

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries

Independent Auditor's Report and Consolidated Financial Statements
June 30, 2013 and 2012

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

June 30, 2013 and 2012

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Independent Auditor's Report on Consolidated Financial Statements and Supplementary Information

Board of Directors
Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Total Community Options, Inc. d/b/a InnovAge and Subsidiaries (the Organization), which comprise balance sheets as of June 30, 2013 and 2012, 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 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 audit 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

Board of Directors
Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries

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 financial position of the Organization as of June 30, 2013 and 2012, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including the consolidating information as listed in the table of contents, is presented for 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 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.

BKD, LLP

Colorado Springs, Colorado
October 28, 2013

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Consolidated Balance Sheets

June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 40,661,011	\$ 47,608,656
Short-term investments	1,001,923	750,000
Assets limited as to use, current	727,009	731,814
Accounts receivable, net of allowance; 2013 - \$142,133 and 2012 - \$2,607,506	7,836,896	11,093,785
Due from Medicare	-	513,800
Prepaid expenses and other	1,666,186	1,774,164
	51,893,025	62,472,219
Assets Limited as to Use		
Board-designated funds - beneficial interest in investment pool	18,849,252	14,938,918
Held by trustee	4,827,657	5,230,843
	23,676,909	20,169,761
Long-term Investments		
	11,498,127	4,250,000
Property and Equipment, at Cost		
Land	9,382,108	8,319,684
Buildings and leasehold improvements	51,110,521	50,524,264
Equipment and vehicles	16,456,375	14,375,447
Construction-in-progress	19,549,272	6,937,225
	96,498,276	80,156,620
Less accumulated depreciation	21,314,046	17,505,167
	75,184,230	62,651,453
Other Assets		
Deposits and other	499,676	459,812
Real estate held for sale	717,947	717,947
Deferred financing costs, net	931,496	965,431
Goodwill	4,191,524	4,191,524
	6,340,643	6,334,714
Total assets	\$ 168,592,934	\$ 155,878,147

Liabilities and Net Assets

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Accounts payable	\$ 6,953,448	\$ 3,868,575
Reported and estimated claims	5,890,264	4,377,123
Due to Medicaid and Medicare	2,205,048	2,286,185
Accrued compensation	1,812,516	1,716,591
Accrued vacation	2,201,109	2,452,418
Other accrued expenses	1,826,530	2,509,923
Current portion of long-term debt	590,048	560,048
Current portion of capital lease obligations	220,695	11,677
Deferred revenue	536,296	6,456,331
	<hr/>	<hr/>
Total current liabilities	22,235,954	24,238,871
Capital Lease Obligations	554,613	6,509
Long-term Debt	<hr/>	<hr/>
	36,957,497	37,545,713
Total liabilities	<hr/>	<hr/>
	59,748,064	61,791,093
Net Assets		
Unrestricted	104,772,775	89,329,364
Noncontrolling interest	3,548,371	3,839,044
	<hr/>	<hr/>
Total unrestricted net assets	108,321,146	93,168,408
Temporarily restricted	506,145	901,067
Permanently restricted	17,579	17,579
	<hr/>	<hr/>
Total net assets	108,844,870	94,087,054
Total liabilities and net assets	<hr/> <hr/>	<hr/> <hr/>
	\$ 168,592,934	\$ 155,878,147

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Revenues, Gains and Other Support		
Capitation revenue		
Medicaid	\$ 91,179,952	\$ 87,025,647
Medicare	71,589,244	65,787,719
Private pay	618,769	592,578
Veterans Administration	498,746	498,875
Fee for service revenue		
Medicaid	1,416,441	2,197,715
Private pay	1,823,905	2,572,736
Single Entry Point	9,463,993	7,786,597
Grant revenues	805,569	1,402,851
Net investment return gains (losses)	551,431	(552,417)
Unrealized gain on beneficial interest in investment pool	1,748,942	384,311
Other	1,104,826	1,347,286
Net assets released from restriction, used for operations	681,268	1,391,995
	<u>181,483,086</u>	<u>170,435,893</u>
Expenses		
Salaries and wages	45,422,584	43,393,990
Employee benefits	9,488,589	9,195,688
External provider costs		
Inpatient	37,159,960	36,487,984
Outpatient	43,039,572	39,326,570
Rent, facility and maintenance	4,203,683	3,977,444
Purchased services and contracts	10,287,605	8,780,568
Supplies and other	9,700,259	7,243,069
Depreciation and amortization	4,045,368	3,730,417
Nutrition	1,240,714	1,087,654
Interest expense	2,019,034	1,611,362
Provision for uncollectible accounts	311,374	2,735,489
	<u>166,918,742</u>	<u>157,570,235</u>
Operating Income	14,564,344	12,865,658
Other Income (Loss)		
Goodwill impairment	-	(403,949)
	<u>14,564,344</u>	<u>12,461,709</u>
Excess of Revenues Over Expenses		
Unrealized losses	(72,448)	(35,059)
Net assets released from restriction, used for capital purchases	660,842	-
	<u>\$ 15,152,738</u>	<u>\$ 12,426,650</u>

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 14,564,344	\$ 12,461,709
Unrealized losses	(72,448)	(35,059)
Net assets released from restriction, used for capital purchases	<u>660,842</u>	<u>-</u>
Increase in unrestricted net assets	<u>15,152,738</u>	<u>12,426,650</u>
Temporarily Restricted Net Assets		
Contributions	947,188	1,813,450
Net assets released from restrictions, used for operations	(681,268)	(1,391,995)
Net assets released from restrictions, used for capital purchases	<u>(660,842)</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>(394,922)</u>	<u>421,455</u>
Change in Net Assets	14,757,816	12,848,105
Net Assets, Beginning of Year	<u>94,087,054</u>	<u>81,238,949</u>
Net Assets, End of Year	<u><u>\$ 108,844,870</u></u>	<u><u>\$ 94,087,054</u></u>

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Change in net assets	\$ 14,757,816	\$ 12,848,105
Change in net assets attributable to the noncontrolling interest	<u>290,673</u>	<u>300,086</u>
Change in net assets attributable to InnovAge	15,048,489	13,148,191
Items not requiring (providing) cash		
Loss on disposal of assets	173,210	-
Provision for uncollectible accounts	311,374	2,735,489
Depreciation and amortization	4,045,368	3,730,417
Goodwill impairment loss	-	403,949
Amortization of bond offering costs included in interest expense	33,935	99,674
Net realized and unrealized losses (gains) on investments	(1,699,053)	517,479
Noncontrolling interest	(290,673)	(300,086)
Changes in		
Accounts receivable, net	2,945,515	(4,469,449)
Assets limited as to use held for others	(28,087)	18,960
Prepaid expenses and other	68,114	(377,168)
Accounts payable	1,344,882	424,903
Reported and estimated claims	1,513,141	(3,844,023)
Due to (from) Medicaid and Medicare	432,663	1,394,849
Accrued compensation and vacation	(155,384)	34,016
Other accrued expenses	(683,393)	1,094,045
Deferred revenue	<u>(5,920,035)</u>	<u>5,851,658</u>
Net cash provided by operating activities	<u>17,140,066</u>	<u>20,462,904</u>
Investing Activities		
Purchase of property and equipment	(14,122,076)	(11,876,331)
Purchase of investments	(14,930,378)	(18,172,368)
Proceeds from investments	7,783,625	20,046,961
Purchase of IHCN	-	(250,700)
Change in beneficial interest in investment pools	(2,161,392)	(14,938,918)
Change in bond sinking fund	<u>32,892</u>	<u>(322,866)</u>
Net cash used in investing activities	<u>(23,397,329)</u>	<u>(25,514,222)</u>

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Financing Activities		
Payment of deferred financing costs	-	(386,088)
Proceeds from the issuance of long-term debt	-	6,948,542
Principal payments on capital lease	(132,166)	(5,717)
Principal payments on long-term debt	<u>(558,216)</u>	<u>(460,016)</u>
Net cash provided by (used in) financing activities	<u>(690,382)</u>	<u>6,096,721</u>
Increase (Decrease) in Cash and Cash Equivalents	(6,947,645)	1,045,403
Cash and Cash Equivalents, Beginning of Year	<u>47,608,656</u>	<u>46,563,253</u>
Cash and Cash Equivalents, End of Year	<u>\$ 40,661,011</u>	<u>\$ 47,608,656</u>
Supplemental Cash Flows Information		
Interest paid	<u>\$ 2,360,507</u>	<u>\$ 2,122,951</u>
Property and equipment included in accounts payable	<u>\$ 1,779,532</u>	<u>\$ 39,541</u>
Property and equipment purchased with capital lease	<u>\$ 889,288</u>	<u>\$ -</u>

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Total Community Options, Inc. d/b/a InnovAge (InnovAge) is a nonprofit corporation formed in May 2007. InnovAge was formed as a parent/holding company for the following related entities:

- Total Longterm Care, Inc. d/b/a InnovAge Greater Colorado PACE (IGCP) is a nonprofit corporation formed in December 1989 to operate the Program of All-inclusive Care for the Elderly (PACE), a risk-based long-term care program. IGCP operates a managed care, capitated program, which serves the frail elderly in a community-based service model. Elderly enrolled in IGCP receive all needed acute and long-term care services through a comprehensive, consolidated model of care primarily through four day center locations in the Denver metro area and one day center location in Pueblo, Colorado. Capitation payments are received from Medicare parts A, B, C and D, Medicaid, Veterans Administration (VA) and private pay sources. IGCP is 100% at risk for all health and allied care costs incurred with respect to the care of its participants, although it does negotiate discounted rates with its provider network including hospitals, nursing homes, assisted living facilities and medical specialists. Additionally, under the Medicare Prescription Drug Plan, the Centers for Medicare and Medicaid Services (CMS) share part of the risk for providing prescription medication to IGCP's participants.
 - In January 2009, Continental Community Housing (CCH), a Colorado nonprofit corporation, was formed to be the general partner of Pinewood Lodge, LLLP (PWD). CCH is owned 100% by IGCP.
 - Effective February 2009, IGCP purchased, on behalf of CCH, a 0.01% partnership interest in PWD, which has been consolidated for reporting purposes. CCH is the general partner of PWD and has control over PWD's operations, reporting and other day-to-day functions. The limited partners only have the ability to terminate the general partner with cause. The remaining 99.99% is shown as a noncontrolling interest in these financial statements. PWD was organized to develop, construct, own, maintain and operate a 103 unit apartment complex intended for rental to low-income elderly individuals aged 62 and older (the Project). The Project was completed and began initial operations in January 2005. The Project received an allocation of low-income housing tax credits from the Colorado Housing and Finance Authority under Section 42 of the Internal Revenue Code of 1986, as amended.
 - In September 2011, TLC Inland, LLC (Inland) was formed and incorporated in Delaware. Inland is the sole member of IGCP. Inland's purpose is to develop a PACE center to serve San Bernardino and Riverside, California counties.
 - In December 2012, InnovAge Greater Colorado PACE – Loveland, LLC (IGCPL) was formed and incorporated in Colorado. IGCP is the sole member of IGCPL. IGCPL's purpose is to expand PACE services to Northern Colorado. There was no activity in IGCPL as of June 30, 2013.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

- In March 2013, InnovAge Senior Housing – Thornton (Managing Member), LLC (SHMM) was formed and incorporated in Colorado. InnovAge is the sole member of SHMM. The purpose of SHMM is to manage senior properties.
- In April 2013, InnovAge Senior Housing Thornton, LLC (SH1) was formed and incorporated in Colorado. SHMM is the managing member of SH1, with US Bancorp Community Development Corporation as the investor member. SH1's purpose is to develop senior housing.
- In June 2013, InnovAge Senior Housing – Thornton II, LLC (SH2) was formed and incorporated in Colorado. InnovAge is the sole member of SH2. SH2's purpose is to also to develop senior housing.
- In July 2003, Total Community Care, LLC d/b/a InnovAge Greater New Mexico PACE (IGNMP) was formed to provide comprehensive, consolidated and coordinated healthcare service packages of medical and institutional services to frail elderly populations within PACE for the Medical Assistance Division of New Mexico Human Resources Department.
- In August 2002, Longterm Care Options, LLC d/b/a InnovAge Longterm Care Options (LTCO) was formed. InnovAge is the sole member of LTCO. LTCO's purpose is to operate a Single Entry Point Program, which evaluates functional eligibility and coordinates services for applicants seeking long-term care through the State of Colorado's Medicaid Program.
- Total Longterm Care Solutions, LLC d/b/a InnovAge-Lowry (Lowry) was formed in May 2007. InnovAge is the sole member of Lowry. Lowry's purpose is to provide technical assistance and consulting services to other organizations which are planning to operate PACE programs, as well as consulting to existing PACE providers. Effective July 1, 2009, Lowry became the management company for InnovAge's affiliated companies and collects management fees for such services.
- Total Community Options Foundation, Inc. d/b/a InnovAge Foundation (IFDN) was formed in June 2008. IFDN's purpose is to secure broad-based community support for the programs of InnovAge and affiliated companies.
- In January 2009, the Colorado Health Foundation (CHF) transferred the operations of Johnson Adult Day Program, Inc. d/b/a InnovAge Johnson Adult Day Program (IJADP) to InnovAge. IJADP is a nonprofit corporation located in Englewood, Colorado and it operates a day center that specializes in providing adult day activities to those with memory or physical impairments. Respite, education and case management services are provided for caregivers. InnovAge has agreed to operate and oversee operations of the adult day care program per the operating agreement until December 31, 2018.
- In January 2009, InnovAge assumed control of Seniors Inc. d/b/a InnovAge Home Care (IHC). IHC is a nonprofit corporation and was established for the purpose of promoting independence and enriching the quality of life for its clients as they age. IHC provides home care and other services to seniors and is supported primarily through program income and government grants and contracts.
 - In January 2012, IHC purchased InnovAge Homecare North, LLC (IHCN), a Colorado organization licensed for skilled and non-skilled care in Boulder, Larimer, and Weld Counties.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

- In December 2008, Innovative Care Solutions, LLC (ICS) was formed. The sole member of ICS is LTCO. ICS provides services that supplement the work of LTCO.

Principles of Consolidation

The consolidated financial statements include the accounts of the entities listed under Nature of Operations, collectively “the Organization”. All significant intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interest

Noncontrolling interest represents the 99.99% interest in PWD that is not owned by InnovAge. For the years ended June 30, 2013 and 2012, changes in consolidated unrestricted net assets attributable to the controlling financial interest of InnovAge and the noncontrolling interest are:

	Total	Controlling Interest	Noncontrolling Interest
Balance, July 1, 2011	\$ 80,741,758	\$ 76,602,628	\$ 4,139,130
Excess (deficiency) of revenues over expenses	12,461,709	12,761,795	(300,086)
Change in net unrealized loss on investments	(35,059)	(35,059)	-
Increase (decrease) in unrestricted net assets	12,426,650	12,726,736	(300,086)
Balance, July 1, 2012	93,168,408	89,329,364	3,839,044
Excess (deficiency) of revenues over expenses	14,564,344	14,855,017	(290,673)
Change in net unrealized loss on investments	(72,448)	(72,448)	-
Net assets released from restriction, used for capital purchases	660,842	660,842	-
Increase (decrease) in unrestricted net assets	15,152,738	15,443,411	(290,673)
Balance, June 30, 2013	\$ 108,321,146	\$ 104,772,775	\$ 3,548,371

The change in temporarily and permanently restricted net assets is attributable solely to the controlling interest.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of certificates of deposits and bank money market accounts.

At June 30, 2013, the Organization's cash accounts exceeded federally insured limits by approximately \$41,280,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include (1) assets held by trustee, which are restricted by bond agreements, including approximately \$2,560,000 and \$2,550,000 as of June 30, 2013 and 2012, respectively, which is required to be held in reserves pursuant to bond indenture agreements and approximately \$2,270,000 and \$2,690,000 of bond proceeds to be used for capital expenditures as of June 30, 2013 and 2012, respectively, (2) board-designated funds, over which the Board retains control and may use for any purpose, investments are held in a beneficial interest in an investment pool, and (3) assets held for participants who have established a personal needs account to pay for nonmedical personal expenses. The Organization is only entitled to disburse funds from the accounts with client authorization. An offsetting liability is recorded on the books of the Organization for the amount of funds that are available to cover future client expenses as of the financial statement dates. Amounts required to meet current liabilities of the Organization are included in current assets.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Accounts Receivable

The Organization reports accounts receivable for services rendered at net realizable amounts from third-party payers, participants and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, eligibility, historical collection information and existing economic conditions. Accounts are considered delinquent and subsequently written-off as bad debts based on individual credit evaluation and specific circumstances of the account.

Beginning in fiscal year 2011, IGCP experienced significant delays in processing Medicaid payments through the State of Colorado. IGCP has implemented an internal process where they review a participant's Medicaid eligibility and effective date by pre-screening the participant information. Due to the significant volume of delays, IGCP began tracking the different categories of Medicaid accounts receivable in 2012. As of June 30, 2013 and 2012, IGCP recorded a net realizable Medicaid accounts receivable, which is included in accounts receivable on the consolidated balance sheet, as follows:

	2013	2012
Participants approved but payment not received	\$ 1,520,697	\$ 902,540
Participants with Medicaid identifications	984,828	3,291,054
Participants in the Qualified Medicaid		
Beneficiary file being manually processed	202,966	1,548,753
Medicaid pending participants	35,076	826,485
Participants with determinations in process	-	1,385,454
Post eligibility treatment of income	1,562,204	-
Total net Medicaid accounts receivable	\$ 4,305,771	\$ 7,954,286

IGCP is working in conjunction with the State of Colorado to process the above categories of accounts receivable. Subsequent to June 30, 2013, approximately 39% of the net Medicaid accounts receivable listed above was collected. Management believes the remaining accounts are collectible based on management's pre-screening process, historical collection experience and individual account information.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

The Organization capitalizes interest costs as a component of construction-in-progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. During 2013 and 2012, the Organization capitalized interest of approximately \$400,000 and \$666,000, respectively.

Goodwill and Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

An impairment loss of \$403,949 was recognized for the year ended June 30, 2012 based on the Organization's impairment testing. The loss is included in other income (loss) in the accompanying consolidated statements of income. No impairment loss was recognized in the year ended June 30, 2013. At June 30, 2013 and 2012 there was \$4,116,524 goodwill related to the purchase of IGNMP and \$75,000 related to the purchase of IHCN, respectively.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Revenue Recognition

IGCP and IGNMP provide comprehensive health care services to participants on the basis of fixed or capitated fees per participant that are paid monthly by Medicare, Medicaid, the VA and private pay sources. Medicaid and Medicare capitation revenues are based on per-member, per-month capitation rates under the PACE program. The PACE tri-party contract, between the respective state and CMS, is renewable annually every year for both IGCP and IGNMP. The current agreements are effective through June 30, 2013 for both IGCP and IGNMP. Capitation payments are recognized as revenue in the period in which they relate.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Capitation revenues may be subject to adjustment as a result of examination by government agencies or contractors. The audit process and the resolution of significant related matters often are not finalized until several years after the services are rendered. At times, IGCP accepts participants into the program pending final authorization from Medicaid. If Medicaid coverage is denied and there are no alternative resources available to pay IGCP, the participant is disenrolled and the risk is eliminated. Any costs incurred on behalf of these participants were nominal in the current and prior year. Net participant service revenues consisted of the following sources:

	2013	2012
Medicaid	54%	54%
Medicare	40%	39%
Private pay	1%	2%
Single Entry Point	5%	5%
	100%	100%

IGCP and IGNMP also provide prescription drug benefits in accordance with Medicare Part D under a contract with CMS. The payments IGCP and IGNMP receive monthly from CMS and its participants represent its bid amount for providing prescription drug coverage. The CMS payment is subject to risk sharing through the Medicare Part D risk sharing corridor provisions. The risk sharing corridor provisions compare costs targeted in IGCP's and IGNMP's bid to actual prescription drug costs, limited to costs that would have been incurred under the standard coverage as defined by CMS. IGCP and IGNMP estimate and recognize an adjustment to Medicare Part D revenues related to these risk corridor provisions.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

LTCO evaluates functional eligibility and obtains services for clients seeking long-term care on the basis of a fixed expenditure reimbursement contract with the Colorado Department of Health Care Policy and Financing (HCPF) that is paid monthly by the Single Entry Point program. Fees are earned when LTCO incurs an allowable expenditure under the contract.

Federal Funds

LTCO receives certain revenues from contracts that are passed through various state governmental agencies. Disbursements of funds received under these contracts generally require compliance with terms and conditions specified in the contracts and are subject to audit by the contracting agencies. The amount of charges to these contracts that may be disallowed, if any, by such audits cannot presently be determined and no provision for any liability that may result has been made in the consolidated financial statements. The contract for the Single Entry Point and associated programs were not renewed subsequent to June 30, 2013.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

IHC receives revenues from contracts that are awarded through various state and federal governmental agencies. Disbursements of funds received under these contracts generally require compliance with terms and conditions specified in the contracts and are subject to audit by the contracting agencies. The amount of charges to these contracts that may be disallowed, if any, by such audits cannot presently be determined and no provision for any liability that could result has been made in the consolidated financial statements.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 11.

Income Taxes

IGCP, LTCO, InnovAge, IHC, IHCN, IFDN, ICS, IJADP, IGNMP, Lowry, SHMM, and SH2 have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is subject to federal income tax on any unrelated business taxable income.

CCH is a Colorado nonprofit corporation but has elected to be taxed as a "C" Corporation under provisions of the Internal Revenue Code and a similar section of the state income tax law.

The members of PWD and SH1 have elected to be taxed as a partnership. Therefore, no provision for income taxes is included in these financial statements.

Inland is a Delaware corporation and has elected to be taxed as a "C" Corporation under provisions of the Internal Revenue Code and a similar section of the state income tax law.

The Organization files tax returns in the U.S. federal jurisdiction. The Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Concentration of Credit Risk

The Organization provides comprehensive health care services to participants on the basis of fixed or capitated fees per participant that are paid monthly by Medicare, Medicaid, the VA and private pay sources. The mix of net receivables from participants and third-party payers at June 30, 2013 and 2012 was:

	<u>2013</u>	<u>2012</u>
Medicaid	62%	84%
Medicare	35%	9%
Private pay	3%	7%
	<u>100%</u>	<u>100%</u>

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries**

Notes to Financial Statements

June 30, 2013 and 2012

Note 2: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use, at June 30, include:

	2013	2012
Internally-designated		
Investment pools		
Institutional Commodities, Ltd.	\$ 1,388,424	\$ 1,334,002
Institutional Multi-Strategy Equity Fund, LLC	12,262,174	9,115,195
Institutional Multi-Strategy Bond Fund, LLC	5,198,654	4,489,721
	18,849,252	14,938,918
Held by trustee under indenture agreement		
Fixed income securities	3,607,039	3,058,666
Money market funds	1,918,413	2,846,690
	5,525,452	5,905,356
Held on behalf of participants		
Cash and cash equivalents	29,214	57,301
Total assets limited as to use	24,403,918	20,901,575
Less long-term assets limited as to use	23,676,909	20,169,761
Short-term assets limited as to use	\$ 727,009	\$ 731,814

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Other Investments

Other investments, at June 30, include:

	2013	2012
Fixed income securities	\$ 7,470,796	\$ -
Certificates of deposit	4,987,081	3,250,000
Money market funds	42,173	1,750,000
	12,500,050	5,000,000
Less long-term investments	11,498,127	4,250,000
Short-term investments	\$ 1,001,923	\$ 750,000

Total investment return is comprised of the following:

	2013	2012
Interest and dividend income	\$ 528,872	\$ 314,314
Unrealized gains	1,676,494	349,252
Realized gains (losses) on investments	22,559	(866,731)
	\$ 2,227,925	\$ (203,165)

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2013	2012
Unrestricted net assets		
Net investment return (losses)	\$ 551,431	\$ (552,417)
Unrealized gain on beneficial interest in investment pool	1,748,942	384,311
Unrealized losses	(72,448)	(35,059)
	\$ 2,227,925	\$ (203,165)

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Investment Pools

The Organization is a participant in an investment pool of which the Organization has purchased a fund interest under a subscription agreement. The fair value of investment pools has been estimated using the net asset value per share of the investments. Pooled investments held at June 30 consist of the following:

	2013		
	Fair Value	Redemption Frequency	Redemption Notice Period
Institutional Commodities, Ltd. (A)	\$ 1,388,424	Monthly	5 days
Institutional Multi-Strategy Equity Fund, LLC (B)	\$ 12,262,174	Monthly	5 days
Institutional Multi-Strategy Bond Fund, LLC (C)	\$ 5,198,654	Monthly	5 days

	2012		
	Fair Value	Redemption Frequency	Redemption Notice Period
Institutional Commodities, Ltd. (A)	\$ 1,334,002	Monthly	5 days
Institutional Multi-Strategy Equity Fund, LLC (B)	\$ 9,115,195	Monthly	5 days
Institutional Multi-Strategy Bond Fund, LLC (C)	\$ 4,489,721	Monthly	5 days

(A) This category includes investments primarily in money market accounts.

(B) This category includes a broad spectrum of equity strategies, which includes common stocks or securities convertible into common stocks of both United States companies and foreign companies in both developed and emerging markets.

(C) This category includes a broad spectrum of fixed income sectors, which includes global bond, high yield bonds, emerging market debts and other fixed income strategies. The majority of the fund is invested directly or indirectly in fixed income securities or cash.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Note 3: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods and are held by IFDN:

	2013	2012
Helping hands funds	\$ 77,607	\$ 57,498
PACE program funds	63,786	59,035
IJADP program funds	321,964	326,123
IJADP capital expansion	4,225	360,167
IHC program funds	27,785	2,329
Other	10,778	95,915
	\$ 506,145	\$ 901,067

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2013	2012
Helping hands funds	\$ 24,860	\$ 48,677
PACE program funds	2,631	811
IJADP program funds	56,793	10,842
IJADP capital expansion	710,626	14,156
IHC program funds	172,680	979,422
Other	374,520	338,087
	\$ 1,342,110	\$ 1,391,995

During 2013, net assets of \$660,842 were released for capital purchases and \$681,268 were released to be used for operations.

Note 4: Endowment

The Organization's endowment consists of two individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

The Organization's governing body has interpreted the State of Colorado Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 (a) the original value of gifts donated to the permanent endowment, (b) the original value of 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 donor-restricted endowment fund 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 by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

The composition of net assets by type of endowment fund at June 30, 2013 and 2012 was:

	2013		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 17,579	\$ 17,579
Board-designated endowment funds	180,902	-	180,902
Total endowment funds	\$ 180,902	\$ 17,579	\$ 198,481
	2012		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 17,579	\$ 17,579
Board-designated endowment funds	180,902	-	180,902
Total endowment funds	\$ 180,902	\$ 17,579	\$ 198,481

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Changes in endowment net assets for the years ended June 30, 2013 and 2012 were:

	2013		
	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 180,902	\$ 17,579	\$ 198,481
Investment income	391	-	391
Appropriations	(391)	-	(391)
Total investment return	-	-	-
Endowment net assets, end of year	\$ 180,902	\$ 17,579	\$ 198,481
2012			
	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 180,902	\$ 17,579	\$ 198,481
Investment income	266	-	266
Appropriations	(266)	-	(266)
Total investment return	-	-	-
Endowment net assets, end of year	\$ 180,902	\$ 17,579	\$ 198,481

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulations or SPMIFA. There were no such deficiencies as of June 30, 2013 and 2012.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment, while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity, as well as those of board-designated endowment funds. Under the Organization's policies, endowment assets are invested in a manner that is intended to produce returns that regularly meet or exceed the average return on three-month U.S. Treasury bills, or the average rate on the federal funds, whichever is higher.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

The Organization has a 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 original gift of endowment assets held in perpetuity.

Note 5: Line-of-Credit

As a part of the 2010 Series Revenue bonds discussed at Note 6, IGCP has a \$3,000,000 revolving line-of-credit agreement which matures on December 31, 2014. The line-of-credit has interest at an annual rate equal to the bank's prime rate (3.25% at June 30, 2013). The line-of-credit is collateralized by parity interest in IGCP assets with bondholders. As of June 30, 2013 and 2012, there was \$0 outstanding on this line-of-credit.

Note 6: Long-term Debt

Long-term debt consists of the following:

	2013	2012
2010 Series Revenue bonds (A)	\$ 27,195,000	\$ 27,605,000
2011 Series Revenue bonds (B)	6,900,000	7,000,000
Capital lease obligations (C)	775,308	18,186
Mortgage payable (D)	3,985,222	4,039,227
	38,855,530	38,662,413
Less unamortized discount	532,677	538,466
Less current maturities	810,743	571,725
	\$ 37,512,110	\$ 37,552,222

- (A) Effective October 1, 2010, IGCP completed a \$28,000,000 fixed rate tax-exempt revenue bond offering (the 2010 Bonds), issued and sold by the Colorado Health Facilities Authority (the Authority). The bonds are secured by IGCP real estate for the following centers: Cody, Pueblo, Chambers, Lowry and Thornton, as well as the gross revenues of IGCP.

The 2010 Bonds mature November 15, 2040. Interest on the 2010 Bonds is payable semi-annually each May 15 and November 15 beginning November 15, 2010 at an interest rate of 4.25% at June 30, 2013 and 2012.

The 2010 Bonds are subject to redemption prior to maturity on or after November 15, 2020, at the option of the Authority at a redemption price equal to 100% of the principal amount of the 2010 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Under the terms of the 2010 Bonds, IGCP is required to meet certain operational and reporting requirements. As of June 30, 2013 and 2012, management believes IGCP was in compliance with those requirements.

- (B) Effective December 1, 2011, IGCP completed a \$7,000,000 fixed rate tax-exempt revenue bond offering (the 2011 Bonds), issued and sold by the Authority. The bonds are secured by IGCP real estate for the following centers: Cody, Pueblo, Chambers, Lowry, Thornton and Broadway, as well as the gross revenues of IGCP.

The 2011 Bonds mature November 15, 2040. Interest on the 2011 Bonds is payable semi-annually each May 15 and November 15 beginning November 15, 2011 at an interest rate of 5% at June 30, 2013 and 2012.

The 2011 Bonds are subject to redemption prior to maturity on or after November 15, 2021, at the option of the Authority at a redemption price equal to 100% of the principal amount of the 2011 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Under the terms of the 2011 Bonds, IGCP is required to meet certain operational and reporting requirements. As of June 30, 2013, management believes IGCP was in compliance with those requirements.

- (C) The Organization has various capital leases with due dates ranging July 2014 to February 2018, at various interest rates; payable in monthly installments ranging from \$247 to \$6,429; collateralized by equipment. Property and equipment include the following property under capital leases:

	2013	2012
Equipment	\$ 1,005,291	\$ 116,004
Less accumulated depreciation	160,532	83,380
	\$ 844,759	\$ 32,624

- (D) The Organization acquired a mortgage payable originally entered into by PWD in the amount of \$4,300,000 on December 23, 2003. The mortgage bears interest at an annual rate of 7.09%. The loan is secured by a Deed of Trust, Security Agreement, Financing Statement and Assignment of Rents and Revenues of PWD. The mortgage payable is guaranteed by IGCP.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Aggregate annual maturities for fiscal years ending June 30, were as follows:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2014	\$ 590,048	\$ 260,958
2015	622,993	185,775
2016	651,906	167,360
2017	682,645	158,295
2018	723,043	100,859
Thereafter	34,809,587	-
	\$ 38,080,222	873,247
Less amount representing interest		97,939
Present value of future minimum lease payments		775,308
Less current maturities		220,695
Noncurrent portion		\$ 554,613

The 2011 Bonds and 2010 Bonds require that IGCP maintain certain trust accounts with, and for the benefit of, the Trustee. Bond sinking funds have been established for the payment of principal and interest on the 2011 Bonds and 2010 Bonds to make such payments when due. IGCP's bond sinking funds are invested in cash and money market funds.

Note 7: Operating Leases

Noncancellable operating leases for primary care outpatient offices, campus locations and vehicles expire in various years through 2022.

Future minimum lease payments at June 30, 2013 were:

2014	\$ 1,096,776
2015	925,998
2016	575,631
2017	78,409
2018	78,409
Thereafter	274,433
Future minimum lease payments	\$ 3,029,656

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Rental expense for all operating leases was \$1,313,394 and \$1,303,383 for the years ended June 30, 2013 and 2012, respectively.

Note 8: Retirement Plan

The Organization has a 401(k) Retirement Savings Plan (the Plan) covering eligible employees. Effective July 1, 2011, the Plan was amended to define an eligible employee as an employee who has provided 90 days of service regardless of hours worked. The Organization also matches 100% of the employee contribution up to 1% of the participants' compensation. For the years ended June 30, 2013 and 2012, the Organization's matching contribution was \$399,185 and \$208,736, respectively.

Note 9: Related-party Transactions

One member of the Organization's Board of Directors contracts with local nursing homes, at which certain of the Organization's participants are placed. The Organization made payments during the years ended June 30, 2013 and 2012 of \$3,872,650 and \$3,998,339, respectively, to these providers for services.

The Organization has other Board members who work for entities hired by the Organization. The Board of Directors has implemented a conflict of interest policy to account for these relationships.

In January 2012, IGCP issued a \$250,000 note payable to IHC. The note is payable \$2,776 monthly, including interest at 6% and is due in January 2022. The note is secured by IHC property. The note payable has been eliminated in the consolidated financial statements.

Note 10: Functional Expenses

The Organization provides health care and case management services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2013	2012
Program services	\$ 142,293,390	\$ 137,589,729
General and administrative	24,625,352	19,980,506
	<u>\$ 166,918,742</u>	<u>\$ 157,570,235</u>

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Note 11: General and Professional Liability

The Organization pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Organization is not aware of any unasserted claims or unreported incidents which are expected to exceed malpractice insurance coverage limits. It is reasonably possible that this estimate could change materially in the future. The Organization records claim liabilities and expected recoveries at the gross amounts.

Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 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
- 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

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012:

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
June 30, 2013					
Investment pools					
Institutional Commodities, Ltd.	\$	1,388,424	\$ -	\$ 1,388,424	\$ -
Institutional Multi-Strategy Equity Fund, LLC		12,262,174	-	11,729,324	532,850
Institutional Multi-Strategy Bond Fund, LLC		5,198,654	-	5,198,654	-
Fixed income funds		11,077,835	-	11,077,835	-
Money market funds		1,960,586	1,960,586	-	-
Fair Value Measurements Using					
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
June 30, 2012					
Investment pools					
Institutional Commodities, Ltd.	\$	1,334,002	\$ -	\$ 1,334,002	\$ -
Institutional Multi-Strategy Equity Fund, LLC		9,115,195	-	8,794,202	320,993
Institutional Multi-Strategy Bond Fund, LLC		4,489,721	-	4,489,721	-
Fixed income funds		3,058,666	-	3,058,666	-
Money market funds		4,596,690	4,596,690	-	-

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. As of June 30, 2013 and 2012, the Organization does not carry any Level 3 investments.

Investment Pools

The Organization's investment pool consists of investments in an equity fund, whose underlying investments include actively traded common stock equities and crossfund investments. The Organization has classified these investments as Level 2 or Level 3. Additionally, the investment pool consists of bond funds and commodities, whose underlying investments include fixed income securities and money market accounts. The Organization has classified these investments as Level 2, given that the primary inputs are observable and can be corroborated by observable market data. The value of certain investments, classified as Level 3 investments, is determined using net asset value (or its equivalent) as a practical expedient.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

	<u>CrossFund Investments</u>
Balance, July 1, 2011	\$ -
Total realized and unrealized gains and losses included in change in net assets	17,495
Purchases	<u>303,498</u>
Balance, July 1, 2012	<u>320,993</u>
Total realized and unrealized gains and losses included in change in net assets	44,770
Purchases	<u>167,087</u>
Balance, June 30, 2013	<u><u>\$ 532,850</u></u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	
Year ended June 30, 2012	<u>\$ 17,495</u>
Year ended June 30, 2013	<u><u>\$ 44,770</u></u>

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Institutional Multi-Strategy Equity Fund, LLC	\$532,850	Net Asset Value	Lack of Marketability	Not Available

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements

June 30, 2013 and 2012

Fair Value of Financial Instruments

The following table presents estimated fair values of the Organization's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 40,661,011	\$ 40,661,011	\$ 47,608,656	\$ 47,608,656
Short-term investments	1,001,923	1,001,923	750,000	750,000
Assets limited as to use				
Assets limited as to use, current	727,009	727,009	731,814	731,814
Board-designated funds - beneficial interest in investment pool	18,849,252	18,849,252	14,938,918	14,938,918
Held by trustee	4,827,657	4,827,657	5,230,843	5,230,843
Long-term investments	11,498,127	11,498,127	4,250,000	4,250,000
Financial liabilities				
Bonds payable	34,095,000	35,942,768	34,605,000	37,825,862
Mortgage payable	3,985,222	3,985,222	4,039,227	4,039,227
Capital lease obligations	775,308	775,308	18,186	18,186

Cash and Cash Equivalents

The carrying amount approximates fair value.

Notes Payable and Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Organization for bank loans with similar terms and maturities and determined through the use of a discounted cash flow model.

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Notes to Financial Statements June 30, 2013 and 2012

Note 13: Significant Estimates and Concentrations

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Participant Service Revenue Adjustments

Estimates of allowances for adjustments included in net participant service revenue are described in Note 1.

IGCP and IGNMP have accounts receivables from Medicare and Medicaid. These amounts often represent adjustments to the risk score discussed in Note 1, but also include amounts for participants who are pending Medicaid eligibility or have an eligibility determination in process. The State of Colorado has experienced significant delays in approving participants for Medicaid status. IGCP has implemented an internal process where they review a participant's Medicaid eligibility and effective date. An allowance for uncollectible accounts is recorded for accounts receivable based on IGCP's experience with approval of the eligibility process and individual circumstances of the account. Management believes these amounts are collectible but actual payments may differ from what has been accrued.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 11.

Estimated and Reported Claims

Reported and estimated claims consists of unpaid claims reported to IGCP and IGNMP and an estimated liability for medical claims incurred on or before June 30, that have not been reported to IGCP and IGNMP by that date. Estimated claims payable are based on historical trends and cost projections. Due to inherent uncertainties in determining the accrual for claims incurred but not reported, the actual payments required may be different than the liability accrued.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Unforeseen events could occur that would cause the estimate of ultimate loss to differ materially in the future.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Supplementary Information

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2013

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
Assets							
Current Assets							
Cash and cash equivalents	\$ 35,531,328	\$ 131,619	\$ 952,416	\$ 1,367,373	\$ 2,678,275	\$ -	\$ 40,661,011
Short-term investments	1,001,923	-	-	-	-	-	1,001,923
Assets limited as to use, current	727,009	-	-	-	-	-	727,009
Accounts receivable, net of allowance	7,426,003	6,615	51,212	41,425	403,705	(92,064)	7,836,896
Due to (from) affiliate	5,398,520	(1,916,037)	(352,058)	45,179	(3,155,121)	(20,483)	-
Prepaid expenses and other	522,128	2,440	127,265	766,374	247,979	-	1,666,186
Total current assets	<u>50,606,911</u>	<u>(1,775,363)</u>	<u>778,835</u>	<u>2,220,351</u>	<u>174,838</u>	<u>(112,547)</u>	<u>51,893,025</u>
Assets Limited as to Use							
Board-designated funds - beneficial interest in investment pool	18,849,252	-	-	-	-	-	18,849,252
Held by trustee	4,827,657	-	-	-	-	-	4,827,657
	<u>23,676,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,676,909</u>
Long-term Investments	11,498,127	-	-	-	-	-	11,498,127
Property and Equipment, at Cost							
Land	6,061,741	2,114,624	-	-	1,205,743	-	9,382,108
Buildings and leasehold improvements	38,663,301	10,807,838	-	-	1,639,382	-	51,110,521
Equipment and vehicles	14,916,826	90,703	20,760	-	1,428,086	-	16,456,375
Construction-in-progress	18,890,345	658,927	-	-	-	-	19,549,272
	<u>78,532,213</u>	<u>13,672,092</u>	<u>20,760</u>	<u>-</u>	<u>4,273,211</u>	<u>-</u>	<u>96,498,276</u>
Less accumulated depreciation	16,592,797	3,478,176	20,380	-	1,222,693	-	21,314,046
	<u>61,939,416</u>	<u>10,193,916</u>	<u>380</u>	<u>-</u>	<u>3,050,518</u>	<u>-</u>	<u>75,184,230</u>
Other Assets							
Deposits and other	82,622	368,008	-	35,000	14,046	-	499,676
Real estate held for sale	-	-	-	-	717,947	-	717,947
Due to (from) affiliate	1,255,022	(1,052,502)	-	-	-	(202,520)	-
Investment in CCH	114,286	-	-	-	-	(114,286)	-
Deferred financing costs, net	931,496	-	-	-	-	-	931,496
Goodwill	4,116,524	-	-	-	75,000	-	4,191,524
	<u>6,499,950</u>	<u>(684,494)</u>	<u>-</u>	<u>35,000</u>	<u>806,993</u>	<u>(316,806)</u>	<u>6,340,643</u>
Total assets	<u>\$ 154,221,313</u>	<u>\$ 7,734,059</u>	<u>\$ 779,215</u>	<u>\$ 2,255,351</u>	<u>\$ 4,032,349</u>	<u>\$ (429,353)</u>	<u>\$ 168,592,934</u>

LEGEND:

PACE includes IGCP and IGMP

Senior Housing includes PWD, CCH, SH1 and SH2

Shared Services includes InnovAge and Lowry

Other Subsidiaries includes LECO, IHC, IJADP, ICS and Inland

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Consolidating Balance Sheet Information (continued)
June 30, 2013

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
Liabilities and Net Assets							
Current Liabilities							
Accounts payable	\$ 6,026,497	\$ 6,423	\$ 15,082	\$ 964,055	\$ 33,455	\$ (92,064)	\$ 6,953,448
Reported and estimated claims	5,890,264	-	-	-	-	-	5,890,264
Due to Medicaid and Medicare	2,209,518	-	-	-	(4,470)	-	2,205,048
Accrued compensation	882,390	1,547	21,230	764,640	142,709	-	1,812,516
Accrued vacation	1,505,193	1,374	22,964	541,999	129,579	-	2,201,109
Other accrued expenses	870,496	73,788	7,374	177,127	697,745	-	1,826,530
Current portion of long-term debt	540,000	50,048	-	-	20,483	(20,483)	590,048
Current portion of capital lease obligations	220,918	-	-	-	(223)	-	220,695
Deferred revenue	-	2,693	43,622	-	489,981	-	536,296
Total current liabilities	18,145,276	135,873	110,272	2,447,821	1,509,259	(112,547)	22,235,954
Capital Lease Obligations	551,220	-	-	-	3,393	-	554,613
Long-term Debt	33,022,323	3,935,174	-	-	202,520	(202,520)	36,957,497
Total liabilities	51,718,819	4,071,047	110,272	2,447,821	1,715,172	(315,067)	59,748,064
Net Assets							
Unrestricted	102,502,494	114,641	162,798	(192,470)	2,299,598	(114,286)	104,772,775
Noncontrolling interest	-	3,548,371	-	-	-	-	3,548,371
Temporarily restricted	-	-	506,145	-	-	-	506,145
Permanently restricted	-	-	-	-	17,579	-	17,579
Total net assets	102,502,494	3,663,012	668,943	(192,470)	2,317,177	(114,286)	108,844,870
Total liabilities and net assets	\$ 154,221,313	\$ 7,734,059	\$ 779,215	\$ 2,255,351	\$ 4,032,349	\$ (429,353)	\$ 168,592,934

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information Year Ended June 30, 2013

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Capitation revenue							
Medicaid	\$ 91,179,952	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,179,952
Medicare	71,589,244	-	-	-	-	-	71,589,244
Private pay	618,769	-	-	-	-	-	618,769
Veterans Administration	498,746	-	-	-	-	-	498,746
Fee for service revenue							
Medicaid	-	-	-	-	1,725,907	(309,466)	1,416,441
Private pay	-	-	-	-	1,823,905	-	1,823,905
Single Entry Point	-	-	-	-	9,463,993	-	9,463,993
Grant revenues	275,251	-	-	-	1,534,782	(1,004,464)	805,569
Net investment return gains	549,855	205	-	-	1,371	-	551,431
Unrealized gain on beneficial interest in investment pool	1,748,942	-	-	-	-	-	1,748,942
Other	483,175	843,544	12,549	12,000	209,558	(456,000)	1,104,826
Management fee	-	-	-	20,362,696	-	(20,362,696)	-
Net assets released from restriction, used for operations	-	-	681,268	-	-	-	681,268
Total unrestricted revenues, gains and other support	166,943,934	843,749	693,817	20,374,696	14,759,516	(22,132,626)	181,483,086
Expenses							
Salaries and wages	27,520,572	105,336	362,253	8,362,698	9,071,725	-	45,422,584
Employee benefits	5,844,414	23,764	51,054	1,582,347	1,987,010	-	9,488,589
External provider costs							
Inpatient	37,159,960	-	-	-	-	-	37,159,960
Outpatient	43,039,572	-	-	-	-	-	43,039,572
Rent, facility and maintenance	3,384,785	162,537	2,324	475,521	634,516	(456,000)	4,203,683
Purchased services and contracts	3,321,670	63,994	159,364	6,586,942	465,101	(309,466)	10,287,605
Supplies and other	4,915,474	66,055	378,924	3,349,528	990,278	-	9,700,259
Depreciation and amortization	3,394,102	400,309	4,517	300	246,140	-	4,045,368
Nutrition	1,153,492	-	-	-	87,222	-	1,240,714
Interest expense	1,716,360	288,917	-	7,463	6,294	-	2,019,034
Provision for uncollectible accounts	294,891	58	-	-	16,425	-	311,374
Grant expense	-	-	1,004,464	-	-	(1,004,464)	-
Allocations	18,076,579	-	-	-	2,286,117	(20,362,696)	-
Total expenses	149,821,871	1,110,970	1,962,900	20,364,799	15,790,828	(22,132,626)	166,918,742
Operating Income (Loss)	17,122,063	(267,221)	(1,269,083)	9,897	(1,031,312)	-	14,564,344
Other Income (Loss)							
Change in equity of CCH	23,481	-	-	-	-	(23,481)	-
Excess (Deficiency) of Revenues Over Expenses	17,145,544	(267,221)	(1,269,083)	9,897	(1,031,312)	(23,481)	14,564,344

LEGEND:

PACE includes IGCP and IGMP

Senior Housing includes PWD, CCH, SH1 and SH2

Shared Services includes InnovAge and Lowry

Other Subsidiaries includes LTCO, IHC, LJADP, ICS and Inland

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information (continued) Year Ended June 30, 2013

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
Excess (Deficiency) of Revenues							
Over Expenses	17,145,544	(267,221)	(1,269,083)	9,897	(1,031,312)	(23,481)	14,564,344
Unrealized losses	(72,448)	-	-	-	-	-	(72,448)
Net assets released from restriction, used for capital purchases	-	-	660,842.00	-	-	-	660,842
	<u>17,073,096</u>	<u>(267,221)</u>	<u>(608,241)</u>	<u>9,897</u>	<u>(1,031,312)</u>	<u>(23,481)</u>	<u>15,152,738</u>
Temporarily Restricted Net Assets							
Contributions	-	-	947,188	-	-	-	947,188
Net assets released from restrictions, used for operations	-	-	(681,268)	-	-	-	(681,268)
Net assets released from restrictions, used for capital purchases	-	-	(660,842)	-	-	-	(660,842)
Decrease in temporarily restricted net assets	-	-	(394,922)	-	-	-	(394,922)
	<u>17,073,096</u>	<u>(267,221)</u>	<u>(1,003,163)</u>	<u>9,897</u>	<u>(1,031,312)</u>	<u>(23,481)</u>	<u>14,757,816</u>
Change in Net Assets	17,073,096	(267,221)	(1,003,163)	9,897	(1,031,312)	(23,481)	14,757,816
Net Assets, Beginning of Year	85,429,398	3,930,233	1,672,106	(202,367)	3,348,489	(90,805)	94,087,054
Net Assets, End of Year	<u>\$ 102,502,494</u>	<u>\$ 3,663,012</u>	<u>\$ 668,943</u>	<u>\$ (192,470)</u>	<u>\$ 2,317,177</u>	<u>\$ (114,286)</u>	<u>\$ 108,844,870</u>

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

PACE

Consolidating Balance Sheet Information

June 30, 2013

	IGCP	IGNMP	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 22,838,529	\$ 12,692,799	\$ -	\$ 35,531,328
Short-term investments	1,001,923	-	-	1,001,923
Assets limited as to use, current	699,185	27,824	-	727,009
Accounts receivable, net of allowance	6,858,122	567,881	-	7,426,003
Due to (from) affiliate	5,926,285	(527,765)	-	5,398,520
Prepaid expenses and other	483,135	38,993	-	522,128
Total current assets	<u>37,807,179</u>	<u>12,799,732</u>	<u>-</u>	<u>50,606,911</u>
Assets Limited as to Use				
Board-designated funds - beneficial interest in investment pool	14,788,137	4,061,115	-	18,849,252
Held by trustee	4,827,657	-	-	4,827,657
	<u>19,615,794</u>	<u>4,061,115</u>	<u>-</u>	<u>23,676,909</u>
Long-term Investments	11,498,127	-	-	11,498,127
Property and Equipment, at Cost				
Land	6,061,741	-	-	6,061,741
Buildings and leasehold improvements	36,930,420	1,732,881	-	38,663,301
Equipment and vehicles	14,193,754	723,072	-	14,916,826
Construction-in-progress	18,890,345	-	-	18,890,345
	<u>76,076,260</u>	<u>2,455,953</u>	<u>-</u>	<u>78,532,213</u>
Less accumulated depreciation	15,334,774	1,258,023	-	16,592,797
	<u>60,741,486</u>	<u>1,197,930</u>	<u>-</u>	<u>61,939,416</u>
Other Assets				
Deposits and other	71,543	11,079	-	82,622
Due from affiliate	1,255,022	-	-	1,255,022
Investment in CCH	114,286	-	-	114,286
Deferred financing costs, net	931,496	-	-	931,496
Goodwill	4,116,524	-	-	4,116,524
	<u>6,488,871</u>	<u>11,079</u>	<u>-</u>	<u>6,499,950</u>
Total assets	<u>\$ 136,151,457</u>	<u>\$ 18,069,856</u>	<u>\$ -</u>	<u>\$ 154,221,313</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 5,463,180	\$ 563,317	\$ -	\$ 6,026,497
Reported and estimated claims	4,792,624	1,097,640	-	5,890,264
Due to Medicaid and Medicare	1,907,906	301,612	-	2,209,518
Accrued compensation	732,352	150,038	-	882,390
Accrued vacation	1,265,370	239,823	-	1,505,193
Other accrued expenses	777,216	93,280	-	870,496
Current portion of long-term debt	540,000	-	-	540,000
Current portion of capital lease obligations	220,918	-	-	220,918
Total current liabilities	<u>15,699,566</u>	<u>2,445,710</u>	<u>-</u>	<u>18,145,276</u>
Capital Lease Obligations	551,220	-	-	551,220
Long-term Debt	<u>33,022,323</u>	<u>-</u>	<u>-</u>	<u>33,022,323</u>
Total liabilities	<u>49,273,109</u>	<u>2,445,710</u>	<u>-</u>	<u>51,718,819</u>
Net Assets				
Unrestricted	<u>86,878,348</u>	<u>15,624,146</u>	<u>-</u>	<u>102,502,494</u>
Total net assets	<u>86,878,348</u>	<u>15,624,146</u>	<u>-</u>	<u>102,502,494</u>
Total liabilities and net assets	<u>\$ 136,151,457</u>	<u>\$ 18,069,856</u>	<u>\$ -</u>	<u>\$ 154,221,313</u>

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

PACE

Consolidating Statement of Operations and Changes in Net Assets Information Year Ended June 30, 2013

	IGCP	IGNMP	Eliminations	Total
Unrestricted Revenues, Gains and Other Support				
Capitation revenue				
Medicaid	\$ 79,426,411	\$ 11,753,541	\$ -	\$ 91,179,952
Medicare	59,154,163	12,435,081	-	71,589,244
Private pay	456,458	162,311	-	618,769
Veterans Administration	498,746	-	-	498,746
Grant revenues	275,251	-	-	275,251
Net investment return gains	460,700	89,155	-	549,855
Unrealized gain on beneficial interest in investment pool	1,371,031	377,911	-	1,748,942
Other	482,522	653	-	483,175
	<u>142,125,282</u>	<u>24,818,652</u>	<u>-</u>	<u>166,943,934</u>
Total unrestricted revenues, gains and other support				
Expenses				
Salaries and wages	22,842,300	4,678,272	-	27,520,572
Employee benefits	4,870,149	974,265	-	5,844,414
External provider costs				
Inpatient	31,873,742	5,286,218	-	37,159,960
Outpatient	36,469,298	6,570,274	-	43,039,572
Rent, facility and maintenance	2,915,342	469,443	-	3,384,785
Purchased services and contracts	2,739,404	582,266	-	3,321,670
Supplies and other	4,126,331	789,143	-	4,915,474
Depreciation and amortization	3,181,247	212,855	-	3,394,102
Nutrition	897,302	256,190	-	1,153,492
Interest expense	1,714,385	1,975	-	1,716,360
Provision for uncollectible accounts	253,737	41,154	-	294,891
Allocations	15,329,132	2,747,447	-	18,076,579
	<u>127,212,369</u>	<u>22,609,502</u>	<u>-</u>	<u>149,821,871</u>
Total expenses				
Operating Income	14,912,913	2,209,150	-	17,122,063
Other Income				
Change in interest in net assets of CCH	23,481	-	-	23,481
Excess of Revenues Over Expenses	14,936,394	2,209,150	-	17,145,544
Unrealized losses	(72,448)	-	-	(72,448)
Change in Net Assets	14,863,946	2,209,150	-	17,073,096
Net Assets, Beginning of Year	72,014,402	13,414,996	-	85,429,398
Net Assets, End of Year	<u>\$ 86,878,348</u>	<u>\$ 15,624,146</u>	<u>\$ -</u>	<u>\$ 102,502,494</u>

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Senior Housing
Consolidating Balance Sheet Information
June 30, 2013

	PWD	CCH	SH1	SH2	Eliminations	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 131,619	\$ -	\$ -	\$ -	\$ -	\$ 131,619
Accounts receivable, net of allowance	6,615	-	-	-	-	6,615
Due to (from) affiliate	(308,232)	113,546	(1,143,879)	(577,472)	-	(1,916,037)
Prepaid expenses and other	-	2,440	-	-	-	2,440
Total current assets	<u>(169,998)</u>	<u>115,986</u>	<u>(1,143,879)</u>	<u>(577,472)</u>	<u>-</u>	<u>(1,775,363)</u>
Property and Equipment, at Cost						
Land	1,052,200	-	535,687	526,737	-	2,114,624
Buildings and leasehold improvements	10,807,838	-	-	-	-	10,807,838
Equipment and vehicles	90,703	-	-	-	-	90,703
Construction-in-progress	-	-	608,192	50,735	-	658,927
	<u>11,950,741</u>	<u>-</u>	<u>1,143,879</u>	<u>577,472</u>	<u>-</u>	<u>13,672,092</u>
Less accumulated depreciation	<u>3,478,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,478,176</u>
	<u>8,472,565</u>	<u>-</u>	<u>1,143,879</u>	<u>577,472</u>	<u>-</u>	<u>10,193,916</u>
Other Assets						
Deposits and other	368,008	-	-	-	-	368,008
Intercompany receivables	(1,052,502)	-	-	-	-	(1,052,502)
	<u>(684,494)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(684,494)</u>
Total assets	<u>\$ 7,618,073</u>	<u>\$ 115,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,734,059</u>
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	\$ 4,723	\$ 1,700	\$ -	\$ -	\$ -	\$ 6,423
Accrued compensation	1,547	-	-	-	-	1,547
Accrued vacation	1,374	-	-	-	-	1,374
Other accrued expenses	73,788	-	-	-	-	73,788
Current portion of long-term debt	50,048	-	-	-	-	50,048
Deferred revenue	2,693	-	-	-	-	2,693
Total current liabilities	<u>134,173</u>	<u>1,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,873</u>
Long-term Debt	<u>3,935,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,935,174</u>
Total liabilities	<u>4,069,347</u>	<u>1,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,071,047</u>
Net Assets						
Unrestricted	355	114,286	-	-	-	114,641
Noncontrolling interest	3,548,371	-	-	-	-	3,548,371
Total net assets	<u>3,548,726</u>	<u>114,286</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,663,012</u>
Total liabilities and net assets	<u>\$ 7,618,073</u>	<u>\$ 115,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,734,059</u>

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Senior Housing

Consolidating Statement of Operations and Changes in Net Assets Information Year Ended June 30, 2013

	PWD	CCH	SH1	SH2	Eliminations	Total
Unrestricted Revenues, Gains and Other Support						
Net investment return gains	\$ 205	\$ -	\$ -	\$ -	\$ -	\$ 205
Other	843,544	-	-	-	-	843,544
Management fee	-	35,000	-	-	(35,000)	-
Total unrestricted revenues, gains and other support	843,749	35,000	-	-	(35,000)	843,749
Expenses						
Salaries and wages	105,336	-	-	-	-	105,336
Employee benefits	23,764	-	-	-	-	23,764
Rent, facility and maintenance	162,537	-	-	-	-	162,537
Purchased services and contracts	63,994	-	-	-	-	63,994
Supplies and other	54,536	11,519	-	-	-	66,055
Depreciation and amortization	400,309	-	-	-	-	400,309
Interest expense	288,917	-	-	-	-	288,917
Provision for uncollectible accounts	58	-	-	-	-	58
Allocations	35,000	-	-	-	(35,000)	-
Total expenses	1,134,451	11,519	-	-	(35,000)	1,110,970
Change in Net Assets	(290,702)	23,481	-	-	-	(267,221)
Net Assets, Beginning of Year	3,839,428	90,805	-	-	-	3,930,233
Net Assets, End of Year	\$ 3,548,726	\$ 114,286	\$ -	\$ -	\$ -	\$ 3,663,012

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Shared Services
Consolidating Balance Sheet Information
June 30, 2013

	<u>InnovAge</u>	<u>Lowry</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,333,729	\$ 33,644	\$ -	\$ 1,367,373
Accounts receivable, net of allowance	-	41,425	-	41,425
Due to (from) affiliate	(713,756)	758,935	-	45,179
Prepaid expenses and other	-	766,374	-	766,374
Total current assets	<u>619,973</u>	<u>1,600,378</u>	<u>-</u>	<u>2,220,351</u>
Other Assets				
Deposits and other	-	35,000	-	35,000
	-	35,000	-	35,000
Total assets	<u>\$ 619,973</u>	<u>\$ 1,635,378</u>	<u>\$ -</u>	<u>\$ 2,255,351</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ -	\$ 964,055	\$ -	\$ 964,055
Accrued compensation	-	764,640	-	764,640
Accrued vacation	-	541,999	-	541,999
Other accrued expenses	-	177,127	-	177,127
Total current liabilities	-	2,447,821	-	2,447,821
Net Assets				
Unrestricted	<u>619,973</u>	<u>(812,443)</u>	<u>-</u>	<u>(192,470)</u>
Total net assets	<u>619,973</u>	<u>(812,443)</u>	<u>-</u>	<u>(192,470)</u>
Total liabilities and net assets	<u>\$ 619,973</u>	<u>\$ 1,635,378</u>	<u>\$ -</u>	<u>\$ 2,255,351</u>

**Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries**

Shared Services

**Consolidating Statement of Operations and Changes in Net Assets Information
Year Ended June 30, 2013**

	<u>InnovAge</u>	<u>Lowry</u>	<u>Eliminations</u>	<u>Total</u>
Unrestricted Revenues, Gains and Other Support				
Other	\$ -	\$ 12,000	\$ -	\$ 12,000
Management fee	-	20,362,696	-	20,362,696
Total unrestricted revenues, gains and other support	-	20,374,696	-	20,374,696
Expenses				
Salaries and wages	-	8,362,698	-	8,362,698
Employee benefits	-	1,582,347	-	1,582,347
Rent, facility and maintenance	-	475,521	-	475,521
Purchased services and contracts	-	6,586,942	-	6,586,942
Supplies and other	2,103	3,347,425	-	3,349,528
Depreciation and amortization	-	300	-	300
Interest expense	-	7,463	-	7,463
Total expenses	2,103	20,362,696	-	20,364,799
Change in Net Assets	(2,103)	12,000	-	9,897
Net Assets, Beginning of Year	622,076	(824,443)	-	(202,367)
Net Assets, End of Year	\$ 619,973	\$ (812,443)	\$ -	\$ (192,470)

Total Community Options, Inc.
d/b/a InnovAge and Subsidiaries
Other Subsidiaries
Consolidating Balance Sheet Information
June 30, 2013

	LTCO	IHC	IJADP	ICS	Inland	Eliminations	Total
Assets							
Current Assets							
Cash and cash equivalents	\$ 1,846,333	\$ 754,454	\$ 23,539	\$ 53,949	\$ -	\$ -	\$ 2,678,275
Accounts receivable, net of allowance	9,500	314,371	79,834	-	-	-	403,705
Due from affiliate	(944,526)	(1,305,423)	(94,032)	(36,615)	(774,525)	-	(3,155,121)
Prepaid expenses and other	-	247,279	700	-	-	-	247,979
Total current assets	911,307	10,681	10,041	17,334	(774,525)	-	174,838
Property and Equipment, at Cost							
Land	-	-	496,000	-	709,743	-	1,205,743
Buildings and leasehold improvements	-	-	1,639,382	-	-	-	1,639,382
Equipment and vehicles	872,545	426,593	128,948	-	-	-	1,428,086
	872,545	426,593	2,264,330	-	709,743	-	4,273,211
Less accumulated depreciation	745,340	237,415	239,938	-	-	-	1,222,693
	127,205	189,178	2,024,392	-	709,743	-	3,050,518
Other Assets							
Deposits and other	-	-	14,046	-	-	-	14,046
Real estate held for sale	-	717,947	-	-	-	-	717,947
Goodwill	-	75,000	-	-	-	-	75,000
	-	792,947	14,046	-	-	-	806,993
Total assets	\$ 1,038,512	\$ 992,806	\$ 2,048,479	\$ 17,334	\$ (64,782)	\$ -	\$ 4,032,349
Liabilities and Net Assets							
Current Liabilities							
Accounts payable	\$ 9,733	\$ 21,923	\$ 1,799	\$ -	\$ -	\$ -	\$ 33,455
Due to Medicaid and Medicare	-	(2,942)	(1,528)	-	-	-	(4,470)
Accrued compensation	25,360	102,636	14,713	-	-	-	142,709
Accrued vacation	25,194	77,587	26,798	-	-	-	129,579
Other accrued expenses	411,005	273,226	12,508	1,006	-	-	697,745
Current portion of long-term debt	-	20,483	-	-	-	-	20,483
Current portion of capital lease obligations	-	(223)	-	-	-	-	(223)
Deferred revenue	482,331	7,650	-	-	-	-	489,981
Total current liabilities	953,623	500,340	54,290	1,006	-	-	1,509,259
Capital Lease Obligations							
	-	3,393	-	-	-	-	3,393
Long-term Debt							
	-	202,520	-	-	-	-	202,520
Total liabilities	953,623	706,253	54,290	1,006	-	-	1,715,172
Net Assets							
Unrestricted	84,889	268,974	1,994,189	16,328	(64,782)	-	2,299,598
Permanently restricted	-	17,579	-	-	-	-	17,579
Total net assets	84,889	286,553	1,994,189	16,328	(64,782)	-	2,317,177
Total liabilities and net assets	\$ 1,038,512	\$ 992,806	\$ 2,048,479	\$ 17,334	\$ (64,782)	\$ -	\$ 4,032,349

Total Community Options, Inc. d/b/a InnovAge and Subsidiaries

Other Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information Year Ended June 30, 2013

	LTCO	IHC	IJADP	ICS	Inland	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Capitation revenue							
Medicaid	\$ 557,518	\$ 871,207	\$ 297,182	\$ -	\$ -	\$ -	\$ 1,725,907
Private pay	-	1,381,841	442,064	-	-	-	1,823,905
Single Entry Point	9,463,993	-	-	-	-	-	9,463,993
Grant revenues	-	723,872	810,910	-	-	-	1,534,782
Net investment return gains	-	1,371	-	-	-	-	1,371
Other	-	208,070	1,488	-	-	-	209,558
	<u>10,021,511</u>	<u>3,186,361</u>	<u>1,551,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,759,516</u>
Expenses							
Salaries and wages	6,120,757	2,421,234	529,734	-	-	-	9,071,725
Employee benefits	1,416,851	443,737	126,422	-	-	-	1,987,010
Rent, facility and maintenance	457,043	95,228	82,245	-	-	-	634,516
Purchased services and contracts	100,589	311,791	52,721	-	-	-	465,101
Supplies and other	461,327	369,481	94,652	36	64,782	-	990,278
Depreciation and amortization	173,636	15,460	57,044	-	-	-	246,140
Nutrition	-	-	87,222	-	-	-	87,222
Interest expense	-	12,732	(6,438)	-	-	-	6,294
Provision for uncollectible accounts	1,701	12,851	1,873	-	-	-	16,425
Allocations	1,550,109	650,004	86,004	-	-	-	2,286,117
	<u>10,282,013</u>	<u>4,332,518</u>	<u>1,111,479</u>	<u>36</u>	<u>64,782</u>	<u>-</u>	<u>15,790,828</u>
Change in Net Assets	(260,502)	(1,146,157)	440,165	(36)	(64,782)	-	(1,031,312)
Net Assets, Beginning of Year	345,391	1,432,710	1,554,024	16,364	-	-	3,348,489
Net Assets, End of Year	<u>\$ 84,889</u>	<u>\$ 286,553</u>	<u>\$ 1,994,189</u>	<u>\$ 16,328</u>	<u>\$ (64,782)</u>	<u>\$ -</u>	<u>\$ 2,317,177</u>