

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

Independent Auditor's Report and Consolidated Financial Statements  
June 30, 2015 and 2014

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

June 30, 2015 and 2014

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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 the balance sheets as of June 30, 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.

### *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 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.

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

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, 2015 and 2014, 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 29, 2015

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

## Consolidated Balance Sheets

June 30, 2015 and 2014

### Assets

	<b>2015</b>	<b>2014</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 63,273,996	\$ 39,622,915
Short-term investments	7,778,681	8,101,206
Assets limited as to use, current	1,501,949	1,419,562
Accounts receivable, net of allowance; 2015 - \$141,323 and 2014 - \$135,530	9,490,801	19,146,351
Prepaid expenses and other	2,691,854	1,374,749
Total current assets	84,737,281	69,664,783
<b>Assets Limited as to Use</b>		
Board-designated funds - beneficial interest in investment pool	26,183,901	22,207,190
Held by trustee	2,611,874	2,589,660
	28,795,775	24,796,850
<b>Long-term Investments</b>		
	13,209,474	12,981,289
<b>Property and Equipment, at Cost</b>		
Land	9,286,182	9,787,246
Buildings and leasehold improvements	77,034,646	63,563,273
Software	527,452	-
Equipment and vehicles	20,032,712	17,888,175
Construction-in-progress	7,903,305	13,298,443
	114,784,297	104,537,137
Less accumulated depreciation	24,460,977	19,045,948
	90,323,320	85,491,189
<b>Other Assets</b>		
Deposits and other	2,548,720	1,179,469
Real estate held for sale	45,000	139,858
Deferred financing costs, net	1,405,410	1,460,714
Goodwill	4,116,524	4,903,174
	8,115,654	7,683,215
Total assets	<b>\$ 225,181,504</b>	<b>\$ 200,617,326</b>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidated Balance Sheets (continued)**  
**June 30, 2015 and 2014**

**Liabilities and Net Assets**

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 7,651,519	\$ 5,742,922
Reported and estimated claims	7,995,384	8,053,436
Due to Medicaid and Medicare	14,182,845	7,902,330
Accrued compensation	3,756,100	2,880,408
Accrued vacation	2,501,153	2,300,946
Other accrued expenses	910,208	1,183,756
Current portion of long-term debt	659,545	5,439,366
Current portion of capital lease obligations	729,493	556,239
Deferred revenue	431,588	1,604,775
	<hr/>	<hr/>
Total current liabilities	38,817,835	35,664,178
<b>Capital Lease Obligations</b>	1,707,473	1,109,354
<b>Long-term Debt</b>	<hr/>	<hr/>
	38,675,804	39,326,646
	<hr/>	<hr/>
Total liabilities	79,201,112	76,100,178
<b>Net Assets</b>		
Unrestricted	134,074,253	119,771,169
Noncontrolling interest	11,462,380	4,123,197
	<hr/>	<hr/>
Total unrestricted net assets	145,536,633	123,894,366
Temporarily restricted	426,180	605,203
Permanently restricted	17,579	17,579
	<hr/>	<hr/>
Total net assets	145,980,392	124,517,148
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 225,181,504</u>	<u>\$ 200,617,326</u>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Capitation revenue		
Medicaid	\$ 111,574,612	\$ 100,711,506
Medicare	83,113,749	77,464,850
Private pay	481,832	627,272
Veterans Administration	502,856	567,796
Fee for service revenue		
Medicaid	649,229	1,013,044
Private pay	2,178,793	1,570,873
Veterans Administration	130,246	
Single Entry Point	-	157,894
Grant revenues	695,284	699,698
Net investment return gains	1,410,792	1,099,590
Unrealized gain on beneficial interest in investment pool	281,731	3,086,773
Other	2,541,067	1,229,454
Net assets released from restriction, used for operations	655,199	464,209
	<b>204,215,390</b>	<b>188,692,959</b>
<b>Expenses</b>		
Salaries and wages	49,057,358	44,307,573
Employee benefits	12,453,120	10,494,470
External provider costs		
Inpatient	45,531,228	38,812,009
Outpatient	48,128,523	47,321,293
Rent, facility and maintenance	4,990,259	4,636,104
Purchased services and contracts	11,089,550	10,435,303
Supplies and other	8,217,739	8,231,716
Depreciation and amortization	5,876,544	5,321,313
Nutrition	1,436,848	1,273,985
Interest expense	2,481,369	2,298,468
Loss (gain) on disposal of capital assets	(129,138)	316,172
Provision for uncollectible accounts	43,645	126,731
	<b>189,177,045</b>	<b>173,575,137</b>
<b>Operating Income</b>	<b>15,038,345</b>	<b>15,117,822</b>
<b>Other Income (Loss)</b>		
Asset impairment	(881,508)	-
<b>Excess of Revenues Over Expenses</b>	<b>14,156,837</b>	<b>15,117,822</b>
Unrealized losses	(704,864)	(468,600)
Equity contribution	8,190,294	923,998
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 21,642,267</b>	<b>\$ 15,573,220</b>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 14,156,837	\$ 15,117,822
Unrealized losses	(704,864)	(468,600)
Equity contribution	<u>8,190,294</u>	<u>923,998</u>
Increase in unrestricted net assets	<u>21,642,267</u>	<u>15,573,220</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	476,176	563,267
Net assets released from restrictions, used for operations	<u>(655,199)</u>	<u>(464,209)</u>
Increase (decrease) in temporarily restricted net assets	<u>(179,023)</u>	<u>99,058</u>
<b>Change in Net Assets</b>	21,463,244	15,672,278
<b>Net Assets, Beginning of Year</b>	<u>124,517,148</u>	<u>108,844,870</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 145,980,392</u></u>	<u><u>\$ 124,517,148</u></u>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating Activities</b>		
Change in net assets	\$ 13,272,950	\$ 15,672,278
Change in net assets attributable to the noncontrolling interest related to operating activities	851,111	349,172
Change in net assets attributable to the noncontrolling interest related to financing activities	<u>-</u>	<u>(923,998)</u>
Change in net assets attributable to InnovAge	14,124,061	15,097,452
Items not requiring (providing) cash		
Loss (gain) on disposal of assets	(129,138)	316,172
Provision for uncollectible accounts	43,645	126,731
Depreciation and amortization	5,876,544	5,321,313
Goodwill impairment loss	881,508	-
Amortization of bond offering costs included in interest expense	55,304	44,561
Net realized and unrealized losses (gains) on investments	423,060	(2,755,829)
Changes in		
Accounts receivable, net	9,611,905	(11,436,186)
Assets limited as to use held for others	(318)	(2,001)
Prepaid expenses and other	(2,686,356)	(493,635)
Accounts payable	2,401,204	(608,010)
Reported and estimated claims	(58,052)	2,163,172
Due to Medicaid and Medicare	6,280,515	5,697,282
Accrued compensation and vacation	1,075,899	1,167,729
Other accrued expenses	(273,548)	(642,774)
Deferred revenue	(1,173,187)	1,068,479
Noncontrolling interest	<u>(851,111)</u>	<u>(349,172)</u>
Net cash provided by operating activities	<u>35,601,935</u>	<u>14,715,284</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(10,934,891)	(14,849,986)
Purchase of investments	(13,119,030)	(20,479,216)
Proceeds from investments	12,412,531	13,134,776
Purchase of IHA	-	(729,000)
Proceeds from sale of property and equipment	1,275,975	-
Change in beneficial interest in investment pools	(3,694,980)	(271,165)
Change in bond sinking fund	<u>(8,235)</u>	<u>(21,504)</u>
Net cash used in investing activities	<u>(14,068,630)</u>	<u>(23,216,095)</u>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidated Statements of Cash Flows (continued)**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Financing Activities</b>		
Equity contributed by noncontrolling interest	-	923,998
Proceeds from the issuance of long-term debt	2,849,342	7,362,578
Principal payments on capital lease	(641,855)	(221,250)
Principal payments on long-term debt	<u>(8,280,005)</u>	<u>(602,611)</u>
Net cash provided by financing activities	<u>(6,072,518)</u>	<u>7,462,715</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	15,460,787	(1,038,096)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>39,622,915</u>	<u>40,661,011</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 55,083,702</u>	<u>\$ 39,622,915</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	<u>\$ 2,580,870</u>	<u>\$ 2,364,265</u>
Property and equipment included in accounts payable	<u>\$ 684,409</u>	<u>\$ 1,177,016</u>
Property and equipment purchased with capital lease	<u>\$ 1,413,228</u>	<u>\$ 1,111,535</u>

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

## Notes to Financial Statements

June 30, 2015 and 2014

### 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 organized in Delaware. IGCP is the sole member of Inland. 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. Construction began in the fall of fiscal year 2015, and the center is expected to open fall of fiscal year 2016.

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

## Notes to Financial Statements

June 30, 2015 and 2014

- In May 2013, InnovAge Greater California PACE (ISB) was formed to provide comprehensive, consolidated and coordinated healthcare service packages of medical and institutional services to frail elderly populations within PACE for the State of California. InnovAge is the sole member of ISB.
- In December 2013, Innovative Care Management, Inc. (ICM) was formed to provide care coordination services to seniors. InnovAge is the sole member of ICM.
- 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 U.S. Bancorp Community Development Corporation as the investor member. SH1's purpose is to develop senior housing. InnovAge is the general partner of SH1 and has control over SH1'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. SH1 was organized to develop, construct, own, maintain and operate a 72 unit apartment complex intended for rental to low-income elderly individuals aged 62 and older. The building was put into service on August 1, 2014.
- 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 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 sole purpose was to operate a Single Entry Point Program, which evaluated functional eligibility and coordinated services for applicants seeking long-term care through the state of Colorado's Medicaid Program. The contract for Single Entry Point and associated programs was not renewed subsequent to June 30, 2013. Subsequent to year-end, the remaining liabilities of LTCO were settled.
- 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, Inc. d/b/a InnovAge and Subsidiaries

## Notes to Financial Statements

June 30, 2015 and 2014

- InnovAge Insurance Limited (IIL) was formed in December 2013. IIL was incorporated in the Isle of Man to provide insurance underwriting services to InnovAge.
- 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. As of September 2015, IJADP was transferred under the operations of IFDN.
- 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. IHC is the sole member of IHCN.
  - In April 2014, InnovAge purchased InnovAge Homecare – Aspen, LLC (IHA), a Colorado organization licensed for skilled and non-skilled care in Pitkin, Garfield and Eagle Counties. IHC is the sole member of IHA.
  - In July 2014, Innovative Home Health, LLC (IHH) was formed. IHC is the sole member of IHH.
- In December 2008, Innovative Care Solutions, LLC (ICS) was formed. The sole member of ICS was LTCO. ICS provided services that supplemented 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.

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

## Notes to Financial Statements

June 30, 2015 and 2014

### ***Noncontrolling Interest***

Noncontrolling interest represents the 99.99% interest in PWD and SH1 that is not owned by InnovAge. For the years ended June 30, 2015 and 2014, changes in consolidated unrestricted net assets attributable to the controlling financial interest of InnovAge and the noncontrolling interest are:

	<b>Total</b>	<b>Controlling Interest</b>	<b>Noncontrolling Interest</b>
Balance, July 1, 2013	\$ 108,321,146	\$ 104,772,775	\$ 3,548,371
Excess of revenues over expenses	15,117,822	15,466,994	(349,172)
Change in net unrealized loss on investments	(468,600)	(468,600)	-
Equity contributions	923,998	-	923,998
Increase in unrestricted net assets	15,573,220	14,998,394	574,826
Balance, July 1, 2014	123,894,366	119,771,169	4,123,197
Excess of revenues over expenses	14,156,837	15,007,948	(851,111)
Change in net unrealized loss on investments	(704,864)	(704,864)	-
Equity contributions	8,190,294	-	8,190,294
Increase in unrestricted net assets	21,642,267	14,303,084	7,339,183
Balance, June 30, 2015	\$ 145,536,633	\$ 134,074,253	\$ 11,462,380

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, 2015 and 2014**

### ***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, 2015 and 2014, cash equivalents consisted primarily of certificates of deposits and bank money market accounts.

At June 30, 2015, the Organization's cash accounts exceeded federally insured limits by approximately \$62,000,000.

### ***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 \$2,612,000 and \$2,580,000 as of June 30, 2015 and 2014, respectively, which is required to be held in reserves pursuant to bond indenture agreements and approximately \$0 and \$10,000 of bond proceeds to be used for capital expenditures as of June 30, 2015 and 2014, respectively, (2) assets held as collateral for letters of credit in the amount of \$793,451 and \$677,165 as of June 30, 2015 and 2014, respectively, (3) 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 (4) 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, 2015 and 2014**

### ***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.

### ***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.

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 2015 and 2014, the Organization capitalized interest of approximately \$230,000 and \$166,000, 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.

Impairment of \$881,508 and \$0 was recognized during the years ended June 30, 2015 and 2014, respectively. At June 30, 2015, there was goodwill of \$4,116,524 related to the purchase of IGNMP.

### ***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.

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

## Notes to Financial Statements

June 30, 2015 and 2014

### **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, IGNMP and ISB 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 IGCP, IGNMP and ISB. The current agreements are effective through June 30, 2015 for IGCP, IGNMP and ISB. New agreements starting July 1, 2015 run through June 30, 2016. Capitation payments are recognized as revenue in the period in which they relate.

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:

	<b>2015</b>	<b>2014</b>
Medicaid	58%	57%
Medicare	41%	42%
Private pay	1%	1%
	100%	100%

IGCP, IGNMP and ISB also provide prescription drug benefits in accordance with Medicare Part D under a contract with CMS. The payments IGCP, IGNMP and ISB 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, IGNMP's and ISB's bid to actual prescription drug costs, limited to costs that would have been incurred under the standard coverage as defined by CMS. IGCP, IGNMP and ISB 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.

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

## **Notes to Financial Statements**

**June 30, 2015 and 2014**

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 9.

### ***InnovAge Insurance Limited***

During the year ended June 30, 2014, the Organization formed a captive insurance company to provide workers' compensation liability insurance. IIL has partnered with Marsh Management Services Isle of Man Limited to provide underwriting services.

### ***Income Taxes***

IGCP, LTKO, InnovAge, IHC, IHCN, IHA, IFDN, ICS, IJADP, IGNMP, Lowry, SHMM, IHH 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. As of July 1, 2015, Lowry is no longer exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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 and ICM are Delaware corporations and have elected to be taxed as "C" Corporations under provisions of the Internal Revenue Code and a similar section of the state income tax law.

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

## Notes to Financial Statements

June 30, 2015 and 2014

III was incorporated as a limited organization in the Isle of Man and will be taxed similar to a “C” Corporation.

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 2012.

### ***Excess (Deficiency) of Revenues Over Expenses***

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services, equity contributions 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 was:

	<b>2015</b>	<b>2014</b>
Medicaid	62%	71%
Medicare	33%	28%
Private pay	5%	1%
	<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.

### ***Reclassifications***

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the change in net assets.

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

## Notes to Financial Statements

June 30, 2015 and 2014

### Note 2: Investments and Investment Return

#### *Assets Limited as to Use*

Assets limited as to use at June 30 include:

	<b>2015</b>	<b>2014</b>
Internally-designated		
Investment pools		
Institutional Commodities, Ltd.	\$ -	\$ 1,197,671
Institutional Multi-Strategy Equity Fund, LLC	19,654,137	15,499,841
Institutional Multi-Strategy Bond Fund, LLC	6,529,764	5,509,678
	26,183,901	22,207,190
Assets held for collateral	757,131	677,165
Held by trustee under indenture agreement		
Fixed income securities	2,512,698	2,556,854
Money market funds	817,099	747,990
	3,329,797	3,304,844
Held on behalf of participants		
Cash and cash equivalents	26,895	27,213
Total assets limited as to use	30,297,724	26,216,412
Less long-term assets limited as to use	28,795,775	24,796,850
Short-term assets limited as to use	\$ 1,501,949	\$ 1,419,562

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

## Notes to Financial Statements

June 30, 2015 and 2014

### **Other Investments**

Other investments at June 30 include:

	<b>2015</b>	<b>2014</b>
Fixed income securities	\$ 14,799,606	\$ 14,964,665
Certificates of deposit	6,178,510	5,266,488
Money market funds	10,039	851,342
	20,988,155	21,082,495
Less long-term investments	13,209,474	12,981,289
Short-term investments	\$ 7,778,681	\$ 8,101,206

Total investment return is comprised of the following:

	<b>2015</b>	<b>2014</b>
Interest and dividend income	\$ 1,410,719	\$ 961,934
Unrealized gains (losses)	(423,133)	2,618,173
Realized gains on investments	73	137,656
	\$ 987,659	\$ 3,717,763

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

	<b>2015</b>	<b>2014</b>
Unrestricted net assets		
Net investment return	\$ 1,410,792	\$ 1,099,590
Unrealized gain on beneficial interest in investment pool	281,731	3,086,773
Unrealized losses	(704,864)	(468,600)
	\$ 987,659	\$ 3,717,763

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

## Notes to Financial Statements

June 30, 2015 and 2014

### **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:

	<b>2015</b>		
	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Institutional Commodities, Ltd. (A)	\$ -	Monthly	5 days
Institutional Multi-Strategy Equity Fund, LLC (B)	\$ 19,654,137	Monthly	5 days
Institutional Multi-Strategy Bond Fund, LLC (C)	\$ 6,529,764	Monthly	5 days
	<b>2014</b>		
	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Institutional Commodities, Ltd. (A)	\$ 1,197,671	Monthly	5 days
Institutional Multi-Strategy Equity Fund, LLC (B)	\$ 15,499,841	Monthly	5 days
Institutional Multi-Strategy Bond Fund, LLC (C)	\$ 5,509,678	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, 2015 and 2014**

**Note 3: Temporarily Restricted Net Assets**

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

	<b>2015</b>	<b>2014</b>
Helping hands funds	\$ 96,154	\$ 83,739
PACE program funds	190,476	182,356
IJADP program funds	45,446	119,480
IJADP capital expansion	200	7,225
IHC program funds	72,599	166,861
Other	21,305	45,542
	<u>\$ 426,180</u>	<u>\$ 605,203</u>

***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:

	<b>2015</b>	<b>2014</b>
Helping hands funds	\$ 39,081	\$ 43,677
PACE program funds	4,138	2,000
IJADP program and capital funds	97,298	260,761
IHC program funds	274,469	-
Other	240,213	157,771
	<u>\$ 655,199</u>	<u>\$ 464,209</u>

During 2015, net assets of \$655,199 were released to be used for operations. During 2014, net assets of \$464,209 were released to be used for operations.

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

## Notes to Financial Statements

June 30, 2015 and 2014

### 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.

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 was:

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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, 2015 and 2014

	<b>2014</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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

Changes in endowment net assets for the years ended June 30, 2015 and 2014 were:

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 180,902	\$ 17,579	\$ 198,481
Investment income	734	-	734
Appropriations	(734)	-	(734)
Total investment return, net	-	-	-
Endowment net assets, end of year	\$ 180,902	\$ 17,579	\$ 198,481

	<b>2014</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 180,902	\$ 17,579	\$ 198,481
Investment income	451	-	451
Appropriations	(451)	-	(451)
Total investment return, net	-	-	-
Endowment net assets, end of year	\$ 180,902	\$ 17,579	\$ 198,481

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

## Notes to Financial Statements

**June 30, 2015 and 2014**

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, 2015 and 2014.

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.

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: Long-term Debt**

Long-term debt consists of the following:

	<b>2015</b>	<b>2014</b>
2010 Series Revenue bonds (A)	\$ 26,325,000	\$ 26,770,000
2011 Series Revenue bonds (B)	6,670,000	6,785,000
Capital lease obligations (C)	2,436,966	1,665,593
Mortgage payable (D)	3,865,846	3,927,257
Construction loan (E)	-	7,362,578
Convertible term loan (F)	2,550,000	-
	41,847,812	46,510,428
Less unamortized discount	75,497	78,823
Less current maturities	1,389,038	5,995,605
	<b>\$ 40,383,277</b>	<b>\$ 40,436,000</b>

- (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 real estate for IGCP and ISB PACE centers and Lowry, as well as the gross revenues of IGCP and ISB.

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%.

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

## Notes to Financial Statements

**June 30, 2015 and 2014**

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.

Under the terms of the 2010 Bonds, IGCP is required to meet certain operational and reporting requirements. As of June 30, 2015, 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 real estate for IGCP and ISB PACE centers and Lowry, as well as the gross revenues of IGCP and ISB.

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%.

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, 2015, management believes IGCP was in compliance with those requirements.

- (C) The Organization has various capital leases with due dates ranging from July 2015 to April 2020, at various interest rates; payable in monthly installments ranging from \$1,096 to \$1,291; collateralized by equipment. Property and equipment include the following property under capital leases:

	<b>2015</b>	<b>2014</b>
Equipment	\$ 3,575,076	\$ 2,454,045
Less accumulated depreciation	1,056,321	524,563
	\$ 2,518,755	\$ 1,929,482

- (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.
- (E) The Organization executed a construction and convertible loan agreement with U.S. Bank on August 20, 2013, entered into by SH1 for the construction of a 72-unit affordable housing apartment project in the aggregate amount of \$10,300,000, which consists of a construction loan in an original principal amount not to exceed \$7,750,000 and a convertible term loan in an original principal amount not to exceed \$2,550,000. As of June 30, 2015, all of the available principal and interest has been repaid.

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

## Notes to Financial Statements

June 30, 2015 and 2014

- (F) The convertible term loan has payments of accrued interest only through August 31, 2015. Interest rate as of June 30, 2015 was 6.68%. Principal and interest payments on the convertible loan commence on September 1, 2015 in the amount of \$16,585 monthly for a period of 15 years. The remaining balance is due on the maturity date. The loan is secured by a deed of trust to Public Trustee, assignment of leases and rents, security agreements and fixture filing of SH1.

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

	<b>Long-term Debt (Excluding Capital Lease Obligations)</b>	<b>Capital Lease Obligations</b>
2016	\$ 659,545	\$ 783,225
2017	713,894	621,721
2018	756,445	543,569
2019	794,543	385,273
2020	842,529	203,294
Thereafter	35,643,890	-
	<b>\$ 39,410,846</b>	<b>2,537,082</b>
Less amount representing interest Present value of future minimum lease payments		100,116
Less current maturities		2,436,966
Noncurrent portion		<b>\$ 1,707,473</b>

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.

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

## Notes to Financial Statements

June 30, 2015 and 2014

### Note 6: 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 2% of the participants' compensation for the years ended June 30, 2015 and 2014.

Effective December 1, 2013, the Organization established a 457(f) and 457(b) Deferred Compensation Plan for key employees. As of July 1, 2015, both plans were frozen and therefore no further contributions will be made into these plans. The employee contributions made to the 457(b) plan were paid out to employees in October 2015.

### Note 7: Related-party Transactions

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.

In August 2013, InnovAge issued a \$1,500,000 promissory note to SH1. The note is due in full on August 19, 2053, including interest at the rate of 1.6% per annum. The loan is secured by a deed of trust to Public Trustee, assignment of leases and rents, security agreements and fixture filing of SH1. The promissory note has been eliminated in the consolidated financial statements.

In March 2014, InnovAge issued a \$729,000 promissory note to IHA. The note is payable \$8,093 monthly, including interest of 6% and is due in September 2024. The note is secured by IHA property. The promissory note has been eliminated in the consolidated financial statements.

### Note 8: 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:

	<u>2015</u>	<u>2014</u>
Program services	\$ 159,879,086	\$ 148,352,787
General and administrative	<u>29,297,959</u>	<u>25,222,350</u>
	<u>\$ 189,177,045</u>	<u>\$ 173,575,137</u>

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

## Notes to Financial Statements

June 30, 2015 and 2014

### Note 9: 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 10: 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

#### ***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:

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

## Notes to Financial Statements

June 30, 2015 and 2014

	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)
June 30, 2015	Fair Value			
Investment pools				
Institutional Multi-Strategy Equity Fund, LLC	\$ 6,350,524	\$ -	\$ 6,350,524	\$ -
Institutional Multi-Strategy Equity Fund, LLC measured with net asset value	13,303,613 (A)	-	-	-
Institutional Multi-Strategy Bond Fund, LLC measured with net asset value	6,529,764 (A)	-	-	-
Fixed income funds	17,312,304	-	17,312,304	-
Money market funds	827,138	827,138	-	-
Total investments (including CD's)	\$ 44,323,343			

(A) In accordance with ASC 820, certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

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

## Notes to Financial Statements

June 30, 2015 and 2014

	Fair Value	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)
<b>June 30, 2014</b>				
Investment pools				
Institutional Commodities, Ltd.	\$ 1,197,671	\$ -	\$ 1,197,671	\$ -
Institutional Multi-Strategy Equity Fund, LLC	15,499,841	-	15,380,186	119,655
Institutional Multi-Strategy Bond Fund, LLC	5,509,678	-	5,509,678	-
Fixed income funds	17,521,519	-	17,521,519	-
Money market funds	1,599,332	1,599,332	-	-
Total investments (including CD's)	\$ 41,328,041			

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, 2015. 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, 2015 and 2014, 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

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

## Notes to Financial Statements

June 30, 2015 and 2014

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.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07 (ASU 2015-07), *Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes that requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. For non-public business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Organization elected to adopt ASU 2015-07 as of and for the year ended June 30, 2015. Accordingly, investments for which fair value is measured using net asset value per share as a practical expedient have not been categorized within the fair value hierarchy.

### **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><b>CrossFund Investments</b></u>
Balance, July 1, 2013	\$ 532,850
Total realized and unrealized gains and losses included in change in net assets	5,117
Purchases	-
Transfers out of Level 3	<u>(418,312)</u>
Total realized and unrealized gains and losses included in change in net assets	-
Purchases	-
Transfers out of Level 3	<u>(119,655)</u>
Balance, June 30, 2015	<u><u>\$ -</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, 2014	<u><u>\$ 5,117</u></u>
Year ended June 30, 2015	<u><u>\$ -</u></u>

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

## Notes to Financial Statements

June 30, 2015 and 2014

Transfers between Levels 1, 2 or 3, if any, are recognized at ending value on June 30, 2015. There were transfers of \$119,655 out of Level 3 for the year ended June 30, 2015. There were \$0 and \$119,655 Level 3 investments held at June 30, 2015 and 2014, respectively.

### ***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.

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 63,273,996	\$ 63,273,996	\$ 39,622,915	\$ 39,622,915
Short-term investments	7,778,681	7,778,681	8,101,206	8,101,206
Assets limited as to use				
Assets limited as to use, current	1,501,949	1,501,949	1,419,562	1,419,562
Board-designated funds - beneficial interest in investment pool	26,183,901	26,183,901	22,207,190	22,207,190
Held by trustee	2,611,874	2,611,874	2,589,660	2,589,660
Long-term investments	13,209,474	13,209,474	12,981,289	12,981,289
Financial liabilities				
Bonds payable	\$ 32,995,000	\$ 35,841,409	\$ 33,555,000	\$ 36,389,461
Mortgage payable	3,865,846	3,865,846	3,927,257	3,927,257
Construction loan	-	-	7,362,578	7,362,578
Convertible term loan	2,550,000	2,550,000	-	-
Capital lease obligations	2,436,966	2,436,966	1,665,593	1,665,593

### ***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.

## **Note 11: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

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

## **Notes to Financial Statements**

**June 30, 2015 and 2014**

### ***Allowance for Net Participant Service Revenue Adjustments***

Estimates of allowances for adjustments included in net participant service revenue are described in Note 1. The Organization earns a majority of its revenue from service provided under the PACE program as discussed in Note 1. Therefore, changes in the program could affect the operations of the Organization.

IGCP, IGNMP and ISB 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 9.

### ***Estimated and Reported Claims***

Reported and estimated claims consists of unpaid claims reported to IGCP, IGNMP and ISB and an estimated liability for medical claims incurred on or before June 30, that have not been reported to IGCP, IGNMP and ISB 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 consolidated balance sheets.

## **Supplementary Information**

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidating Balance Sheet Information**  
**June 30, 2015**

	<b>PACE</b>	<b>Senior Housing</b>	<b>Foundation</b>	<b>Shared Services</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 51,686,570	\$ 289,110	\$ (4,559)	\$ 9,085,309	\$ 2,217,566	\$ -	\$ 63,273,996
Short-term investments	7,778,681	-	-	-	-	-	7,778,681
Assets limited as to use, current	820,346	-	-	681,603	-	-	1,501,949
Accounts receivable, net of allowance	8,916,978	15,072	-	11,089	547,662	-	9,490,801
Due (to) from affiliate	29,452,646	(957,849)	(748,956)	(12,021,387)	(15,724,454)	-	-
Prepaid expenses and other	566,333	18,913	89,075	2,384,755	55,631	(422,853)	2,691,854
Total current assets	<u>99,221,554</u>	<u>(634,754)</u>	<u>(664,440)</u>	<u>141,369</u>	<u>(12,903,595)</u>	<u>(422,853)</u>	<u>84,737,281</u>
<b>Assets Limited as to Use</b>							
Board-designated funds - beneficial interest in investment pool	26,183,901	-	-	-	-	-	26,183,901
Held by trustee	2,611,874	-	-	-	-	-	2,611,874
	<u>28,795,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,795,775</u>
<b>Long-term Investments</b>	<u>13,209,474</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>(100)</u>	<u>13,209,474</u>
<b>Property and Equipment, at Cost</b>							
Land	5,798,160	2,283,912	-	-	1,204,110	-	9,286,182
Buildings and leasehold improvements	40,349,317	23,441,916	-	1,418,165	11,825,248	-	77,034,646
Software	-	-	-	527,452	-	-	527,452
Equipment and vehicles	18,952,036	512,409	20,760	-	547,507	-	20,032,712
Construction-in-progress	5,634,535	64,586	-	2,204,184	-	-	7,903,305
	<u>70,734,048</u>	<u>26,302,823</u>	<u>20,760</u>	<u>4,149,801</u>	<u>13,576,865</u>	<u>-</u>	<u>114,784,297</u>
Less accumulated depreciation	17,804,390	4,773,344	20,760	136,305	1,726,178	-	24,460,977
	<u>52,929,658</u>	<u>21,529,479</u>	<u>-</u>	<u>4,013,496</u>	<u>11,850,687</u>	<u>-</u>	<u>90,323,320</u>
<b>Other Assets</b>							
Deposits and other	41,503	621,481	-	1,867,071	18,665	-	2,548,720
Real estate held for sale	-	-	-	-	45,000	-	45,000
Due (to) from affiliate	1,997,576	(960,717)	-	2,229,000	-	(3,265,859)	-
Investment in CCH	172,213	-	-	-	-	(172,213)	-
Deferred financing costs, net	1,405,410	-	-	-	-	-	1,405,410
Goodwill	4,116,524	-	-	-	-	-	4,116,524
	<u>7,733,226</u>	<u>(339,236)</u>	<u>-</u>	<u>4,096,071</u>	<u>63,665</u>	<u>(3,438,072)</u>	<u>8,115,654</u>
Total assets	<u>\$ 201,889,687</u>	<u>\$ 20,555,489</u>	<u>\$ (664,440)</u>	<u>\$ 8,251,036</u>	<u>\$ (989,243)</u>	<u>\$ (3,861,025)</u>	<u>\$ 225,181,504</u>

**LEGEND:**

PACE includes IGCP, IGMP and ISB  
Senior Housing includes PWD, CCH, SH1 and SH2  
Shared Services includes InnovAge, Lowry and IIL  
Other Subsidiaries includes LTCO, IHC, IADP, ICS and Inland  
Foundation is a single entity

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Consolidating Balance Sheet Information (continued)**  
**June 30, 2015**

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Accounts payable	\$ 5,129,027	\$ 938,118	\$ 22,145	\$ 1,516,852	\$ 45,377	\$ -	\$ 7,651,519
Reported and estimated claims	7,252,554	-	-	742,830	-	-	7,995,384
Due to Medicaid and Medicare	14,182,845	-	-	-	-	-	14,182,845
Accrued compensation	1,956,140	-	35,457	1,506,011	258,492	-	3,756,100
Accrued vacation	1,662,359	-	28,927	676,374	133,493	-	2,501,153
Other accrued expenses	338,617	56,259	-	509,469	5,863	-	910,208
Current portion of long-term debt	585,000	74,545	-	-	90,566	(90,566)	659,545
Current portion of capital lease obligations	729,493	-	-	-	-	-	729,493
Deferred revenue	856,086	5,440	74,768	422,853	351,380	(1,278,939)	431,588
Total current liabilities	32,692,121	1,074,362	161,297	5,374,389	885,171	(1,369,505)	38,817,835
<b>Capital Lease Obligations</b>	1,707,473	-	-	-	-	-	1,707,473
<b>Long-term Debt</b>	32,334,503	7,841,301	-	-	819,207	(2,319,207)	38,675,804
Total liabilities	66,734,097	8,915,663	161,297	5,374,389	1,704,378	(3,688,712)	79,201,112
<b>Net Assets</b>							
Unrestricted	135,155,590	177,446	(1,251,917)	2,876,647	(2,711,200)	(172,313)	134,074,253
Noncontrolling interest	-	11,462,380	-	-	-	-	11,462,380
Temporarily restricted	-	-	426,180	-	-	-	426,180
Permanently restricted	-	-	-	-	17,579	-	17,579
Total net assets (deficit)	135,155,590	11,639,826	(825,737)	2,876,647	(2,693,621)	(172,313)	145,980,392
Total liabilities and net assets (deficit)	<u>\$ 201,889,687</u>	<u>\$ 20,555,489</u>	<u>\$ (664,440)</u>	<u>\$ 8,251,036</u>	<u>\$ (989,243)</u>	<u>\$ (3,861,025)</u>	<u>\$ 225,181,504</u>

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

## Consolidating Statement of Operations and Changes in Net Assets Information Year Ended June 30, 2015

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>							
Capitation revenue							
Medicaid	\$ 111,574,612	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,574,612
Medicare	83,113,749	-	-	-	-	-	83,113,749
Private pay	481,832	-	-	-	-	-	481,832
Veterans Administration	502,856	-	-	-	-	-	502,856
Fee for service revenue							
Medicaid	-	-	-	-	649,229	-	649,229
Private pay	-	-	-	-	2,761,721	(582,928)	2,178,793
Veterans Administration	-	-	-	-	130,246	-	130,246
Grant revenues	270,076	-	-	-	709,555	(284,347)	695,284
Net investment return gains	1,403,483	110	-	4,438	2,761	-	1,410,792
Unrealized gain on beneficial interest in investment pool	281,731	-	-	-	-	-	281,731
Other	342,549	1,373,731	29,881	797,915	1,306,527	(1,309,536)	2,541,067
Management fee	-	-	-	26,124,752	-	(26,124,752)	-
Net assets released from restriction, used for operations	-	-	655,199	-	-	-	655,199
Total unrestricted revenues, gains and other support	197,970,888	1,373,841	685,080	26,927,105	5,560,039	(28,301,563)	204,215,390
<b>Expenses</b>							
Salaries and wages	33,336,777	146,595	346,384	11,002,307	4,225,295	-	49,057,358
Employee benefits	7,999,956	32,796	81,971	3,294,451	1,043,946	-	12,453,120
External provider costs							
Inpatient	45,531,228	-	-	-	-	-	45,531,228
Outpatient	48,128,523	-	-	-	-	-	48,128,523
Rent, facility and maintenance	3,840,405	287,190	-	1,217,647	160,644	(515,627)	4,990,259
Purchased services and contracts	4,720,898	184,301	299,868	6,110,227	357,184	(582,928)	11,089,550
Supplies and other	4,241,203	150,143	304,921	3,629,872	685,509	(793,909)	8,217,739
Depreciation and amortization	4,138,313	904,119	-	133,898	700,214	-	5,876,544
Nutrition	1,342,130	-	-	-	94,718	-	1,436,848
Interest expense	1,988,914	480,693	-	202	11,560	-	2,481,369
Gain on disposal of capital assets	(129,138)	-	-	-	-	-	(129,138)
Provision for uncollectible accounts	8,707	363	-	-	34,575	-	43,645
Grant expense	-	-	284,347	-	-	(284,347)	-
Allocations	25,473,271	-	-	-	651,481	(26,124,752)	-
Total expenses	180,621,187	2,186,200	1,317,491	25,388,604	7,965,126	(28,301,563)	189,177,045
<b>Operating Income (Loss)</b>	17,349,701	(812,359)	(632,411)	1,538,501	(2,405,087)	-	15,038,345
<b>Other Income (Loss)</b>							
Change in equity of CCH	31,390	-	-	-	-	(31,390)	-
Asset impairment	-	-	-	-	(881,508)	-	(881,508)
Total other income (loss)	31,390	-	-	-	(881,508)	(31,390)	(881,508)
<b>Excess (Deficiency) of Revenues Over Expenses</b>	17,381,091	(812,359)	(632,411)	1,538,501	(3,286,595)	(31,390)	14,156,837

**LEGEND:**

PACE includes IGCP, IGMP and ISB  
Senior Housing includes PWD, CCH, SH1 and SH2  
Shared Services includes InnovAge, Lowry and IIL  
Other Subsidiaries includes LTCO, IHC, IJADP, ICS and Inland  
Foundation is a single entity

# 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, 2015

	PACE	Senior Housing	Foundation	Shared Services	Other Subsidiaries	Eliminations	Total
<b>Excess (Deficiency) of Revenues</b>							
<b>Over Expenses</b>	17,381,091	(812,359)	(632,411)	1,538,501	(3,286,595)	(31,390)	14,156,837
Unrealized losses	(702,880)	-	-	(1,984)	-	-	(704,864)
Equity contribution	4,500	8,185,894	-	-	-	(100)	8,190,294
	<u>16,682,711</u>	<u>7,373,535</u>	<u>(632,411)</u>	<u>1,536,517</u>	<u>(3,286,595)</u>	<u>(31,490)</u>	<u>21,642,267</u>
<b>Temporarily Restricted Net Assets</b>							
Contributions	-	-	476,176	-	-	-	476,176
Net assets released from restrictions, used for operations	-	-	(655,199)	-	-	-	(655,199)
Increase in temporarily restricted net assets	-	-	(179,023)	-	-	-	(179,023)
<b>Change in Net Assets</b>	16,682,711	7,373,535	(811,434)	1,536,517	(3,286,595)	(31,490)	21,463,244
<b>Net Assets (Deficit), Beginning of Year</b>	<u>118,472,879</u>	<u>4,266,291</u>	<u>(14,303)</u>	<u>1,340,130</u>	<u>592,974</u>	<u>(140,823)</u>	<u>124,517,148</u>
<b>Net Assets (Deficit), End of Year</b>	<u>\$ 135,155,590</u>	<u>\$ 11,639,826</u>	<u>\$ (825,737)</u>	<u>\$ 2,876,647</u>	<u>\$ (2,693,621)</u>	<u>\$ (172,313)</u>	<u>\$ 145,980,392</u>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**PACE**  
**Consolidating Balance Sheet Information**  
**June 30, 2015**

	IGCP	IGNMP	ISB	Eliminations	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 42,923,746	\$ 8,009,720	\$ 753,104	\$ -	\$ 51,686,570
Short-term investments	7,778,681	-	-	-	7,778,681
Assets limited as to use, current	793,451	26,895	-	-	820,346
Accounts receivable, net of allowance	7,314,685	491,003	1,111,290	-	8,916,978
Due (to) from affiliate	30,921,360	6,428,928	(7,897,642)	-	29,452,646
Prepaid expenses and other	460,684	68,755	36,894	-	566,333
Total current assets	<u>90,192,607</u>	<u>15,025,301</u>	<u>(5,996,354)</u>	<u>-</u>	<u>99,221,554</u>
<b>Assets Limited as to Use</b>					
Board-designated funds - beneficial interest in investment pool	20,563,266	5,620,635	-	-	26,183,901
Held by trustee	2,611,874	-	-	-	2,611,874
	<u>23,175,140</u>	<u>5,620,635</u>	<u>-</u>	<u>-</u>	<u>28,795,775</u>
<b>Long-term Investments</b>	<u>13,209,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,209,474</u>
<b>Property and Equipment, at Cost</b>					
Land	5,798,160	-	-	-	5,798,160
Buildings and leasehold improvements	38,534,502	1,814,815	-	-	40,349,317
Equipment and vehicles	16,581,334	782,233	1,588,469	-	18,952,036
Construction-in-progress	5,634,535	-	-	-	5,634,535
	<u>66,548,531</u>	<u>2,597,048</u>	<u>1,588,469</u>	<u>-</u>	<u>70,734,048</u>
Less accumulated depreciation	<u>15,981,093</u>	<u>1,537,526</u>	<u>285,771</u>	<u>-</u>	<u>17,804,390</u>
	<u>50,567,438</u>	<u>1,059,522</u>	<u>1,302,698</u>	<u>-</u>	<u>52,929,658</u>
<b>Other Assets</b>					
Deposits and other	40,563	-	940	-	41,503
Due from affiliate	1,997,576	-	-	-	1,997,576
Investment in CCH	172,213	-	-	-	172,213
Deferred financing costs, net	1,405,410	-	-	-	1,405,410
Goodwill	4,116,524	-	-	-	4,116,524
	<u>7,732,286</u>	<u>-</u>	<u>940</u>	<u>-</u>	<u>7,733,226</u>
Total assets	<u>\$ 184,876,945</u>	<u>\$ 21,705,458</u>	<u>\$ (4,692,716)</u>	<u>\$ -</u>	<u>\$ 201,889,687</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 4,325,626	\$ 540,368	\$ 263,033	\$ -	\$ 5,129,027
Reported and estimated claims	5,388,039	1,452,921	411,594	-	7,252,554
Due to Medicaid and Medicare	13,182,083	805,627	195,135	-	14,182,845
Accrued compensation	1,477,515	300,466	178,159	-	1,956,140
Accrued vacation	1,319,941	249,541	92,877	-	1,662,359
Other accrued expenses	(321,067)	1,883	657,801	-	338,617
Current portion of long-term debt	585,000	-	-	-	585,000
Current portion of capital lease obligations	640,409	-	89,084	-	729,493
Deferred revenue	856,086	-	-	-	856,086
Total current liabilities	<u>27,453,632</u>	<u>3,350,806</u>	<u>1,887,683</u>	<u>-</u>	<u>32,692,121</u>
<b>Capital Lease Obligations</b>	<u>1,395,325</u>	<u>-</u>	<u>312,148</u>	<u>-</u>	<u>1,707,473</u>
<b>Long-term Debt</b>	<u>32,334,503</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,334,503</u>
Total liabilities	<u>61,183,460</u>	<u>3,350,806</u>	<u>2,199,831</u>	<u>-</u>	<u>66,734,097</u>
<b>Net Assets</b>					
Unrestricted	<u>123,693,485</u>	<u>18,354,652</u>	<u>(6,892,547)</u>	<u>-</u>	<u>135,155,590</u>
Total net assets (deficit)	<u>123,693,485</u>	<u>18,354,652</u>	<u>(6,892,547)</u>	<u>-</u>	<u>135,155,590</u>
Total liabilities and net assets (deficit)	<u>\$ 184,876,945</u>	<u>\$ 21,705,458</u>	<u>\$ (4,692,716)</u>	<u>\$ -</u>	<u>\$ 201,889,687</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, 2015

	IGCP	IGNMP	ISB	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>					
Capitation revenue					
Medicaid	\$ 95,123,786	\$ 11,840,625	\$ 4,610,201	\$ -	\$ 111,574,612
Medicare	68,590,793	12,758,784	1,764,172	-	83,113,749
Private pay	442,015	39,817	-	-	481,832
Veterans Administration	502,856	-	-	-	502,856
Grant revenues	270,076	-	-	-	270,076
Net investment return gains	1,283,749	119,734	-	-	1,403,483
Unrealized gain on beneficial interest in investment pool	221,424	60,307	-	-	281,731
Other	341,933	616	-	-	342,549
	<u>166,776,632</u>	<u>24,819,883</u>	<u>6,374,373</u>	<u>-</u>	<u>197,970,888</u>
Total unrestricted revenues, gains and other support					
<b>Expenses</b>					
Salaries and wages	26,164,291	4,921,276	2,251,210	-	33,336,777
Employee benefits	6,372,035	1,181,634	446,287	-	7,999,956
External provider costs					
Inpatient	39,074,906	5,902,277	554,045	-	45,531,228
Outpatient	39,218,386	7,431,526	1,478,611	-	48,128,523
Rent, facility and maintenance	2,416,868	536,916	886,621	-	3,840,405
Purchased services and contracts	3,253,899	326,193	1,140,806	-	4,720,898
Supplies and other	3,356,232	603,530	281,441	-	4,241,203
Depreciation and amortization	3,791,244	160,758	186,311	-	4,138,313
Nutrition	1,030,794	243,627	67,709	-	1,342,130
Interest expense	1,980,187	364	8,363	-	1,988,914
Loss on disposal of capital assets	(129,138)	-	-	-	(129,138)
Provision for uncollectible accounts	8,707	-	-	-	8,707
Allocations	21,440,838	3,203,765	828,668	-	25,473,271
	<u>147,979,249</u>	<u>24,511,866</u>	<u>8,130,072</u>	<u>-</u>	<u>180,621,187</u>
Total expenses					
<b>Operating Income (Loss)</b>	18,797,383	308,017	(1,755,699)	-	17,349,701
<b>Other Income</b>					
Change in interest in net assets of CCH	31,390	-	-	-	31,390
<b>Excess (Deficiency) of Revenues Over Expenses</b>	18,828,773	308,017	(1,755,699)	-	17,381,091
Unrealized losses	(702,880)	-	-	-	(702,880)
Equity contribution	-	4,500	-	-	4,500
<b>Increase (Decrease) in Unrestricted Net Assets</b>	18,125,893	312,517	(1,755,699)	-	16,682,711
<b>Change in Net Assets</b>	18,125,893	312,517	(1,755,699)	-	16,682,711
<b>Net Assets (Deficit), Beginning of Year</b>	105,567,592	18,042,135	(5,136,848)	-	118,472,879
<b>Net Assets (Deficit), End of Year</b>	<u>\$ 123,693,485</u>	<u>\$ 18,354,652</u>	<u>\$ (6,892,547)</u>	<u>\$ -</u>	<u>\$ 135,155,590</u>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Senior Housing**  
**Consolidating Balance Sheet Information**  
**June 30, 2015**

	PWD	CCH	SH1	SH2	Eliminations	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 59,238	\$ -	\$ 229,872	\$ -	\$ -	\$ 289,110
Accounts receivable, net of allowance	15,052	-	20	-	-	15,072
Due (to) from affiliate	(378,232)	170,939	(22,512)	(728,044)	-	(957,849)
Prepaid expenses and other	15,247	1,274	2,392	-	-	18,913
Total current assets	(288,695)	172,213	209,772	(728,044)	-	(634,754)
<b>Property and Equipment, at Cost</b>						
Land	1,052,200	-	564,168	667,544	-	2,283,912
Buildings and leasehold improvements	10,816,799	-	12,625,117	-	-	23,441,916
Equipment and vehicles	90,703	-	421,706	-	-	512,409
Construction-in-progress	-	-	-	64,586	-	64,586
	11,959,702	-	13,610,991	732,130	-	26,302,823
Less accumulated depreciation	4,275,907	-	497,437	-	-	4,773,344
	7,683,795	-	13,113,554	732,130	-	21,529,479
<b>Other Assets</b>						
Deposits and other	345,501	-	275,980	-	-	621,481
Due (to) from affiliate	(960,717)	-	-	-	-	(960,717)
	(615,216)	-	275,980	-	-	(339,236)
Total assets	\$ 6,779,884	\$ 172,213	\$ 13,599,306	\$ 4,086	\$ -	\$ 20,555,489
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 6,448	\$ -	931,670	\$ -	\$ -	\$ 938,118
Other accrued expenses	56,259	-	-	-	-	56,259
Current portion of long-term debt	50,048	-	24,497	-	-	74,545
Deferred revenue	3,679	-	1,761	-	-	5,440
Total current liabilities	116,434	-	957,928	-	-	1,074,362
<b>Long-term Debt</b>	3,815,798	-	4,025,503	-	-	7,841,301
Total liabilities	3,932,232	-	4,983,431	-	-	8,915,663
<b>Net Assets</b>						
Unrestricted	285	172,213	862	4,086	-	177,446
Noncontrolling interest	2,847,367	-	8,615,013	-	-	11,462,380
Total net assets	2,847,652	172,213	8,615,875	4,086	-	11,639,826
Total liabilities and net assets	\$ 6,779,884	\$ 172,213	\$ 13,599,306	\$ 4,086	\$ -	\$ 20,555,489

# 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, 2015

	PWD	CCH	SH1	SH2	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>						
Net investment return gains	\$ 110	\$ -	\$ -	\$ -	\$ -	\$ 110
Other	870,664	-	505,067	-	(2,000)	1,373,731
Management fee	-	35,000	-	-	(35,000)	-
Total unrestricted revenues, gains and other support	<u>870,774</u>	<u>35,000</u>	<u>505,067</u>	<u>-</u>	<u>(37,000)</u>	<u>1,373,841</u>
<b>Expenses</b>						
Salaries and wages	101,395	-	45,200	-	-	146,595
Employee benefits	18,378	-	14,418	-	-	32,796
Rent, facility and maintenance	182,414	-	104,776	-	-	287,190
Purchased services and contracts	132,185	-	52,116	-	-	184,301
Supplies and other	65,153	3,610	81,380	-	-	150,143
Depreciation and amortization	406,682	-	497,437	-	-	904,119
Interest expense	282,004	-	200,916	(2,227)	-	480,693
Provision for uncollectible accounts	356	-	7	-	-	363
Allocations	37,000	-	-	-	(37,000)	-
Total expenses	<u>1,225,567</u>	<u>3,610</u>	<u>996,250</u>	<u>(2,227)</u>	<u>(37,000)</u>	<u>2,186,200</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<u>(354,793)</u>	<u>31,390</u>	<u>(491,183)</u>	<u>2,227</u>	<u>-</u>	<u>(812,359)</u>
Equity contribution	-	-	8,185,894	-	-	8,185,894
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>(354,793)</u>	<u>31,390</u>	<u>7,694,711</u>	<u>2,227</u>	<u>-</u>	<u>7,373,535</u>
<b>Change in Net Assets</b>	<u>(354,793)</u>	<u>31,390</u>	<u>7,694,711</u>	<u>2,227</u>	<u>-</u>	<u>7,373,535</u>
<b>Net Assets, Beginning of Year</b>	<u>3,202,445</u>	<u>140,823</u>	<u>921,164</u>	<u>1,859</u>	<u>-</u>	<u>4,266,291</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,847,652</u>	<u>\$ 172,213</u>	<u>\$ 8,615,875</u>	<u>\$ 4,086</u>	<u>\$ -</u>	<u>\$ 11,639,826</u>

**Total Community Options, Inc.**  
**d/b/a InnovAge and Subsidiaries**  
**Shared Services**  
**Consolidating Balance Sheet Information**  
**June 30, 2015**

	InnovAge	Lowry	IIL	Eliminations	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 8,897,202	\$ 1,005	\$ 187,102	\$ -	\$ 9,085,309
Assets limited as to use, current	681,603	-	-	-	681,603
Accounts receivable, net of allowance	-	11,089	-	-	11,089
Due (to) from affiliate	(11,450,477)	(570,910)	-	-	(12,021,387)
Prepaid expenses and other	-	2,337,544	47,211	-	2,384,755
Total current assets	<u>(1,871,672)</u>	<u>1,778,728</u>	<u>234,313</u>	<u>-</u>	<u>141,369</u>
Investment in Subsidiary	<u>250,100</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>	<u>100</u>
<b>Property and Equipment, at Cost</b>					
Buildings and leasehold improvements	-	1,418,165	-	-	1,418,165
Software	-	527,452	-	-	527,452
Construction-in-progress	-	2,204,184	-	-	2,204,184
	-	4,149,801	-	-	4,149,801
Less accumulated depreciation	-	136,305	-	-	136,305
	<u>-</u>	<u>4,013,496</u>	<u>-</u>	<u>-</u>	<u>4,013,496</u>
<b>Other Assets</b>					
Deposits and other	-	577,475	1,289,596	-	1,867,071
Due (to) from affiliate	2,229,000	-	-	-	2,229,000
	<u>2,229,000</u>	<u>577,475</u>	<u>1,289,596</u>	<u>-</u>	<u>4,096,071</u>
Total assets	<u>\$ 607,428</u>	<u>\$ 6,369,699</u>	<u>\$ 1,523,909</u>	<u>\$ (250,000)</u>	<u>\$ 8,251,036</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 3,804	\$ 1,500,360	\$ 12,688	\$ -	\$ 1,516,852
Reported and estimated claims	-	-	742,830	-	742,830
Accrued compensation	-	1,506,011	-	-	1,506,011
Accrued vacation	-	676,374	-	-	676,374
Other accrued expenses	-	509,469	-	-	509,469
Deferred revenue	-	-	422,853	-	422,853
Total current liabilities	<u>3,804</u>	<u>4,192,214</u>	<u>1,178,371</u>	<u>-</u>	<u>5,374,389</u>
<b>Net Assets</b>					
Unrestricted	<u>603,624</u>	<u>2,177,485</u>	<u>345,538</u>	<u>(250,000)</u>	<u>2,876,647</u>
Total net assets	<u>603,624</u>	<u>2,177,485</u>	<u>345,538</u>	<u>(250,000)</u>	<u>2,876,647</u>
Total liabilities and net assets	<u>\$ 607,428</u>	<u>\$ 6,369,699</u>	<u>\$ 1,523,909</u>	<u>\$ (250,000)</u>	<u>\$ 8,251,036</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, 2015**

	InnovAge	Lowry	IIL	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>					
Net investment return gains	\$ 4,438	\$ -	\$ -	\$ -	\$ 4,438
Other	-	-	1,088,047	(290,132)	797,915
Management fee	-	26,124,752	-	-	26,124,752
Total unrestricted revenues, gains and other support	<u>4,438</u>	<u>26,124,752</u>	<u>1,088,047</u>	<u>(290,132)</u>	<u>26,927,105</u>
<b>Expenses</b>					
Salaries and wages	-	11,002,307	-	-	11,002,307
Employee benefits	-	2,492,299	802,152	-	3,294,451
Rent, facility and maintenance	-	1,215,465	2,182	-	1,217,647
Purchased services and contracts	-	5,999,511	110,716	-	6,110,227
Supplies and other	16,796	3,903,381	(173)	(290,132)	3,629,872
Depreciation and amortization	-	133,898	-	-	133,898
Interest expense	-	202	-	-	202
Total expenses	<u>16,796</u>	<u>24,747,063</u>	<u>914,877</u>	<u>(290,132)</u>	<u>25,388,604</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<u>(12,358)</u>	<u>1,377,689</u>	<u>173,170</u>	<u>-</u>	<u>1,538,501</u>
Unrealized losses	-	-	(1,984)	-	(1,984)
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>(12,358)</u>	<u>1,377,689</u>	<u>171,186</u>	<u>-</u>	<u>1,536,517</u>
<b>Change in Net Assets</b>	<u>(12,358)</u>	<u>1,377,689</u>	<u>171,186</u>	<u>-</u>	<u>1,536,517</u>
<b>Net Assets, Beginning of Year</b>	<u>615,982</u>	<u>799,796</u>	<u>174,352</u>	<u>(250,000)</u>	<u>1,340,130</u>
<b>Net Assets, End of Year</b>	<u>\$ 603,624</u>	<u>\$ 2,177,485</u>	<u>\$ 345,538</u>	<u>\$ (250,000)</u>	<u>\$ 2,876,647</u>

**Total Community Options, Inc.  
d/b/a InnovAge and Subsidiaries  
Other Subsidiaries  
Consolidating Balance Sheet Information  
June 30, 2015**

	LTCO	IHC	IJADP	ICS	Inland	ICM	Eliminations	Total
<b>Assets</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ (1,609)	\$ 684,374	\$ (565)	\$ -	\$ 1,535,366	\$ -	\$ -	\$ 2,217,566
Accounts receivable, net of allowance	-	366,675	179,868	-	-	1,119	-	547,662
Due (to) from affiliate	420,366	(3,830,847)	(302,895)	16,328	(11,626,070)	(401,336)	-	(15,724,454)
Prepaid expenses and other	-	46,845	4,720	-	-	4,066	-	55,631
Total current assets	418,757	(2,732,953)	(118,872)	16,328	(10,090,704)	(396,151)	-	(12,903,595)
<b>Property and Equipment, at Cost</b>								
Land	-	-	496,000	-	708,110	-	-	1,204,110
Buildings and leasehold improvements	-	10,562	1,650,033	-	10,164,653	-	-	11,825,248
Equipment and vehicles	-	394,989	148,357	-	4,161	-	-	547,507
	-	405,551	2,294,390	-	10,876,924	-	-	13,576,865
Less accumulated depreciation	-	128,517	421,608	-	1,176,053	-	-	1,726,178
	-	277,034	1,872,782	-	9,700,871	-	-	11,850,687
<b>Other Assets</b>								
Deposits and other	-	4,619	14,046	-	-	-	-	18,665
Real estate held for sale	-	45,000	-	-	-	-	-	45,000
	-	49,619	14,046	-	-	-	-	63,665
Total assets	\$ 418,757	\$ (2,406,300)	\$ 1,767,956	\$ 16,328	\$ (389,833)	\$ (396,151)	\$ -	\$ (989,243)
<b>Liabilities and Net Assets</b>								
<b>Current Liabilities</b>								
Accounts payable	\$ -	\$ 30,262	\$ 15,115	\$ -	\$ -	\$ -	\$ -	\$ 45,377
Accrued compensation	-	217,605	29,091	-	-	11,796	-	258,492
Accrued vacation	-	90,168	29,756	-	-	13,569	-	133,493
Other accrued expenses	-	7,963	(2,100)	-	-	-	-	5,863
Current portion of long-term debt	-	90,566	-	-	-	-	-	90,566
Deferred revenue	340,251	11,129	-	-	-	-	-	351,380
Total current liabilities	340,251	447,693	71,862	-	-	25,365	-	885,171
<b>Long-term Debt</b>								
	-	819,207	-	-	-	-	-	819,207
Total liabilities	340,251	1,266,900	71,862	-	-	25,365	-	1,704,378
<b>Net Assets</b>								
Unrestricted	78,506	(3,690,779)	1,696,094	16,328	(389,833)	(421,516)	-	(2,711,200)
Permanently restricted	-	17,579	-	-	-	-	-	17,579
Total net assets (deficit)	78,506	(3,673,200)	1,696,094	16,328	(389,833)	(421,516)	-	(2,693,621)
Total liabilities and net assets (deficit)	\$ 418,757	\$ (2,406,300)	\$ 1,767,956	\$ 16,328	\$ (389,833)	\$ (396,151)	\$ -	\$ (989,243)

**LEGEND:**

IHC includes IHCN, IHA & IHH

**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, 2015**

	LTCO	IHC	IJADP	ICS	Inland	ICM	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>								
Fee for service revenue								
Medicaid	\$ -	\$ 439,630	\$ 209,599	\$ -	\$ -	\$ -	\$ -	\$ 649,229
Veterans Administration	-	-	130,246	-	-	-	-	130,246
Private pay	-	2,295,306	459,354	-	-	7,061	-	2,761,721
Grant revenues	-	614,369	95,186	-	-	-	-	709,555
Net investment return gains	-	2,761	-	-	-	-	-	2,761
Other	-	785,900	-	-	515,627	5,000	-	1,306,527
<b>Total unrestricted revenues, gains and other support</b>	-	4,137,966	894,385	-	515,627	12,061	-	5,560,039
<b>Expenses</b>								
Salaries and wages	-	3,413,691	487,447	1	-	324,156	-	4,225,295
Employee benefits	-	825,870	133,641	-	-	84,435	-	1,043,946
Rent, facility and maintenance	-	87,651	71,386	-	-	1,607	-	160,644
Purchased services and contracts	-	291,402	60,563	-	-	5,219	-	357,184
Supplies and other	-	568,416	36,209	-	64,652	16,232	-	685,509
Depreciation and amortization	-	66,201	91,351	-	542,662	-	-	700,214
Nutrition	-	-	94,718	-	-	-	-	94,718
Interest expense	-	11,560	-	-	-	-	-	11,560
Provision for uncollectible accounts	-	22,567	11,648	-	-	360	-	34,575
Allocations	-	533,643	116,270	-	-	1,568	-	651,481
<b>Total expenses</b>	-	5,821,001	1,103,233	1	607,314	433,577	-	7,965,126
<b>Operating Loss</b>	-	(1,683,035)	(208,848)	(1)	(91,687)	(421,516)	-	(2,405,087)
<b>Other Loss</b>								
Asset impairment	-	(881,508)	-	-	-	-	-	(881,508)
<b>Decrease in Unrestricted Net Assets</b>	-	(2,564,543)	(208,848)	(1)	(91,687)	(421,516)	-	(3,286,595)
<b>Change in Net Assets</b>	-	(2,564,543)	(208,848)	(1)	(91,687)	(421,516)	-	(3,286,595)
<b>Net Assets, Beginning of Year</b>	78,506	(1,108,657)	1,904,942	16,329	(298,146)	-	-	592,974
<b>Net Assets, End of Year</b>	\$ 78,506	\$ (3,673,200)	\$ 1,696,094	\$ 16,328	\$ (389,833)	\$ (421,516)	\$ -	\$ (2,693,621)

**LEGEND:**

IHC includes IHCN, IHA & IHH