (36,813,668) | $ (702,320) | $ (13,104,881) | $ 34,044,956 | $ (7,686,799) | $ 2,016,093 | $ (22,246,619) | $ (405,698) | $ (22,652,317) |