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JUN 21 2016
CONTINUING CARE
CONTRACTS BRANCH

June 16, 2016

Ms. Allison Nakatomi
CA Department of Social Services
Continuing Care Licensing Division
744 P Street, M.S. 11-90
Sacramento, California 95814

Dear Allison:

Please find the following items related to the Covenant Retirement Communities, West annual report filing for 1/31/16:

- Audit report for Covenant Retirement Communities, Inc. (3 copies)
- California West report (3 copies)
- Provider fee check

The key indicator and related write-up will be provided by June 30th.

Please let me know if you have any question about the enclosed materials.

Sincerely,

Kalen Carlson

Kalen Carlson
Controller

Enclosures

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CONTINUING CARE
CONTRACTS BRANCH

Part 2

Certification by Chief Executive Officer

The Annual Report is to the best of my knowledge correct and in compliance with the State of California Department of Social Services requirements. The continuing care contracts used for new residents have been approved by the Department of Social Services.

As of the date of this certification, Covenant Retirement Communities, Inc. and Covenant Retirement Communities West are maintaining the required liquid reserves.

Terri Cunliffe   5.4.2016
Date

CERTIFICATE OF LIABILITY INSURANCE

ACORD®

6/1/2017

DATE (MM/DD/YYYY): 5/25/2016

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER
Lockton Insurance Brokers, LLC
CA License #OF15767
Two Embarcadero Center, Suite 1700
San Francisco CA 94111
(415) 568-4000

CONTACT NAME:
PHONE (A/C, No, Ext):
FAX (A/C, No):
E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Federal Insurance Company	20281
INSURER B :	
INSURER C :	
INSURER D :	
INSURER E :	
INSURER F :	

INSURED
1329220
Covenant Ministries of Benevolence
5145 N. California Avenue
Chicago IL 60625

COVERAGES COVRE01 **CERTIFICATE NUMBER:** 10903356 **REVISION NUMBER:** XXXXXXX

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	COMMERCIAL GENERAL LIABILITY; CLAIMS-MADE; OCCUR; GEN'L AGGREGATE LIMIT APPLIES PER: POLICY; PRO-JECT; LOC; OTHER:			NOT APPLICABLE			EACH OCCURRENCE	$ XXXXXXX
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ XXXXXXX
							MED EXP (Any one person)	$ XXXXXXX
							PERSONAL & ADV INJURY	$ XXXXXXX
							GENERAL AGGREGATE	$ XXXXXXX
							PRODUCTS - COMP/OP AGG	$ XXXXXXX
								$
	AUTOMOBILE LIABILITY; ANY AUTO; ALL OWNED AUTOS; SCHEDULED AUTOS; HIRED AUTOS; NON-OWNED AUTOS			NOT APPLICABLE			COMBINED SINGLE LIMIT (Ea accident)	$ XXXXXXX
							BODILY INJURY (Per person)	$ XXXXXXX
							BODILY INJURY (Per accident)	$ XXXXXXX
							PROPERTY DAMAGE (Per accident)	$ XXXXXXX
								$ XXXXXXX
	UMBRELLA LIAB; OCCUR; EXCESS LIAB; CLAIMS-MADE; DED; RETENTION $			NOT APPLICABLE			EACH OCCURRENCE	$ XXXXXXX
							AGGREGATE	$ XXXXXXX
								$ XXXXXXX
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N; ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH); If yes, describe under DESCRIPTION OF OPERATIONS below	N/A		NOT APPLICABLE			PER STATUTE; OTH-ER	
							E.L. EACH ACCIDENT	$ XXXXXXX
							E.L. DISEASE - EA EMPLOYEE	$ XXXXXXX
							E.L. DISEASE - POLICY LIMIT	$ XXXXXXX
A	Crime	N	N	8222-1686 (Crime)	6/1/2016	6/1/2017	$5,000,000 $75,000 Retention	

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

CERTIFICATE HOLDER

10903356
State of California
California Reserve Report

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRI

Adam D. McDonough

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	342
[2]	Number at end of fiscal year	346
[3]	Total Lines 1 and 2	688
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	344
	All Residents	
[6]	Number at beginning of fiscal year	353
[7]	Number at end of fiscal year	512
[8]	Total Lines 6 and 7	865
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	432.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.80

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]		Total Operating Expenses (including depreciation and debt service - interest only)		$32,157,000
	[a]	Depreciation	$2,412,000	
	[b]	Debt Service (Interest Only)	$1,129,000	
[2]		Subtotal (add Line 1a and 1b)		$3,541,000
[3]		Subtract Line 2 from Line 1 and enter result.		$28,616,000
[4]		Percentage allocated to continuing care residents (Form 1-1, Line 11)		80%
[5]		Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$22,892,800
				x .001
[6]		**Total Amount Due** (multiply Line 5 by .001)		$22,893

PROVIDER: Covenant Retirement Communities
COMMUNITY: Covenant Village of Turlock

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	393
[2]	Number at end of fiscal year	390
[3]	Total Lines 1 and 2	783
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	391.5
	All Residents	
[6]	Number at beginning of fiscal year	442
[7]	Number at end of fiscal year	435
[8]	Total Lines 6 and 7	877
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	438.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.89

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]		Total Operating Expenses (including depreciation and debt service - interest only)		$20,069,000
	[a]	Depreciation	$2,234,000	
	[b]	Debt Service (Interest Only)	$1,154,000	
[2]		Subtotal (add Line 1a and 1b)		$3,388,000
[3]		Subtract Line 2 from Line 1 and enter result.		$16,681,000
[4]		Percentage allocated to continuing care residents (Form 1-1, Line 11)		89%
[5]		Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$14,846,090
				x .001
[6]		**Total Amount Due** (multiply Line 5 by .001)		$14,846

PROVIDER: Covenant Retirement Communities
COMMUNITY: Mount Miguel Covenant Village

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	332
[2]	Number at end of fiscal year	342
[3]	Total Lines 1 and 2	674
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	337
	All Residents	
[6]	Number at beginning of fiscal year	377
[7]	Number at end of fiscal year	388
[8]	Total Lines 6 and 7	765
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	382.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.88

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]		Total Operating Expenses (including depreciation and debt service - interest only)		$24,129,000
	[a]	Depreciation	$3,549,000	
	[b]	Debt Service (Interest Only)	$100,000	
[2]		Subtotal (add Line 1a and 1b)		$3,649,000
[3]		Subtract Line 2 from Line 1 and enter result.		$20,480,000
[4]		Percentage allocated to continuing care residents (Form 1-1, Line 11)		88%
[5]		Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$18,022,400
				x .001
[6]		**Total Amount Due** (multiply Line 5 by .001)		$18,022

PROVIDER: Covenant Retirement Communities
COMMUNITY: The Samarkand

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Covenant Retirement Communities, Inc.

Consolidated Financial Statements as of and
for the Years Ended January 31, 2016 and 2015,
Additional Consolidating Information as of and for the
Year Ended January 31, 2016, and
Independent Auditor's Reports

COVENANT RETIREMENT COMMUNITIES, INC.

TABLE OF CONTENTS

Plante & Moran, PLLC
Suite 200
2155 Point Blvd.
Elgin, IL 60123
Tel: 847.697.6161
Fax: 847.697.6176
plantemoran.com

Independent Auditor's Report

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Retirement Communities, Inc.

We have audited the accompanying consolidated financial statements of Covenant Retirement Communities, Inc. (an affiliate of The Evangelical Covenant Church (see Note 2)) (the "Organization") which comprise the consolidated statements of financial position as of January 31, 2016 and 2015 and the related consolidated statements of operations and changes in unrestricted net assets, 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Retirement Communities, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant Retirement Communities, Inc. as of January 31, 2016 and 2015 and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 13, 2016

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JANUARY 31, 2016 AND 2015
(In thousands)

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,435	$ 17,269
Restricted cash (Note 5)	1,669	2,812
Assets whose use is limited, including beneficial interest in investment pool (Notes 3, 6, 9, and 11):		
Board designated	46,736	44,647
Restricted under debt agreements	3,816	4,418
Accounts receivable — net	30,470	32,929
Prepaid expenses and other assets	5,211	5,096
Total current assets	102,337	107,171
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL (Notes 3, 6, 9, and 11):		
Board designated	149,229	138,751
Restricted under state and debt agreements	44,537	59,854
Endowment	6,729	7,040
Total assets whose use is limited, including beneficial interest in investment pool	200,495	205,645
OTHER ASSETS (Notes 7 and 14)	37,809	35,877
INTEREST IN IRREVOCABLE TRUSTS (Notes 3 and 17)	4,825	4,777
PROPERTY AND EQUIPMENT — Net (Notes 8, 11, and 13)	577,604	560,918
TOTAL	$ 923,070	$ 914,388

	2016	2015
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable — trade	$ 13,462	$ 13,714
Accounts payable — contractors (Note 13)	2,340	3,092
Accrued salaries and wages	9,966	9,340
Accrued interest	2,728	2,869
Advance deposits	1,177	1,613
Current maturities of long-term debt (Notes 3 and 11)	11,590	9,640
Deferred revenue subject to refund (Note 2)	96,771	92,917
Refundable contract liabilities (Note 2)	72,299	63,116
Other current liabilities	12,852	11,318
Total current liabilities	223,185	207,619
LONG-TERM DEBT — Less current maturities (Notes 3 and 11)	386,886	399,006
PAYABLE TO COVENANT INSTITUTIONS (Notes 10 and 14)	18,200	18,200
OTHER LIABILITIES (Notes 2, 11, and 12)	58,286	52,504
DEFERRED REVENUE FROM ENTRANCE FEES (Note 2)	189,396	177,180
Total liabilities	875,953	854,509
NET ASSETS:		
Unrestricted	36,052	47,642
Temporarily restricted (Note 17)	4,336	5,197
Permanently restricted — endowment (Note 17)	6,729	7,040
Total net assets	47,117	59,879
TOTAL	$ 923,070	$914,388

See notes to consolidated financial statements.

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED JANUARY 31, 2016 AND 2015

(In thousands)

	2016	2015
OPERATING REVENUES:		
Routine resident services	$ 203,038	$ 184,753
Ancillary services	45,661	40,667
Amortization of deferred entrance fees	37,630	33,864
Net assets released from restriction for operations	1,974	2,254
Other	5,904	6,267
Total operating revenues	294,207	267,805
EXPENSES:		
Routine nursing services	58,733	54,295
Ancillary services	17,651	15,976
Resident benefits	12,999	11,881
Dining services	35,549	32,891
Laundry	1,568	1,409
Housekeeping	7,357	6,881
Maintenance	18,715	17,265
Utilities	11,083	11,198
Administrative and general	51,467	44,058
Interest (Note 11)	15,743	16,614
Property taxes	2,784	2,685
Insurance	6,263	5,401
Marketing and promotion	13,195	14,332
Depreciation	40,926	38,107
Amortization	619	626
Other	436	632
Total expenses (Note 19)	295,088	274,251
OPERATING LOSS	(881)	(6,446)
NONOPERATING (EXPENSE) REVENUE:		
Contributions:		
Gifts and bequests — net of related expenses	732	37
Net assets released from restriction — distributions from trusts	327	595
Total contributions	1,059	632
Loss on extinguishment of debt (Note 11)	(5,692)	-
Other nonoperating revenue — net	2,537	145
Investment return, including beneficial interest in investment pool:		
Interest and dividend income	3,832	4,041
Realized gains on fixed income and equity securities — net	3,935	6,442
Unrealized losses on fixed income and equity securities — net (Note 2)	(12,654)	(6,121)
Alternative investment (loss) income — including net realized gains of $2,664 and $2,086 in 2016 and 2015, respectively	(1,533)	4,394
Total investment (loss) return, including beneficial interest in investment pool	(6,420)	8,756
Unrealized gains on derivative instruments (Note 12)	1,885	4,063
Interest expense on interest rate swaps (Note 12)	(4,252)	(4,915)
Loss on swap termination	(23)	(5,798)
Total nonoperating (expense) revenue	(10,906)	2,883
LOSS	(11,787)	(3,563)
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Net assets released from restriction for capital purchases	897	205
Net asset transfer-related organization (Note 14)	(700)	-
Total other changes in unrestricted net assets	197	205
DECREASE IN UNRESTRICTED NET ASSETS	$ (11,590)	$ (3,358)

See notes to consolidated financial statements.

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JANUARY 31, 2016 AND 2015
(In thousands)

	2016	2015
UNRESTRICTED NET ASSETS:		
Loss	$ (11,787)	$ (3,563)
Other changes in unrestricted net assets:		
Net assets released from restriction for capital purchases	897	205
Net asset transfer-related organization	(700)	-
Decrease in unrestricted net assets	(11,590)	(3,358)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,796	2,210
Net assets released from restriction for capital purchases	(897)	(205)
Net assets released from restriction for operations	(1,974)	(2,254)
Irrevocable trusts:		
Net additions — present value of new trusts received (Note 17)	46	204
Net assets released from restriction — distributions from trusts — net	(327)	(595)
Transfer to permanently restricted net assets	(179)	(190)
Change in present value discount	(326)	375
Decrease in temporarily restricted net assets	(861)	(455)
PERMANENTLY RESTRICTED ENDOWMENTS		
Transfer from temporarily restricted net assets	179	190
(Loss) Income restricted for reinvestment	(490)	118
(Decrease) Increase in permanently restricted net assets	(311)	308
DECREASE IN NET ASSETS	(12,762)	(3,505)
NET ASSETS — Beginning of year	59,879	63,384
NET ASSETS — End of year	$ 47,117	$ 59,879

See notes to consolidated financial statements.

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2016 AND 2015
(In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents:		
Resident care fees	$ 252,147	$ 223,151
Nonrefundable entrance fees collected	64,512	60,051
Nonrefundable entrance fees refunded due to early termination	(5,767)	(3,812)
Cash paid to:		
Suppliers	(99,102)	(90,144)
Employees	(137,045)	(126,113)
Interest paid, including interest on derivatives	(20,136)	(21,556)
Contributions received (excluding endowment and capital contributions)	3,881	4,342
Investment income received	147	831
Net cash provided by operating activities (Note 18)	58,637	46,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Major capital project expenditures	(18,129)	(31,802)
Routine property and equipment expenditures	(41,186)	(35,581)
Withdrawals from bond project funds	9,391	22,359
Net change in assets whose use is limited, including beneficial interest in pooled investments	(18,500)	5,709
Proceeds from sale of real estate	253	138
Net asset transfer to related party	(700)	
Net change in other assets	(1,271)	(1,689)
Net cash used in investing activities	(70,142)	(40,866)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings, including original issue premium and discount	152,579	7,822
Early termination of debt	(149,689)	-
Payment of debt issuance costs	(2,182)	-
Net additions to funds restricted by debt agreements	9,260	-
Payment of debt	(9,085)	(9,651)
Swap termination payment	-	(5,475)
Refundable entrance fees collected	16,709	14,249
Refundable entrance fees refunded	(9,143)	(7,972)
Changes in advances to Covenant Institutions	222	(103)
Net cash provided by (used in) financing activities	8,671	(1,130)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,834)	4,754
CASH AND CASH EQUIVALENTS — Beginning of year	17,269	12,515
CASH AND CASH EQUIVALENTS — End of year	$ 14,435	$ 17,269
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capitalized interest — net of interest earned: 2016 — $176; 2015 — $650	$ 1,577	$ 1,765
Capital expenditures incurred but not paid	$ 2,340	$ 3,092

See notes to consolidated financial statements.

1. MISSION STATEMENT

As a ministry of the Evangelical Covenant Church, Covenant Retirement Communities, Inc. celebrates God's gift of life in Christian community. We follow the Great Commandment to love and serve God and one another as taught by Jesus Christ. That compels us to affirm the dignity of each person and to pursue excellence and financial integrity in all that we do.

As we provide a broad range of resources, services, and programs to enhance individual and community wellness, we collaborate with residents and families to achieve the best possible results. While seeking to foster independence, we respond to each individual's evolving needs in order to provide the security that assures peace of mind.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation — Covenant Retirement Communities, Inc., an Illinois not-for-profit corporation, and its consolidated facilities (together, the "Retirement Communities") are responsible for operating retirement, assisted living, skilled care facilities, and home and community-based services. Covenant Retirement Communities, Inc. operates as an affiliate of Covenant Ministries of Benevolence (CMB), which is administered by the Board of Benevolence of The Evangelical Covenant Church and the consolidated facilities operate as wholly owned subsidiaries of Covenant Retirement Communities, Inc.

The consolidated financial statements include the accounts of Covenant Retirement Communities, Inc. and the following entities for which it is the sole corporate member: Covenant Village of Florida, Inc.; Covenant Retirement Communities of the Great Lakes Conference dba: Covenant Village of the Great Lakes; Covenant Home, Inc. (CT) dba: Covenant Village of Cromwell; Colonial Acres Home, Inc. dba: Covenant Village of Golden Valley; Covenant Home (IL) dba: Covenant Village of Northbrook; Covenant Health Care Center, Inc. (Northbrook); The Holmstad, Inc.; Covenant Health Care Center, Inc. (Batavia); Covenant Home of Chicago; Covenant Village of Colorado, Inc.; Windsor Park; Covenant Retirement Communities West dba: The Samarkand; Covenant Village of Turlock; Brandel Manor; Mount Miguel Covenant Village; and Covenant Shores. The consolidated financial statements also include the accounts of Covenant Retirement Services and its wholly owned subsidiaries: Covenant Solutions Business and Development Support LLC ("Covenant Solutions"), Covenant Land Company, LLC ("Covenant Land"), CRC Holdings One, LLC ("CRC Holdings One"), CRC Holdings Two, LLC ("CRC Holdings Two"), CovenantCare at Home ("CovenantCare at Home"), Management Services Organization LLC ("Ontrac"), Covenant Place of Lenexa ("Lenexa"), and Covenant Place of Tulsa ("Tulsa"). Covenant Retirement Communities, Inc. is the sole corporate member of Covenant Retirement Services. All significant interfacility transactions and balances have been eliminated in the consolidated financial statements.

Covenant Retirement Communities, Inc. is a joint shareholder of Covenant International Insurance Company, Ltd. (CIIC) with Covenant Ministries of Benevolence. Certain accounts of CIIC directly attributable to Retirement Communities' insurance-related activities are included in the consolidated financial statements of Covenant Retirement Communities, Inc. (see Note 7).

In October 2015, the Retirement Communities sold its shares of Symbria, Inc. to the Symbria, Inc. Employee Stock Ownership Trust. The Retirement Communities had accounted for the investment in Symbria, Inc. using the equity method. As a result of the sale, the following consideration was received: $1,581 in cash proceeds, $3,169 in an interest-bearing note, and 32,051 of unexercised warrant shares. As of January 31, 2016, the subordinated note plus accrued interest totaling $3,214 is recorded in other assets in the consolidated statement of financial position. As a result of the sale, $3.6 million has been recorded in other non-operating revenue in the consolidated statement of operations. The Retirement Communities did not record any amounts related to the warrant shares as the value is not readily determinable and the value is not expected to be material at January 31, 2016.

Basis of Presentation — The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as codified in the Accounting Standards Codification.

The Retirement Communities recognize in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing consolidated financial statements. The Retirement Communities do not record transactions related to subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date, but before consolidated financial statements are issued; however, such events may be required to be recognized as a disclosure. For these purposes, the Retirement Communities have evaluated events occurring subsequent to the balance sheet date through May 13, 2016, the date the consolidated financial statements were issued. The Retirement Communities have not evaluated events occurring after May 13, 2016 in these consolidated financial statements.

Industry — The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Retirement Communities are in substantial compliance with current laws and regulations. Revenue from the Medicare and Medicaid programs accounted for approximately 30% and 29% of the Retirement Communities' routine resident and ancillary services revenue for the years ended January 31, 2016 and 2015, respectively.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash and cash equivalents consist principally of bank money market demand deposits with maturities at the date of purchase of three months or less.

Assets Whose Use is Limited, Including Interest in Investment Pool — Assets whose use is limited are classified as trading and are recorded at fair value. See Note 3 for more information regarding the methods used to estimate fair value. See Note 6 for details regarding the composition of assets whose use is limited.

Board designated assets are invested in a Combined Investment Fund that aggregates investments of all Board of Benevolence institutions. While these funds are held and invested by Covenant Ministries of Benevolence, the Retirement Communities retain the benefits of ownership of its proportional interest in the Combined Investment Fund. This ownership interest in the Combined Investment Fund is reported as an interest in investment pool in the accompanying consolidated financial statements (see Note 6). The Retirement Communities recognize its interest in the Combined Investment Fund equal to the amounts contributed, less amounts withdrawn, and adjusts the balance for its share of the changes in the fair values of the underlying investments in the Combined Investment Fund. Realized gains and losses from sales of investments and unrealized gains and losses on investments are determined using the average cost method. Interest, dividends, realized gains and losses, and unrealized gains and losses are recorded as nonoperating revenue.

The Retirement Communities' investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the consolidated statement of financial position and the consolidated statement of operations and changes in unrestricted net assets.

Accounts Receivable - Accounts receivable from residents, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Retirement Communities' ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts totaled $1,435 and $690 at January 31, 2016 and 2015, respectively.

Overpayments from third-party payors on residents' accounts receivable balances have been included in other current liabilities on the consolidated statement of financial position.

The Retirement Communities provide services without collateral to its residents, most of whom are local residents and are insured under third-party agreements. The mix of receivables from residents and third-party payors for the year ended January 31, 2016 was 32% from private payors, 30% from Medicare, and 38% from Medicaid. The mix of receivables from residents and third-party payors for the year ended January 31, 2015 was 33% from private payors, 31% from Medicare, and 36% from Medicaid.

Derivative Instruments — All derivative instruments, specifically interest rate swaps, are recorded on the consolidated statement of financial position at their fair value. The Retirement Communities use interest rate swaps to reduce volatility in cash flow arising from its variable rate borrowings. Management has elected not to pursue hedge accounting. Therefore, the change in the fair value of derivative instruments is reflected in nonoperating expense in the accompanying consolidated statements of operations and changes in unrestricted net assets (see Note 12).

Benevolent Care Fund — The Retirement Communities have adopted a policy requiring amounts received from unrestricted wills and bequests through Covenant Estate Planning Services, net of assessments for Covenant Estate Planning Services operating expenses, to be placed into the Benevolent

Care Fund. The earnings from the Benevolent Care Fund are used to offset charity care costs (see Notes 4 and 6).

Unamortized Debt Expense — Underwriting fees and expenses related to the procurement of debt are deferred and amortized on the bonds outstanding method. During 2016, net unamortized debt expense totaling $1,477 was written off and $2,005 was paid related to the 2015 bond issuance (see Note 11). Unamortized debt expense, which is reported as a component of other assets, is shown net of accumulated amortization of $1,484 and $3,172 at January 31, 2016 and 2015, respectively.

Property and Equipment — Property and equipment are recorded at cost and depreciated using the straight-line method over the expected useful lives of the assets, which are:

	Years
Land improvements	5–20
Buildings and improvements	10–50
Furniture and equipment	3–20

Certain apartment refurbishing costs are expensed as incurred whereas significant renewals and betterments are capitalized. Maintenance expense includes refurbishing costs of $1,045 and $1,114 in 2016 and 2015, respectively.

Interest costs are capitalized during periods of active construction for qualified expenditures based upon interest rates in place during the construction period until construction is substantially complete. Capitalized interest costs are amortized over the lives consistent with the constructed assets. Capitalized interest costs were $1,577 and $1,765 for the years ended January 31, 2016 and 2015, respectively.

Long-Lived Assets — Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If the analysis indicates that an asset group is not recoverable from the estimated future cash flows from use, the fair value of the asset group is determined. If the carrying amount of the asset group is in excess of the estimated fair value, an impairment is recorded to reduce the carrying amount to fair value.

Advance Deposits — These amounts are deposits made by prospective residents of the Retirement Communities. Upon entrance to a community, the deposit is applied toward the resident's entrance fee. If the prospect does not become a resident, the deposit, less a service charge, is refunded. Advance deposits are recorded as a current liability.

Routine Resident and Ancillary Service Revenues — Resident service fees are charged monthly and are recognized as revenue during the month to which the fees relate. Ancillary service revenues are recognized when the related service is provided to the resident.

Entrance Fees — In addition to monthly service fees, entrance fees are one-time payments made by residents of the Retirement Communities entitling them admission to and use of the retirement community facilities. Nonrefundable entrance fees are recorded as deferred revenue and are amortized into income based on expected future costs using the actuarial life of each resident.

The Retirement Communities also offer 90%, 75%, and, on a limited basis, 50% refundable contracts (approximately 7% of contract residents have chosen these three options). Included in refundable contract liabilities, other current liabilities and other long-term liabilities on the consolidated statement of financial position are $82,506 and $72,487 at January 31, 2016 and 2015, respectively, for refundable entrance fees.

Under the terms of most residents' agreements, a pro-rata refund of a resident's entrance fee will be made in the event the resident leaves a retirement community within the first 50 or 60 months of residency. The Retirement Communities also have an early death refund policy, for contracts entered into as of March 31, 2013, which provides for a pro-rata refund of the entrance fee should a resident expire within the first 25 months of residency. For contracts entered into subsequent to March 31, 2013, there is no difference in the refund provisions for an early death. Included in deferred revenue at January 31, 2016 and 2015 are $96,771 and $92,917, respectively, of deferred entrance fees subject to the above refund provisions.

Certain of Windsor Park's current resident agreements are lifecare agreements that include a 55% refund of the entrance fee (payable at the date of resale of the apartment) to the resident's estate. Windsor Park recognizes the 45% resident-based amount as income ratably over the estimated remaining life expectancy of each resident, which is evaluated annually. The 55% refundable portion is not amortized. Included in other liabilities are $3,060 and $3,638 at January 31, 2016 and 2015, respectively, for refunds due to residents' estates. The 55% refundable lifecare agreement is not currently being offered to new residents.

Entrance fee refunds under all programs were $14,910 and $11,784 in 2016 and 2015, respectively. Although a portion of refundable contract liabilities and deferred revenue is classified as current liabilities, the actual payment of these total liabilities within one year is remote based on the Retirement Communities' experience.

Obligation to Provide Future Services — Annually, the Retirement Communities calculate the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities were to exceed the deferred revenue from entrance fees, a liability (obligation to provide future services) would be recorded with the corresponding charge to income. No such obligation was required to be recorded at January 31, 2016 and 2015.

Charity Care — Under the terms of the residents' agreements, the Retirement Communities are not required to maintain those residents who are unable to pay their entire monthly service fees. However, as a matter of policy, such residents generally have remained in the facilities. Funds to support these residents are derived primarily from contributions, public aid, and earnings from the Benevolent Care Fund (see Note 4).

Loss (Performance Indicator) - Loss reports the results of operations of the entire Retirement Communities. In addition to the income from resident care operations, loss includes investment income, realized gains and losses on investments, unrealized gains and losses on investments, and other items. Changes in unrestricted net assets, which are excluded from loss, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods (net asset transfer to support benevolent care) and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Temporarily and Permanently Restricted Endowment Net Assets — Temporarily restricted net assets comprise irrevocable trusts, which are not available for use until assets are distributed from the trusts, and contributions restricted for a particular purpose. Permanently restricted endowment net assets have been restricted by donors to be maintained in perpetuity.

Tax Status — The Retirement Communities qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Despite the overall exemption from federal and state income tax, the organization is required to pay tax on Unrelated Business Income (UBI) activities. The Retirement Communities have an overall loss from such UBI activities and have not recorded a benefit for such activities as management has concluded that it is more likely than not that the benefits will not be realized in the future.

Upcoming Accounting Changes — In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Retirement Communities' year ending January 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Retirement Communities have not yet determined which application method they will use or the potential effects of the new standard on the financial statements, if any.

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)*. The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability. The updated guidance is effective on a retrospective basis for fiscal years beginning after December 15, 2015. The Retirement Communities are currently assessing the impact this new standard will have on their financial statements as of January 31, 2017.

3. FAIR VALUE MEASUREMENTS

In determining fair value, the Retirement Communities use various valuation approaches, ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or a liability.

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Retirement Communities. Unobservable inputs are inputs that reflect the Retirement Communities' assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

The hierarchy is measured in three levels based on the reliability of inputs:

Level 1 — Valuations are based on quoted prices in active markets for identical assets or liabilities that the Retirement Communities have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 — Valuations are not based on quoted prices for identical assets or liabilities, but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third-party pricing services for comparable assets or liabilities.

Level 3 — Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities. Management's estimates of the fair values of the alternative investments in hedge funds, limited partnerships, and private equity funds are based on information provided by the fund managers or general partners, which in turn is based on the most recent information available to the fund manager for the underlying investments.

In instances whereby the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Retirement Communities' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Retirement Communities' policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period of the event of change in circumstances that caused the transfer.

Fair Value of Financial Instruments Carried at Fair Value — The following are categories of assets and liabilities measured at fair value on a recurring basis during the years ended January 31, 2016 and 2015, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

The Retirement Communities' interest in the investment pool is valued on a recurring basis and is a direct interest in the investment pool, valued using Level 3 inputs of the valuation hierarchy for both 2016 and 2015. There were total withdrawals of $5,000 and $13,700 in 2016 and 2015, respectively, and total deposits of $23,500 and $7,992 in 2016 and 2015, respectively. The total allocation of pooled (losses)/earnings was ($6,257) and $7,710 in 2016 and 2015, respectively. In addition to other assets and liabilities measured at fair value on a recurring basis by the Retirement Communities, the following tables include the categories in which the underlying investments of the pool are included.

	Fair Value as of Reporting Date			
Description	**January 31, 2016**	**Quoted Prices in Active Markets for (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Beneficial interest in investment pool:				
Equity investment funds:				
Domestic equity	$ 46,716	$ 46,716	$ -	$ -
International equity	14,816	14,816	-	-
Fixed-income securities	76,155	56,751	19,404	-
Alternative investment funds:				
Domestic equity	16,974	-	10,855	6,119
International equity	13,196	-	13,196	-
Hedge funds	20,447	95	4,349	16,003
Private equity	8,039	-	-	8,039
Mortgages	1,068	-	-	1,068
Puts and calls	1,125	1,125	-	-
Total Beneficial Interest in Investment Pool	198,536	119,503	47,804	31,229
Other - Cash and short-term investments	1,832	1,825	7	-
Covenant Trust Endowment - Equity investment funds	2,326	-	2,326	-
Restricted Under State and Debt Agreements:				
Cash and money market securities	9,422	9,422	-	-
Fixed-income securities	38,931	-	38,931	-
Total Restricted Under State and Debt Agreements	48,353	9,422	38,931	
	$251,047	$130,750	$ 89,068	$31,229
Investments held for insurance obligations:				
International equity	$ 3,016	$ -	$ 3,016	$ -
Fixed-income securities	13,106	-	13,106	-
Alternative investment funds	131	-	-	131
	$ 16,253	$ -	$ 16,122	$ 131
Interest in irrevocable trusts	$ 4,825			$ 4,825
Derivatives — interest rate swaps (Note 12)	$ 18,404		$ 18,404	

Description	January 31, 2015	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value as of Reporting Date			
Beneficial interest in investment pool:				
Equity investment funds:				
Domestic equity	$ 56,266	$ 56,266	$ -	$ -
International equity	10,425	10,425	-	-
Fixed-income securities	54,331	40,338	13,993	-
Alternative investment funds:				
Domestic equity	16,589	-	10,417	6,172
International equity	14,263	-	14,263	-
Hedge funds	22,047	86	4,148	17,813
Private equity	8,442	-	-	8,442
Mortgages	3,237	-	-	3,237
Puts and calls	1,007	1,007	-	-
Total Beneficial Interest in Investment Pool	186,607	108,122	42,821	35,664
Other - Cash and short-term investments	1,518	1,511	7	-
Covenant Trust Endowment - Equity investment funds	2,313	-	2,313	-
Restricted Under State and Debt Agreements:				
Cash and money market securities	14,670	14,670	-	-
Fixed-income securities	49,602	-	49,602	-
Total Restricted Under State and Debt Agreements	64,272	14,670	49,602	
	$254,710	$124,303	$ 94,743	$35,664
Investments held for insurance obligations:				
International equity	$ 3,359	$ -	$ 3,359	$ -
Fixed-income securities	12,825	-	12,825	-
Alternative investment funds	134	-	-	134
	$ 16,318	$ -	$ 16,184	$ 134
Interest in irrevocable trusts	$ 4,777			$ 4,777
Derivatives — interest rate swaps (Note 12)	$ 20,288		$ 20,288	

See Note 6 for details regarding the composition of assets whose use is limited, including interest in investment pool.

Within the investment pool are various alternative investments, listed under assets whose use is limited above, with values determined primarily based on Level 3 inputs. Both the pool and management estimate the fair value of these investments based upon audited and interim unaudited financial statements for the respective funds. A reconciliation of the beginning and ending balances for the other assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended January 31, 2016 and 2015 is as follows:

Activity	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)		
	Interest in Irrevocable Trusts	Held for Insurance Obligations	Total
Beginning balance — February 1, 2015	$ 4,777	$ 134	$ 4,911
Assets whose use is limited:			
Net deposits	441		441
Unrealized losses	(393)	(3)	(396)
Ending balance — January 31, 2016	$ 4,825	$ 131	$ 4,956

Activity	Assets Measured on a Recurring Basis Using Significant Unobservable Inputs (Level 3)		
	Interest in Irrevocable Trusts	Held for Insurance Obligations	Total
Beginning balance — February 1, 2014	$ 5,686	$ 127	$ 5,813
Assets whose use is limited:			
Net withdrawals	(1,316)		(1,316)
Unrealized gains	407	7	414
Ending balance — January 31, 2015	$ 4,777	$ 134	$ 4,911

Fair Value of Financial Instruments Not Carried at Fair Value — The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, noncurrent accounts, notes receivable, accounts payable, and payables to Covenant Institutions are reasonable estimates of their fair value. Assets whose use is limited are carried at fair value (see Note 6). The carrying amounts of the notes payable under the Retirement Communities' revolving line of credit arrangements reflect their fair value, as the amounts are borrowed at current market rates.

Based on borrowing rates estimated to be available to the Retirement Communities, for bonds with similar terms and maturities, the fair value of the fixed-rate long-term debt was $339,962 and $349,032 at January 31, 2016 and 2015, respectively, compared to the carrying amounts of $312,115 and $327,960 at January 31, 2016 and 2015, respectively. The fair value of the Retirement Communities' fixed rate tax-exempt bond obligations is determined by applying the yield of openly marketed bonds that have substantially the same characteristics as the Retirement Communities' tax-exempt bonds. The determination of fair value of the tax-exempt bond obligations is consistent with a Level 2 measurement under the fair value hierarchy.

The carrying amounts of the variable rate bonds reflect fair value, due to the fact that the rate is reset weekly. The carrying amounts of the variable rate demand bonds at January 31, 2016 and 2015 are $74,310 and $77,645, respectively.

4. CHARITY AND OTHER UNREIMBURSED CARE

Pursuant to its mission statement as described in Note 1, the Retirement Communities provide free services to those residents who are unable to pay all or a portion of their charges and who meet certain eligibility criteria.

Records are maintained to identify and monitor the level of charity care provided. Unreimbursed costs foregone for charity care were $4,888 and $3,805 in 2016 and 2015, respectively. Charitable gifts received to offset costs were $3,475 and $5,120 in 2016 and 2015, respectively. The Retirement Communities use a cost per resident day amount to determine unreimbursed costs.

In addition to charity care, the Retirement Communities provide care to residents under governmental programs which reimburse the Retirement Communities at rates less than their cost. The Retirement Communities provided partially reimbursed care in 2016 and 2015 as follows:

	2016	2015
Estimated cost of Medicaid services provided	$ 33,037	$ 28,547
Less government reimbursement	21,187	18,126
Unreimbursed care — based on estimated cost	$ 11,850	$ 10,421

5. RESTRICTED CASH

Restricted cash consists principally of deposits received for entrance fees that are required by state law to be held in escrow accounts and other debt agreements.

6. ASSETS WHOSE USE IS LIMITED, INCLUDING INTEREST IN INVESTMENT POOL

Assets whose use is limited, including interest in investment pool, include assets classified in the following three categories:

Board Designated — Assets set aside by the Board of Directors ("Board") for benevolent care, property replacement, refundable entrance fee contracts, and certain current and future construction and capital projects over which the Board retains control and, at its direction, may use subsequently for other purposes.

Restricted Under State and Debt Agreements — Assets held by trustees under the terms of the Master Indenture agreement, various bond trust indentures and state laws for debt service reserves, certain construction projects, and operating expense escrow accounts.

Endowment — Assets permanently restricted by the donor as an endowment fund.

Assets whose use is limited, including interest in investment pool at January 31, 2016 and 2015, consisted of the following funds:

Fund	2016	2015
Beneficial interest in investment pool:		
Board designated:		
Benevolent care fund	$ 50,239	$ 51,974
Capital reserve fund	29,725	17,100
Property replacement fund	36,906	35,671
Reserve for refundable contracts	59,672	58,198
Other	17,591	18,937
Total Board designated	194,133	181,880
Endowment — Brandel Fund	4,403	4,727
Total beneficial interest in investment pool	198,536	186,607
Endowment — Covenant Trust	2,326	2,313
Board designated investments — other	1,832	1,518
Restricted under state and debt agreements:		
Bond interest and sinking fund	3,816	4,418
Bond project fund	6,772	16,339
Debt service reserve fund	29,413	35,224
State-required reserves	8,352	8,291
Total restricted under state and debt agreements	48,353	64,272
Total	$251,047	$254,710

Fund	2016	2015
Equity securities:		
Board designated	$ 60,537	$ 65,395
Brandel Endowment	995	1,296
Covenant Trust Endowment	2,326	2,313
Total equity securities	63,858	69,004
Fixed-income securities:		
Board designated	74,888	53,237
Restricted under state and debt agreements	38,931	49,602
Endowment	1,267	1,094
Total fixed-income securities	115,086	103,933
Alternative investments:		
Board designated:		
International equity	12,732	13,755
Hedge funds	19,728	21,260
Private equity	7,756	8,141
Mortgages	1,030	3,122
Domestic equity	16,377	15,998
Puts and calls	1,085	972
Endowment:		
International equity	464	508
Hedge funds	719	786
Private equity	283	301
Mortgages	38	115
Domestic equity	597	591
Puts and calls	40	36
Total alternative investments	60,849	65,585
Cash and short-term investments:		
Board designated	1,832	1,518
Restricted under state and debt agreements	9,422	14,670
Total cash and short-term investments	11,254	16,188
Total	$ 251,047	$ 254,710

7. OTHER ASSETS

Other assets at January 31, 2016 and 2015 consisted of the following:

	2016	2015
Unamortized debt issuance and deferred marketing costs	$ 6,507	$ 5,840
Investment in real estate, net	8,935	9,207
Investments held for insurance obligations by CIIC	16,253	16,318
Other	6,114	4,512
Total	$ 37,809	$ 35,877

Included in other assets is $16,253 and $16,318 of investments held by CIIC primarily for the purpose of funding insurance obligations as of January 31, 2016 and 2015, respectively (see Note 3).

Included in other assets of the consolidated statements of financial position is $3,214 related to the subordinated note receivable received as consideration for the sale of shares in Symbria, Inc. as of January 31, 3016. As of January 31, 2015, $1,312 was included in other assets of the consolidated statements of financial position, representing Covenant Retirement Communities, Inc.'s share of ownership in Symbria, Inc.

8. PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2016 and 2015 consisted of the following:

	2016	2015
Land and land improvements	$ 50,006	$ 45,823
Buildings and improvements	755,513	737,216
Furniture and equipment	172,113	146,310
Construction in progress (Note 13)	23,510	23,652
Property and equipment — at cost	1,001,142	953,001
Less accumulated depreciation	423,538	392,083
Property and equipment — net	$ 577,604	$ 560,918

9. CONTINUING CARE REQUIREMENTS

Under the provisions of various state regulations, the Retirement Communities are required to maintain escrow accounts to cover defined portions of debt service and annual operating expenses. Management believes the Retirement Communities were in compliance with all such state regulations at January 31, 2016.

10. LINE OF CREDIT

Covenant Retirement Communities, Inc. have a secured bank line of credit for a maximum of $8,000, reduced by certain outstanding letters of credit which total $5,349 at January 31, 2016. Borrowings under the line bear interest at the prime rate. The line has no compensating balance arrangement, but requires a commitment fee equal to 1/4 of 1% per annum on the average daily unused portion, payable quarterly. There were no draws on the line during the years 2016 or 2015 and no balance outstanding at January 31, 2016 or 2015. The line expires March 1, 2017.

11. LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt at January 31, 2016 and 2015 consisted of the following:

	2016	2015
Master indenture obligations:		
Tax-exempt revenue bonds and certificates of participation:		
California Statewide Communities Development Authority, series 1992 variable rate certificates of participation, due 2022, interest adjusted weekly		9,800
California Statewide Communities Development Authority, series 1995 variable rate certificates of participation, due 2025, interest adjusted weekly		12,400
City of Plantation Health Facilities Authority revenue refunding bonds series 1998, due 2022, interest at 4.700% to 5.125%		5,380
Colorado Health Facilities Authority revenue bonds, series 2005, due 2035, interest at 4.500%–5.250%		118,110
Illinois Finance Authority revenue refunding direct placement bonds, series 2011A, due 2030, interest rate adjusted weekly, 2.02% at January 31, 2016	15,830	15,830
Illinois Finance Authority revenue refunding direct placement bonds, series 2011B, due 2030, interest rate adjusted weekly, 2.65% at January 31, 2016	37,965	39,615
Colorado Health Facilities Authority revenue bonds, series 2012A, due 2034, interest at 4.500%-5.000%	104,205	104,205
Colorado Health Facilities Authority revenue bonds, series 2012B, due 2027, interest at 4.000%–5.000%	22,905	22,905
Colorado Health Facilities Authority revenue bonds, series 2012C, due 2023, interest at 2.000%–5.000%	14,250	17,365
Colorado Health Facilities Authority revenue bonds, series 2013A, due 2036, interest at 4.250%–5.750%	21,995	21,995
Colorado Health Facilities Authority revenue bonds, series 2013B (TEMPS), due 2018, interest at 3.150%	17,550	17,550
California Statewide Communities Development Authority revenue bonds, series 2013C due 2036, interest at 5.625%	20,450	20,450
Colorado Health Facilities Authority revenue refunding bonds, series 2015A due 2036, interest at 1.000%-5.000%	110,760	
Colorado Health Facilities Authority revenue refunding bonds, series 2015B due 2025, interest adjusted weekly, 1.44% at January 31, 2016	20,515	
Total long-term debt	386,425	405,605
Less current maturities	11,590	9,640
Plus unamortized original issue discount — net of unamortized original issue premium	12,051	3,041
Total long-term debt — less current maturities	$386,886	$399,006

Master Indenture Obligations — The Retirement Communities, excluding Covenant Retirement Services and its affiliates, are members of the Obligated Group, as defined, under the Master Indenture. As members, each community is jointly and severally liable as guarantors for the repayment of the Master Indenture Bonds. The Master Indenture obligations, totaling $386,425 at January 31, 2016, are secured by mortgages on substantially all real estate, personal property (equipment and fixtures), and accounts receivable of the Obligated Group. Members of the Obligated Group make monthly interest and principal deposits into Bond Interest and Sinking Funds controlled by the bond trustees. The Master Indenture and related agreements require the maintenance of minimum debt service coverage and days cash on hand ratios, as defined; require the maintenance of minimum debt service reserve funds; and place restrictions on the incurrence of additional debt and disposal of assets. Management believes the Obligated Group was in compliance with these requirements at January 31, 2016.

All of the tax-exempt revenue bonds are subject to optional early redemption by the issuers prior to maturity at premiums of up to 2% for redemptions within stated time periods.

In April 2015, the Retirement Communities issued $112,805 of tax exempt revenue refunding bonds, "Series 2015A" and $22,340 of tax exempt revenue refunding direct placement bonds, "Series 2015B", through the Colorado Health Facilities Authority. Proceeds from the Series 2015A bonds, along with funds available from the retired bond trustee held funds, were used to pay the Colorado Health Facilities Authority 2005 bonds with a balance of $118,110. The remaining proceeds were used to fund a debt service reserve, principal and interest funds, and pay the costs of issuance. Proceeds from the Series 2015B direct placement bonds, along with funds available from the retired bond trustee held funds, were used to pay the California Statewide Communities Development Authority 1992 and 1995 bonds with a combined balance of $22,200 and to pay the City of Plantation Health Facilities Authority 1998 bonds with a balance of $5,380. The remaining proceeds were used to pay the costs of issuance. The Retirement Communities recognized a loss on extinguishment of debt of $5,692, representing advance funded interest, the write-off of deferred costs, original issued discount and premium payments to early extinguish the aforementioned bonds, which is recorded as a loss on extinguishment of debt in the consolidated statement of operations at January 31, 2016.

The irrevocable letters of credit that secured the Series 1992 and Series 1995 Certificates of Participation were terminated in April 2015 when the bonds were early terminated.

The weighted-average interest rate on all outstanding borrowings was approximately 4.30% at January 31, 2016.

Total Long-Term Debt — Contractual maturities of long-term debt, excluding original issue discount and premium, for years subsequent to January 31, 2016 are as follows:

Years Ending January 31	
2017	$ 11,590
2018	11,860
2019	29,730
2020	12,560
2021	12,940
2022 and thereafter	307,745
Total	$386,425

The tax-exempt Revenue Bond indentures require certain funds to be held in accounts controlled by the bond trustees. The funds are primarily invested in fixed-income securities and cash and short-term investments. The total trustee-held funds, which are included in assets whose use is limited, including interest in investment pool as "restricted under state and debt agreements," at January 31, 2016 and 2015, are as follows:

Fund	**2016**	**2015**
Bond Interest and Sinking Fund	$ 3,816	$ 4,418
Debt Service Reserve Fund	29,413	35,224
Bond Project Fund	6,772	16,339
Subtotal	40,001	55,981
Less amounts classified as current	3,816	4,418
Trustee-held funds — noncurrent	$ 36,185	$51,563

OTHER OBLIGATIONS

In 2013, Lenexa secured a construction loan with First Merit Bank, N.A. (Priority Lenexa Loan) for construction and development of a rental continuing care retirement community. The loan allowed for maximum borrowing of $13,500 and bears interest at LIBOR plus the bank spread. Interest-only payments were due for the first two years and monthly principal and interest payments thereafter amortize over 25 years; the loan matures in 2025. The balance of the loan is $13,054 as of January 31, 2016, of which $265 is payable in 2017 and is included in other current liabilities on the consolidated statement of financial position. The remainder of the balance, $12,789, is included in other liabilities on the consolidated statement of financial position.

Lenexa also secured an additional $5,000 loan from National Covenant Properties (the "Junior Loan") for the Lenexa campus construction, which loan is payable on the earlier (i) demand of National Covenant Properties, or (ii) five years from the date of first disbursement of loan funds, and is secured by a mortgage and other related loan documents that were subordinated to the Priority Lenexa Loan. National Covenant Properties have represented to the Retirement Communities that they will not demand payment on this loan prior to February 1, 2017. The Priority Lenexa Loan was modified in conjunction with the financing of construction for Covenant Place of Tulsa ("Tulsa"), described below, to adjust certain covenants, extend the maturity to March 1, 2024, and to provide for cross-collateralization and cross-default with the loan for Tulsa.

In 2015, Tulsa secured a construction loan with First Merit Bank (the "Priority Tulsa Loan") for construction and development of a rental continuing care retirement community. The Priority Tulsa Loan is cross-collateralized and cross-defaulted with the Priority Lenexa Loan. The loan allows for maximum borrowing of $12,570 and bears interest at LIBOR plus the bank spread. Interest-only payments are due for the first two years and monthly principal and interest payments thereafter amortize over 25 years. The loan matures in 2022. The balance of the loan is $11,914 as of January 31, 2016, and is included in other liabilities on the consolidated statement of financial position.

Tulsa also secured an additional $4,200 loan from National Covenant Properties (the "Junior Tulsa Loan") for the Tulsa campus construction, which loan is payable on the earlier (i) demand of National Covenant Properties, or (ii) five (5) years from the date of first disbursement of loan funds, and is secured by a mortgage and other related loan documents that were subordinated to the Priority Tulsa

Loan. National Covenant Properties have represented to the Retirement Communities that they will not demand payment on this loan prior to February 1, 2017.

Guarantees of Debt

In December 2000, Covenant Village of Portland, Limited Partnership ("Portland"), an affiliate of Covenant Ministries of Benevolence, issued $8,200 State of Oregon Housing and Community Service Department Housing Development Revenue Bonds 2000 Series A ("Series 2000A"). The Retirement Communities had previously guaranteed payment of the bonds by Portland until Portland exercised the option to call and redeem all of the outstanding bonds in May 2015.

In May 2015, Portland entered into a credit agreement with U.S. Bank for borrowings up to $6,000 which was used to redeem the Series 2000A discussed above. The balance outstanding on the credit agreement amounted to $5,828 at January 31, 2016. The Retirement Communities guarantee payments of the obligation by Portland. Portland continues to service its debt as it comes due and therefore, the Retirement Communities do not expect to make payments under this guarantee.

The Retirement Communities have guaranteed repayment of the Priority Lenexa Loan, which payment guaranty is subject to certain rights of the Retirement Communities to limit its liability under such guaranty, the Junior Loan, and completion of construction. The Retirement Communities has also guaranteed repayment of the Junior Lenexa Loan. As construction is complete and certain covenants were met, the Retirement Communities' guarantee is now 50% of the Priority Lenexa Loan.

The Retirement Communities and Lenexa have each individually guaranteed repayment of the Priority Tulsa Loan, which payment guaranty is subject to certain rights of the Retirement Communities to limit its liability under such guaranty, and completion of construction. The Retirement Communities have also guaranteed repayment of the Junior Tulsa Loan.

12. DERIVATIVE INSTRUMENTS

The Retirement Communities entered into interest rate swap agreements to manage their debt structure and lessen interest rate risk. The fair values aggregate to $18,404 and $20,288 at January 31, 2016 and 2015, respectively, and are recorded in other liabilities. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are contracts to exchange variable rate for fixed rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. During the years ended January 31, 2016 and 2015, the Retirement Communities had the following interest rate swaps in effect:

Counterparty	Notional Amount	Maturity Date	Rate Paid	Rate Received	Market Value as of January 31, 2016	Market Value as of January 31, 2015
Wells Fargo Bank, N.A.	$14,390	12/1/2034	3.59%	67% of 1M LIBOR	($3,248)	($3,492)
Wells Fargo Bank, N.A.	$11,645	12/1/2025	3.49%	67% of 1M LIBOR	($1,566)	($1,791)
Wells Fargo Bank, N.A.	$63,060	2/1/2019	5.18%	SIFMA Index	($13,590)	($15,005)
					($18,404)	($20,288)

The Wells Fargo Bank, N.A. ISDA ("International Swaps and Dealers Association, Inc.") contains an Additional Termination Event. If the long-term unsecured, unenhanced senior debt rating falls below certain thresholds, it triggers an Additional Termination Event. The Retirement Communities have three remedies available in lieu of termination, including collateral posting. No collateral was required to be posted at either January 31, 2016 or January 31, 2015.

The net amount paid in 2016 and 2015 to Wells Fargo Bank, N.A. under the interest rate swap agreements is $4,252 and $4,915, respectively. The expense is recorded as interest expense on interest rate swaps in 2016 and 2015.

The change in the fair market value of the swaps of $1,885 and $4,063 is recorded as a component of nonoperating revenue in the consolidated statements of operations for the years ended January 31, 2016 and 2015, respectively.

13. CONSTRUCTION IN PROGRESS

The construction in progress balance of $23,510 and $23,652 at January 31, 2016 and 2015, respectively, relates to various projects across the communities. All of the projects are for the purpose of improving or expanding resident facilities and are in accordance with the Covenant Retirement Communities' not-for-profit tax status. Sufficient funds to complete all projects are available from bond project funds and Board designated reserves. Covenant Retirement Communities have construction contracts at various properties with total project costs of approximately $25,056. As of January 31, 2016, the remaining commitments on the projects approximate $4,645.

14. RELATED-PARTY TRANSACTIONS

a. Included in assets whose use is limited, including interest in investment pool classified as noncurrent at January 31, 2016 and 2015, are $1,059 and $1,028, respectively, of National Covenant Properties certificates of deposit. Interest income earned on the National Covenant Properties certificates of deposit was $34 and $43 in 2016 and 2015, respectively.

b. On July 31, 2014, CMB sold its ownership in Emanuel Medical Center (EMC) to a third-party provider. On August 1, 2014, ownership of Brandel Manor-Cypress, a 145-bed skilled nursing facility and Cypress, a 29-bed assisted living facility, transferred to CMB. While ownership of the facilities belongs to CMB, CRC signed a lease agreement to lease the operations and management for both facilities. The initial lease term is 10 years with two optional five-year extension periods and a $300,000 annual base rent.

c. In September 2015, CMB contributed $600 to Brandel Manor-Cypress for capital improvements. The contribution is recorded as a net asset released from restriction for capital purchases within the consolidated statements of changes in net assets.

d. In January 2016, the Retirement Communities transferred $700 to CMB. The transfer is recorded as a net asset transfer to a related organization in the consolidated statements of operations and changes in unrestricted net assets.

e. Included in other assets is $223 and $437 of amounts due from Covenant Ministries of Benevolence as of January 31, 2016 and 2015, respectively.

f. Included in administrative and general expense are management fees paid to Covenant Ministries of Benevolence of $2,500 and $2,350 in 2016 and 2015, respectively.

g. Certain costs, which relate to trust contributions, are incurred by the Retirement Communities in connection with the Covenant Estate Planning Services of The Evangelical Covenant Church, which assists certain residents and non-residents in managing assets, establishing trusts, and other related activities. Amounts paid to the Covenant Estate Planning Services were $947 and $1,302 in 2016 and 2015, respectively.

h. During the year ended January 31, 2009, CRC Holdings Two acquired Geneva Place, a 53-unit senior residential building in Geneva, Illinois. This acquisition was primarily financed through a $5,000 note payable to an affiliate, National Covenant Properties. As of January 31, 2016 and 2015, the outstanding balance on the note is $5,000. The note payable bears interest at a rate equal to the prime rate plus five basis points and the amount is due no later than 20 years from the date of first disbursement of loan funds which was May 1, 2008.

i. On September 27, 2010, CRC Holdings One entered into a revolving line of credit with National Covenant Properties with an available credit of $4,000. During the year ended January 31, 2011, CRC Holdings One borrowed $4,000 on the line of credit. As of January 31, 2016 and 2015, the outstanding balance on the line is $4,000. The line of credit bears interest at the prime rate or a minimum of 4%, due monthly. The principal amount borrowed is due no later than 20 years from the date of first disbursement of loan funds which was November 1, 2010.

j. In February 2012, Lenexa entered into a revolving line of credit with National Covenant Properties with an available credit of $5,000. As of January 31, 2016 and January 31, 2015, the outstanding balance on the line is $5,000. The line of credit bears interest at the prime rate or a minimum of 4%, due monthly. The principal amount borrowed is due no later than five years from the date of first disbursement of loan funds, which was April 5, 2012. The Retirement Communities guarantee payment of the balance as described in Note 11.

k. In April 2014, Tulsa entered into a revolving line of credit with National Covenant Properties with an available credit of $4,200. As of January 31, 2016 and January 31, 2015, the outstanding balance on the line is $4,200. The line of credit bears interest at the prime rate or a minimum of 4%, due monthly. The principal amount borrowed is due no later than five years from the date of first disbursement of loan funds, which was September 16, 2014. The Retirement Communities guarantee payment of the balance as described in Note 11.

15. PENSION PLAN

Certain employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective December 31, 2012, the Plan was frozen. Pension benefits will no longer accrue to employees for years of service subsequent to December 31, 2012. Beginning January 1, 2013, the Retirement Communities began to match contributions to a defined contribution plan, based on eligibility, made by employees up to 3% of each employee's salary. The Retirement Communities recorded expense of $1,320 and $1,192 for the match in 2016 and 2015, respectively.

Pension expense, representing the Retirement Communities' required contribution to the Plan, was $1,380 in 2016 and 2015. The contributions made by the Retirement Communities represented more than 5% of the total contributions made to the Plan in 2016 and 2015. To the extent the Plan is underfunded, future contributions to the Plan may increase.

The Evangelical Covenant Church Retirement Plan is not an ERISA Plan and is not required to file Form 5500. The Plan's fiscal year is from January 1 to December 31.

Contributions from all employers to the Plan for December 31, 2015 and December 31, 2014 are as follows:

Pension Fund	FEIN	to Plan for the Year Ended December 31, 2015	to Plan for the Year Ended December 31, 2014
Evangelical Covenant Church Retirement Plan	36-2167730	$ 8,322	$ 13,946

As of December 31, 2014, net assets of the Plan were $310,754 and the actuarial present value of accumulated plan benefits was $358,575. This information is not yet available for the year ended December 31, 2015.

The fair value of Plan assets as of December 31, 2015 and December 31, 2014 was $302,078 and $311,057, respectively.

16. EMPLOYEE MEDICAL BENEFIT PLAN

The Retirement Communities sponsor a medical benefit plan which is available to full-time and eligible part-time employees and their dependents. The medical benefit expense is based on actual medical, dental, and prescription claims paid, administration fees, and the provision for unpaid and unreported claims at year end. At January 31, 2016 and 2015, the liability recorded for unpaid and unreported claims was $1,045 and $1,458, respectively, and is reported in other current liabilities. The medical benefit expense was $8,762 and $7,519 for the years ended January 31, 2016 and 2015, respectively.

17. BENEFICIAL INTEREST OF GIFT INSTRUMENTS

A source of funds to the Retirement Communities is in the form of bequests from The Evangelical Covenant Church members, residents of the Retirement Communities, and other parties. The Office of Covenant Estate Planning Services (CEPS) of The Evangelical Covenant Church maintains information as to the estimated values of certain of the Retirement Communities' share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal values (where available) for real property, and other reasonable estimates made by the trustees for specific assets. The Retirement Communities have recorded their interest in irrevocable trusts as of 2016 and 2015 at fair value.

Revocable trusts and bequests may be revoked by the donor at any time and, therefore, have not been recorded in the accompanying consolidated financial statements. Proceeds from revocable trusts and bequests will be recorded when received. The ultimate realization of such trusts and bequests may be affected by investment income and appreciation or depreciation, morbidity, mortality, principal reductions, and other factors. Accordingly, the ultimate amounts that will be realized and their timing are not presently determinable.

Amounts related to irrevocable trusts for which the Retirement Communities is the named beneficiary, but which allow the beneficiary to be changed to a different Evangelical Covenant Church-related entity at the discretion of the grantor, are not considered irrevocable for accounting purposes and, accordingly, are not included in interest in irrevocable trusts in the consolidated statements of financial position.

The Retirement Communities have recorded their interest in three endowment accounts funded by distributions from irrevocable trusts. The endowment accounts are managed by CEPS and are to be held in perpetuity. Income on the endowment funds is paid to the Retirement Communities quarterly and increases temporarily restricted net assets until the funds are spent for the designated purpose. The value of the endowment accounts at January 31, 2016 and 2015 is $2,326 and $2,313, respectively, and is recorded in assets whose use is limited and permanently restricted net assets in the consolidated statements of financial position.

18. SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

This schedule represents the reconciliation for the years ended January 31, 2016 and 2015 of the change in net assets to net cash flows provided by operating activities:

	2016	2015
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ (12,762)	$ (3,505)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Amortization of deferred entrance fees	(37,630)	(33,864)
Depreciation	41,057	38,236
Amortization	619	626
Net accretion of original issue discount and premiums	465	579
Provision for uncollectible amounts, including related-party notes receivable	1,532	904
Net realized and unrealized loss (gain) on investments	6,808	(7,882)
Net change in temporarily restricted net assets	(80)	909
Loss on extinguishment of debt	5,692	-
Endowment loss (income) restricted for reinvestment	490	(118)
Realized loss on derivative instruments	23	5,798
Loss (Gain) on disposal of fixed assets	875	(77)
Net unrealized gain on derivative instruments	(1,885)	(4,063)
Nonrefundable entrance fees collected	64,512	60,051
Nonrefundable entrance fees refunded	(5,767)	(3,812)
Changes in assets and liabilities:		
Accounts receivable	(2,519)	(8,658)
Other assets	(3,351)	(106)
Accounts payable	(413)	2,932
Accrued interest	(141)	(27)
Accrued salaries	626	1,000
Other liabilities	486	(2,173)
Total	$ 58,637	$ 46,750

19. FUNCTIONAL EXPENSES

Expenses by function, including discontinued operations, for the years ended January 31, 2016 and 2015 consisted of the following:

	2016	2015
Retirement community services	$277,328	$257,301
Management and general	17,760	16,950
Total	$295,088	$274,251

The Retirement Communities include the salary, benefits, and direct costs of the accounting department, vice presidents, and information services, excluding campus-related information services costs, as well as expenses for legal, consulting, service agreements, and CMB management fees as part of management and general expenses.

* * * * *

ADDITIONAL CONSOLIDATING INFORMATION

plante moran

Plante & Moran, PLLC
Suite 200
2155 Point Blvd.
Elgin, IL 60123
Tel: 847.697.6161
Fax: 847.697.6176
plantemoran.com

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Independent Auditor's Report on Additional Consolidating Information

To the Board of Benevolence of
The Evangelical Covenant Church
Covenant Retirement Communities, Inc.

We have audited the consolidated financial statements of Covenant Retirement Communities, Inc. as of and for the years ended January 31, 2016 and 2015 and have issued our report thereon dated May 13, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

May 13, 2016

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JANUARY 31, 2016
(In thousands)

ASSETS	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
CURRENT ASSETS:							
Cash and cash equivalents	$ 14,435	$ -	$ 3,591	$ 10,844	$ -	$ 9,891	$ 953
Restricted cash	1,669	-	119	1,550	-	97	1,453
Assets whose use is limited, including beneficial interest in investment pool:							
Board designated	46,736	-	16	46,720	-	723	45,997
Restricted under debt agreements	3,816	-	-	3,816	-	272	3,544
Accounts receivable - net	30,470	-	4,343	26,127	-	1,093	25,034
Prepaid expenses and other assets	5,211	-	64	5,147	-	4,109	1,038
Total current assets	102,337	-	8,133	94,204	-	16,185	78,019
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:							
Board designated	149,229	-	-	149,229	-	4,145	145,084
Restricted under state and debt agreements	44,537	-	-	44,537	-	1,777	42,760
Endowment	6,729	-	-	6,729	-	4,403	2,326
Total assets whose use is limited, including beneficial interest in investment pool	200,495	-	-	200,495	-	10,325	190,170
OTHER ASSETS	37,809	(21,324)	1,888	57,245	(784)	46,319	11,710
INTEREST IN IRREVOCABLE TRUSTS	4,825	-	-	4,825	-	25	4,800
PROPERTY AND EQUIPMENT							
Property and Equipment- at Cost	1,001,142	-	45,944	955,198	-	48,167	907,031
Less Accumulated Depreciation	(423,538)	-	(4,342)	(419,196)	-	(18,282)	(400,914)
Property and Equipment- Net	577,604	-	41,602	536,002	-	29,885	506,117
TOTAL	$ 923,070	$ (21,324)	$ 51,623	$ 892,771	$ (784)	$ 102,739	$ 790,816

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JANUARY 31, 2016
(In thousands)

LIABILITIES AND NET ASSETS (DEFICITS)	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
CURRENT LIABILITIES:							
Accounts payable - trade	$ 13,462	$ -	$ 740	$ 12,722	$ (1)	$ 11,485	$ 1,238
Accounts payable - contractors	2,340	-	484	1,856	-	1	1,855
Accrued salaries and wages	9,966	-	1,033	8,933	-	1,126	7,807
Accrued interest	2,728	-	114	2,614	-	135	2,479
Advance deposits	1,177	-	-	1,177	-	2	1,175
Current maturities of long-term debt	11,590	-	-	11,590	-	678	10,912
Deferred revenue subject to refund	96,771	-	-	96,771	-	-	96,771
Refundable contract liabilities	72,299	-	-	72,299	-	-	72,299
Other current liabilities	12,852	-	1,475	11,377	-	4,495	6,882
Total current liabilities	223,185	-	3,846	219,339	(1)	17,922	201,418
LONG-TERM DEBT - Less current maturities	386,886	-	-	386,886	-	16,610	370,276
PAYABLE TO (FROM) COVENANT INSTITUTIONS:							
Covenant Retirement Communities - Notes and advances	0	(21,324)	21,324	-	(784)	11,120	(10,336)
Other Benevolent institutions - Notes and advances	18,200	-	18,200	-	-	-	-
Total payable to (from) Covenant institutions	18,200	(21,324)	39,524	-	(784)	11,120	(10,336)
OTHER LIABILITIES	58,286	-	24,721	33,565	(1,212)	25,067	9,710
DEFERRED REVENUE FROM ENTRANCE FEES	189,396	-	-	189,396	-	10,882	178,514
Total liabilities	875,953	(21,324)	68,091	829,186	(1,997)	81,601	749,582
NET ASSETS (DEFICITS):							
Unrestricted	36,052	-	(16,471)	52,523	1,213	16,314	34,996
Temporarily restricted	4,336	-	3	4,333	-	421	3,912
Permanently restricted - endowment	6,729	-	-	6,729	-	4,403	2,326
Total net assets (deficits)	47,117	-	(16,468)	63,585	1,213	21,138	41,234
TOTAL	$ 923,070	$ (21,324)	$ 51,623	$ 892,771	$ (784)	$ 102,739	$ 790,816

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
OPERATING REVENUES:							
Routine resident services	$ 203,038	$ -	$ 6,188	$ 196,850	$ -	$ 2,014	$ 194,836
Ancillary services	45,661	(112)	18,627	27,146	-	3	27,143
Amortization of deferred entrance fees	37,630	-	-	37,630	-	819	36,811
Net assets released from restriction for operations	1,974	-	-	1,974	-	(19)	1,993
Other	5,904	(690)	1,485	5,109	(240)	564	4,785
Total operating revenues	294,207	(802)	26,300	268,709	(240)	3,381	265,568
EXPENSES:							
Routine nursing services	58,733	(791)	9,474	50,050	(283)	44	50,289
Ancillary services	17,651	(6)	2,235	15,422	(211)	1	15,632
Resident benefits	12,999	(3)	794	12,208	(52)	58	12,202
Dietary	35,549	-	741	34,808	(152)	47	34,913
Laundry	1,568	-	-	1,568	(6)	-	1,574
Housekeeping	7,357	-	190	7,167	(50)	33	7,184
Maintenance	18,715	-	625	18,090	(46)	991	17,145
Utilities	11,083	-	341	10,742	-	238	10,504
Administrative and general	51,467	2	8,874	42,591	585	(3,727)	45,733
Interest	15,743	(63)	1,092	14,714	(6,300)	(1,956)	22,970
Property taxes	2,784	-	260	2,524	-	480	2,044
Insurance	6,263	-	269	5,994	-	552	5,442
Marketing and promotion	13,195	(2)	1,233	11,964	(22)	(454)	12,440
Depreciation	40,926	-	1,026	39,900	-	2,327	37,573
Amortization	619	-	42	577	-	27	550
Other	436	-	191	245	-	(780)	1,025
Total expenses	295,088	(863)	27,387	268,564	(6,537)	(2,119)	277,220
OPERATING (LOSS) INCOME	(881)	61	(1,087)	145	6,297	5,500	(11,652)

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	Eliminations	Covenant Retirement Services	Obligated Group	Eliminations	Covenant Retirement Communities	All Campuses
OPERATING (LOSS) INCOME	(881)	61	(1,087)	145	6,297	5,500	(11,652)
NONOPERATING REVENUE (EXPENSE):							
Contributions:							
Gifts and bequests — net	732	-	129	603	2	(308)	909
Net assets released from restriction — distributions from trusts	327	-	-	327	-	(2)	329
Total contributions	1,059	-	129	930	2	(310)	1,238
Loss on extinguishment of debt	(5,692)			(5,692)			(5,692)
Other nonoperating revenue - net	2,537	(1)	(2)	2,540	-	3,464	(924)
Investment return, including beneficial interest in investment pool:							
Interest and dividend income	3,832	(62)	(1)	3,895	(6,300)	(259)	10,454
Realized gains on fixed income and equity securities — net	3,935	-	-	3,935	-	190	3,745
Unrealized losses on fixed income and equity securities — net	(12,654)	-	-	(12,654)	-	(7,467)	(5,187)
Alternative investment loss	(1,533)	-	-	(1,533)	-	(1,533)	-
Total investment return (loss), including beneficial interest in investment pool	(6,420)	(62)	(1)	(6,357)	(6,300)	(9,069)	9,012
Unrealized gains (losses) on derivative instruments	1,885	-	-	1,885	(94)	1,979	-
Interest expense on interest rate swaps	(4,252)			(4,252)		(4,252)	-
Loss on swap termination	(23)	-	-	(23)	-	(23)	-
Total nonoperating revenue (expense)	(10,906)	(63)	126	(10,969)	(6,392)	(8,211)	3,634
INCOME (LOSS)	(11,787)	(2)	(961)	(10,824)	(95)	(2,711)	(8,018)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:							
Net assets released from restriction for capital purchases	897	-	-	897	-		897
Net asset transfer (to) from related organization	(700)		7,193	(7,893)		(7,893)	
Total other changes in unrestricted net assets	197	-	7,193	(6,996)	-	(7,893)	897
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (11,590)	$ (2)	$ 6,232	$ (17,820)	$ (95)	$ (10,604)	$ (7,121)

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JANUARY 31, 2016
(In thousands)

ASSETS	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
CURRENT ASSETS:								
Cash and cash equivalents	$ 697	$ 6	$ 62	$ 498	$ 114	$ 8	$ 8	$ 1
Restricted cash	1,012	519	15	101	136	146	91	4
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	13,305	5,838	-	662	1,979	3,194	1,632	-
Restricted under debt agreements	1,489	127	-	819	254	289	-	-
Accounts receivable - net	13,907	2,226	204	1,830	1,854	1,529	1,358	4,906
Prepaid expenses and other assets	618	35	23	31	59	45	363	62
Total current assets	31,028	8,751	304	3,941	4,396	5,211	3,452	4,973
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:								
Board designated	21,307	902	3,649	5,991	3,981	220	6,564	-
Restricted under state and debt agreements	18,715	2,950	-	7,588	3,217	3,653	1,307	-
Endowment	-	-	-	-	-	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	40,022	3,852	3,649	13,579	7,198	3,873	7,871	-
OTHER ASSETS	3,478	598	-	401	488	878	1,113	-
INTEREST IN IRREVOCABLE TRUSTS	2,268	83	268	996	251	46	624	-
PROPERTY AND EQUIPMENT - Net	184,406	47,118	5,086	34,291	31,189	36,596	29,519	607
TOTAL	$ 261,202	$ 60,402	$ 9,307	$ 53,208	$ 43,522	$ 46,604	$ 42,579	$ 5,580

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JANUARY 31, 2016
(In thousands)

LIABILITIES AND NET ASSETS (DEFICITS)	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
CURRENT LIABILITIES:								
Accounts payable - trade	$ 716	$ 284	$ 14	$ 85	$ 172	$ -	$ 89	$ 72
Accounts payable - contractors	-	-	-	-	-	-	-	-
Accrued salaries and wages	3,084	460	53	541	645	434	582	369
Accrued interest	864	172	-	136	254	302	-	-
Advance deposits	447	87	132	28	58	67	75	-
Current maturities of long-term debt	5,552	687	-	4,615	-	250	-	-
Deferred revenue subject to refund	30,449	8,375	-	7,300	4,073	6,744	3,957	-
Refundable contract liabilities	21,558	8,018	-	2,591	3,673	4,981	2,295	-
Other current liabilities	2,284	693	(102)	405	63	276	183	766
Total current liabilities	64,954	18,776	97	15,701	8,938	13,054	7,181	1,207
LONG-TERM DEBT - Less current maturities	140,251	42,856	-	20,245	32,172	44,978	-	-
PAYABLE TO (FROM) COVENANT INSTITUTIONS:								
Covenant Retirement Communities - Notes and advances	74,705	3,843	4,739	18,455	16,778	7,473	19,520	3,897
Other Benevolent institutions - Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	74,705	3,843	4,739	18,455	16,778	7,473	19,520	3,897
OTHER LIABILITIES	3	-	-	-	3	-	-	-
DEFERRED REVENUE FROM ENTRANCE FEES	49,508	11,544	-	9,511	8,019	9,019	11,415	-
Total liabilities	329,421	77,019	4,836	63,912	65,910	74,524	38,116	5,104
NET ASSETS (DEFICITS):								
Unrestricted	(69,857)	(16,774)	4,310	(11,071)	(22,613)	(28,039)	3,854	476
Temporarily restricted	1,638	157	161	367	225	119	609	-
Permanently restricted - endowment	-	-	-	-	-	-	-	-
Total net assets (deficits)	(68,219)	(16,617)	4,471	(10,704)	(22,388)	(27,920)	4,463	476
TOTAL	$ 261,202	$ 60,402	$ 9,307	$ 53,208	$ 43,522	$ 46,604	$ 42,579	$ 5,580

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
OPERATING REVENUES:								
Routine resident services	$ 77,269	$ 12,045	$ 2,326	$ 12,791	$ 14,228	$ 9,985	$ 13,875	$ 12,019
Ancillary services	11,922	1,275	28	2,495	2,180	2,018	1,244	2,682
Amortization of deferred entrance fees	11,042	2,493	-	2,476	1,771	2,217	2,085	-
Net assets released from restriction for operations	540	66	-	40	217	111	106	-
Other	2,202	176	16	236	269	423	1,082	-
Total operating revenues	102,975	18,055	2,370	18,038	18,665	14,754	18,392	14,701
EXPENSES:								
Routine nursing services	21,907	3,160	128	2,729	4,517	2,333	3,501	5,539
Ancillary services	7,339	812	-	1,379	1,276	1,154	785	1,933
Resident benefits	5,054	808	412	771	938	725	1,025	375
Dietary	13,997	2,134	389	2,460	2,525	2,229	2,655	1,605
Laundry	727	79	14	64	119	30	106	315
Housekeeping	2,684	334	21	480	636	267	604	342
Maintenance	6,185	1,094	130	1,302	1,056	915	1,221	467
Utilities	4,176	648	142	798	710	579	1,107	192
Administrative and general	19,476	2,776	786	3,379	3,434	2,615	3,351	3,135
Interest	9,998	2,399	140	1,979	2,195	2,439	747	99
Property taxes	1,375	-	-	407	71	314	583	-
Insurance	2,097	341	111	501	403	296	340	105
Marketing and promotion	4,842	855	2	1,376	813	773	1,021	2
Depreciation	13,044	2,798	265	3,078	2,543	1,568	2,765	27
Amortization	185	59	-	26	35	65	-	-
Other	473	77	-	47	129	79	111	30
Total expenses	113,559	18,374	2,540	20,776	21,400	16,381	19,922	14,166
OPERATING (LOSS) INCOME	(10,584)	(2,319)	(170)	(2,738)	(2,735)	(1,627)	(1,530)	535

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	Covenant Village of Colorado	Covenant Home of Chicago	Covenant Village of Florida	Covenant Village of Golden Valley	Covenant Village of Great Lakes	Covenant Village of Cromwell	Brandel Manor-Cypress
OPERATING (LOSS) INCOME	(10,584)	(2,319)	(170)	(2,738)	(2,735)	(1,627)	(1,530)	535
NONOPERATING REVENUE (EXPENSE):								
Contributions:								
Gifts and bequests — net	(36)	(63)	97	14	37	(50)	(71)	-
Net assets released from restriction — distributions from trusts	92	7	28	36	-	7	14	-
Total contributions	56	(56)	125	50	37	(43)	(57)	-
Loss on extinguishment of debt	(1,636)	(396)	-	(759)	-	(481)	-	-
Other nonoperating (expense) income - net	(295)	-	-	16	(2)	(249)	(60)	-
Investment return, including beneficial interest in investment pool:								
Interest and dividend income	2,209	344	77	760	479	231	318	-
Realized gains (losses) on fixed income and equity securities — net	741	177	67	124	123	57	193	-
Unrealized gains (losses) on fixed income and equity securities — net	(1,415)	(492)	-	(276)	(209)	(301)	(137)	-
Total investment return (loss), including beneficial interest in investment pool	1,535	29	144	608	393	(13)	374	-
Total nonoperating revenue (expense)	(340)	(423)	269	(85)	428	(786)	257	-
(LOSS) INCOME	(10,924)	(2,742)	99	(2,823)	(2,307)	(2,413)	(1,273)	535
OTHER CHANGES IN UNRESTRICTED NET ASSETS:								
Net assets released from restriction for capital purchases	627	-	-	-	8	15	4	600
Total other changes in unrestricted net assets	627	-	-	-	8	15	4	600
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (10,297)	$ (2,742)	$ 99	$ (2,823)	$ (2,299)	$ (2,398)	$ (1,269)	$ 1,135

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JANUARY 31, 2016
(In thousands)

ASSETS	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
CURRENT ASSETS:								
Cash and cash equivalents	$ 256	$ 10	$ 16	$ 14	$ 182	$ 10	$ 15	$ 9
Restricted cash	441	26	39	13	347	-	1	15
Assets whose use is limited, including beneficial interest in investment pool:								
Board designated	32,692	5,498	2,374	11,963	2,941	8,338	1,578	-
Restricted under debt agreements	2,055	653	172	809	7	152	195	67
Accounts receivable - net	11,127	2,007	1,851	2,244	1,360	751	1,169	1,745
Prepaid expenses and other assets	420	43	130	15	48	44	27	113
Total current assets	46,991	8,237	4,582	15,058	4,885	9,295	2,985	1,949
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:								
Board designated	123,777	16,051	5,755	48,377	26,797	838	12,555	13,404
Restricted under state and debt agreements	24,045	6,764	7,941	4,153	50	2,004	2,297	836
Endowment	2,326	662	40	-	-	-	-	1,624
Total assets whose use is limited, including beneficial interest in investment pool	150,148	23,477	13,736	52,530	26,847	2,842	14,852	15,864
OTHER ASSETS	8,232	1,142	2,749	2,115	973	290	692	271
INTEREST IN IRREVOCABLE TRUSTS	2,532	161	131	123	1,006	119	367	625
PROPERTY AND EQUIPMENT - Net	321,711	55,268	31,227	78,940	39,894	42,848	34,103	39,431
TOTAL	$ 529,614	$ 88,285	$ 52,425	$ 148,766	$ 73,605	$ 55,394	$ 52,999	$ 58,140

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JANUARY 31, 2016
(In thousands)

LIABILITIES AND NET ASSETS (DEFICITS)	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
CURRENT LIABILITIES:								
Accounts payable - trade	$ 522	$ 74	$ 32	$ 47	$ 117	$ 25	$ 69	$ 158
Accounts payable - contractors	1,855	-	1,855	-	-	-	-	-
Accrued salaries and wages	4,723	811	669	778	775	583	445	662
Accrued interest	1,615	550	177	429	14	155	195	95
Advance deposits	728	59	68	130	132	206	42	91
Current maturities of long-term debt	5,360	601	550	1,963	710	417	428	691
Deferred revenue subject to refund	66,322	8,998	6,914	20,157	13,804	9,481	6,968	-
Refundable contract liabilities	50,741	8,310	5,084	18,627	4,664	12,350	1,706	-
Other current liabilities	4,598	1,261	201	1,394	476	124	226	916
Total current liabilities	136,464	20,664	15,550	43,525	20,692	23,341	10,079	2,613
LONG-TERM DEBT - Less current maturities	230,025	71,389	21,966	58,102	5,643	22,056	27,945	22,924
PAYABLE TO (FROM) COVENANT INSTITUTIONS:								
Covenant Retirement Communities - Notes and advances	(85,041)	6,923	(43,500)	(25,719)	(34,765)	(10,335)	(8,929)	31,284
Other Benevolent institutions- Notes and advances	-	-	-	-	-	-	-	-
Total payable to (from) Covenant institutions	(85,041)	6,923	(43,500)	(25,719)	(34,765)	(10,335)	(8,929)	31,284
OTHER LIABILITIES	9,707	-	-	-	71	-	11	9,625
DEFERRED REVENUE FROM ENTRANCE FEES	129,006	14,929	17,441	23,463	18,287	18,820	10,744	25,322
Total liabilities	420,161	113,905	11,457	99,371	9,928	53,882	39,850	91,768
NET ASSETS (DEFICITS):								
Unrestricted	104,853	(26,039)	40,799	49,290	61,982	1,300	12,787	(35,266)
Temporarily restricted	2,274	(243)	129	105	1,695	212	362	14
Permanently restricted - endowment	2,326	662	40	-	-	-	-	1,624
Total net assets (deficits)	109,453	(25,620)	40,968	49,395	63,677	1,512	13,149	(33,628)
TOTAL	$ 529,614	$ 88,285	$ 52,425	$ 148,766	$ 73,605	$ 55,394	$ 52,999	$ 58,140

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
OPERATING REVENUES:								
Routine resident services	$ 117,567	$ 19,422	$ 16,363	$ 19,622	$ 19,138	$ 14,177	$ 12,423	$ 16,422
Ancillary services	15,221	2,662	2,177	2,892	1,945	1,800	1,153	2,592
Amortization of deferred entrance fees	25,769	3,741	3,087	5,487	3,694	3,686	2,166	3,908
Net assets released from restriction for operations	1,453	121	104	268	224	257	129	350
Other	2,583	197	257	305	583	740	402	99
Total operating revenues	162,593	26,143	21,988	28,574	25,584	20,660	16,273	23,371
EXPENSES:								
Routine nursing services	28,382	5,310	4,320	4,582	4,188	3,009	2,430	4,543
Ancillary services	8,293	1,357	1,251	1,402	1,227	896	694	1,466
Resident benefits	7,148	1,477	866	1,049	1,265	668	886	937
Dietary	20,916	3,418	2,768	3,470	3,259	2,592	2,362	3,047
Laundry	847	134	140	172	125	64	96	116
Housekeeping	4,500	608	587	644	1,026	497	598	540
Maintenance	10,960	2,188	1,124	1,815	1,624	1,263	1,344	1,602
Utilities	6,328	1,205	1,057	848	1,017	836	625	740
Administrative and general	26,257	3,605	3,933	4,380	4,201	3,061	3,312	3,765
Interest	12,972	4,376	440	1,893	792	1,202	1,477	2,792
Property taxes	669	165	-	-	2	222	-	280
Insurance	3,345	483	467	495	569	459	419	453
Marketing and promotion	7,598	1,168	770	1,093	1,183	600	1,252	1,532
Depreciation	24,529	4,408	2,234	4,834	3,549	2,783	2,385	4,336
Amortization	365	84	25	154	9	23	37	33
Other	552	60	85	129	94	46	73	65
Total expenses	163,661	30,046	20,067	26,960	24,130	18,221	17,990	26,247
OPERATING (LOSS) INCOME	(1,068)	(3,903)	1,921	1,614	1,454	2,439	(1,717)	(2,876)

COVENANT RETIREMENT COMMUNITIES, INC.

CAMPUS CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	The Holmstad	Mount Miguel Covenant Village	Covenant Village of Northbrook	The Samarkand	Covenant Shores	Covenant Village of Turlock	Windsor Park
OPERATING (LOSS) INCOME	(1,068)	(3,903)	1,921	1,614	1,454	2,439	(1,717)	(2,876)
NONOPERATING REVENUE (EXPENSE):								
Contributions:								
Gifts and bequests — net	945	(55)	(89)	(3)	474	(10)	(123)	751
Net assets released from restriction — distributions from trusts	237	10	-	5	5	3	199	15
Total contributions	1,182	(45)	(89)	2	479	(7)	76	766
Loss on extinguishment of debt	(4,056)	(1,323)	(38)	(1,749)	(54)	(34)	(858)	-
Other nonoperating (expense) income - net	(629)	(228)	(47)	30	(138)	(248)	(8)	10
Investment return, including beneficial interest in investment pool:								
Interest and dividend income	8,245	1,523	1,121	1,897	1,692	512	637	863
Realized gains (losses) on fixed income and equity securities — net	3,004	367	27	1,048	532	303	231	496
Unrealized gains (losses) on fixed income and equity securities — net	(3,772)	(516)	(118)	(923)	(232)	(760)	(131)	(1,092)
Total investment return (loss), including beneficial interest in investment pool	7,477	1,374	1,030	2,022	1,992	55	737	267
Total nonoperating revenue (expense)	3,974	(222)	856	305	2,279	(234)	(53)	1,043
INCOME (LOSS)	2,906	(4,125)	2,777	1,919	3,733	2,205	(1,770)	(1,833)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:								
Net assets released from restriction for capital purchases	270	65	-	-	98	-	-	107
Total other changes in unrestricted net assets	270	65	-	-	98	-	-	107
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 3,176	$ (4,060)	$ 2,777	$ 1,919	$ 3,831	$ 2,205	$ (1,770)	$ (1,726)

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - COVENANT RETIREMENT SERVICES
AS OF JANUARY 31, 2016
(In thousands)

ASSETS	Consolidated	Eliminations	Covenant Solutions Business Development and Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Lenexa	Covenant Place of Tulsa	CovenantCare at Home	Ontrac Management Services	Covenant Retirement Services
CURRENT ASSETS:										
Cash and cash equivalents	$ 3,591	$ -	$ 7	$ 426	$ 81	$ 1,471	$ 134	$ 1,282	$ -	$ 190
Restricted cash	119	-	-	-	-	15	104	-	-	-
Assets whose use is limited, including beneficial interest in investment pool:										
Board designated	16	-	16	-	-	-	-	-	-	-
Restricted under debt agreements	-	-	-	-	-	-	-	-	-	-
Accounts receivable - net	4,343	(28)	136	-	5	621	99	3,291	219	-
Prepaid expenses and other assets	64	-	12	-	-	23	-	29	-	-
Total current assets	8,133	(28)	171	426	86	2,130	337	4,602	219	190
ASSETS WHOSE USE IS LIMITED, INCLUDING BENEFICIAL INTEREST IN INVESTMENT POOL:										
Board designated	-	-	-	-	-	-	-	-	-	-
Restricted under state and debt agreements	-	-	-	-	-	-	-	-	-	-
Endowment	-	-	-	-	-	-	-	-	-	-
Total assets whose use is limited, including beneficial interest in investment pool	-	-	-	-	-	-	-	-	-	-
OTHER ASSETS	1,888	-	-	113	111	146	62	842	(219)	833
INTEREST IN IRREVOCABLE TRUSTS	-	-	-	-	-	-	-	-	-	-
PROPERTY AND EQUIPMENT - Net	41,602	-	1	3,572	6,168	15,889	15,852	120	-	-
TOTAL	$ 51,623	$ (28)	$ 172	$ 4,111	$ 6,365	$ 18,165	$ 16,251	$ 5,564	$ -	$ 1,023

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION - COVENANT RETIREMENT SERVICES
AS OF JANUARY 31, 2018
(In thousands)

LIABILITIES AND NET ASSETS (DEFICITS)	Consolidated	Eliminations	Covenant Solutions Business Development and Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Lenexa	Covenant Place of Tulsa	CovenantCare at Home	Ontrac Management Services	Covenant Retirement Services
CURRENT LIABILITIES:										
Accounts payable - trade	$ 740	$ (28)	$ 2	$ 11	$ -	$ 176	$ 148	$ 317	$ -	$ 114
Accounts payable - contractors	484	-	-	-	-	-	484	-	-	-
Accrued salaries and wages	1,033	-	71	-	9	124	35	794	-	-
Accrued interest	114	-	-	14	-	56	44	-	-	-
Advance deposits	-	-	-	-	-	-	-	-	-	-
Current maturities of long-term debt	-	-	-	-	-	-	-	-	-	-
Deferred revenue subject to refund	-	-	-	-	-	-	-	-	-	-
Refundable contract liabilities	-	-	-	-	-	-	-	-	-	-
Other current liabilities	1,475	-	-	10	380	358	119	608	-	-
Total current liabilities	3,846	(28)	73	35	389	714	830	1,719	-	114
LONG-TERM DEBT - Less current maturities	-	-	-	-	-	-	-	-	-	-
PAYABLE TO (FROM) COVENANT INSTITUTIONS:										
Covenant Retirement Communities - Notes and advances	21,324	-	1,865	(195)	4,021	-	-	14,154	-	1,479
Other Benevolent institutions - Notes and advances	18,200	-	-	4,000	5,000	5,000	4,200	-	-	-
Total payable to (from) Covenant institutions	39,524	-	1,865	3,805	9,021	5,000	4,200	14,154	-	1,479
OTHER LIABILITIES	24,721	-	-	-	-	12,789	11,913	-	-	19
DEFERRED REVENUE FROM ENTRANCE FEES	-	-	-	-	-	-	-	-	-	-
Total liabilities	68,091	(28)	1,938	3,840	9,410	18,503	16,943	15,873	-	1,612
NET ASSETS (DEFICITS):										
Unrestricted	(16,471)	-	(1,766)	271	(3,045)	(338)	(692)	(10,312)	-	(589)
Temporarily restricted	3	-	-	-	-	-	-	3	-	-
Permanently restricted - endowment	-	-	-	-	-	-	-	-	-	-
Total net assets (deficits)	(16,468)	-	(1,766)	271	(3,045)	(338)	(692)	(10,309)	-	(589)
TOTAL	$ 51,623	$ (28)	$ 172	$ 4,111	$ 6,365	$ 18,165	$ 16,251	$ 5,564	$ -	$ 1,023

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
COVENANT RETIREMENT SERVICES
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	Eliminations	Covenant Solutions Business Development and Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Lenexa	Covenant Place of Tulsa	Covenant Care at Home	Ontrac Management Services	Covenant Retirement Services
OPERATING REVENUES:										
Routine resident services	$ 6,188	$ -	$ -	$ -	$ 1,120	$ 4,970	$ 98	$ -	$ -	$ -
Ancillary services	18,627	-	-	-	-	1,197	-	17,430	-	-
Amortization of deferred entrance fees	-	-	-	-	-	-	-	-	-	-
Net assets released from restriction for operations	-	-	-	-	-	-	-	-	-	-
Other	1,485	-	903	526	8	26	6	-	16	-
Total operating revenues	26,300	-	903	526	1,128	6,193	104	17,430	16	-
EXPENSES:										
Routine nursing services	9,474	-	-	-	-	1,575	22	7,877	-	-
Ancillary services	2,235	-	-	-	-	209	-	2,026	-	-
Resident benefits	794	-	-	-	26	283	8	477	-	-
Dietary	741	-	-	-	21	657	63	-	-	-
Laundry	-	-	-	-	-	-	-	-	-	-
Housekeeping	190	-	-	-	50	127	13	-	-	-
Maintenance	625	-	-	193	98	303	31	-	-	-
Utilities	341	-	-	-	106	195	12	28	-	-
Administrative and general	8,874	-	1,495	48	239	927	206	5,790	98	71
Interest	1,092	-	-	160	164	640	66	3	-	59
Property taxes	260	-	-	111	131	3	15	-	-	-
Insurance	269	-	35	4	42	77	-	110	1	-
Marketing and promotion	1,233	-	-	-	47	117	177	892	-	-
Depreciation	1,026	-	3	123	182	612	64	42	-	-
Amortization	42	-	-	-	-	13	1	28	-	-
Other	191	-	4	-	-	1	-	184	-	2
Total expenses	27,387	-	1,537	639	1,106	5,739	678	17,457	99	132
OPERATING (LOSS) INCOME	(1,087)	-	(634)	(113)	22	454	(574)	(27)	(83)	(132)

COVENANT RETIREMENT COMMUNITIES, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
COVENANT RETIREMENT SERVICES
FOR THE YEAR ENDED JANUARY 31, 2016
(In thousands)

	Consolidated	Eliminations	Covenant Solutions Business Development & Support	Covenant Holdings One, LLC	Covenant Holdings Two, LLC	Covenant Place of Lenexa	Covenant Place of Tulsa	Covenant Care at Home	Ontrac Management Services	Covenant Retirement Services
OPERATING (LOSS) INCOME	(1,087)	-	(634)	(113)	22	454	(574)	(27)	(83)	(132)
NONOPERATING REVENUE (EXPENSE):										
Contributions:										
Gifts and bequests — net	129	-	(3)	-	-	-	-	132	-	-
Other nonoperating (expense) income - net	(2)	-	-	(2)	-	-	-	-	-	-
Total investment return (loss), including beneficial interest in investment pool										
Interest and dividend income	(1)	-	-	-	-	-	-	-	-	(1)
Total nonoperating revenue (expense)	126	-	(3)	(2)	-	-	-	132	-	(1)
(LOSS) INCOME	(961)	-	(637)	(115)	22	454	(574)	105	(83)	(133)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:										
Net asset transfer from related organization	7,193	-	-	-	-	-	-	6,226	505	462
Total other changes in unrestricted net assets	7,193	-	-	-	-	-	-	6,226	505	462
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ 6,232	$ -	$ (637)	$ (115)	$ 22	$ 454	$ (574)	$ 6,331	$ 422	$ 329

COVENANT RETIREMENT COMMUNITIES, INC.

NOTE TO CONSOLIDATING STATEMENT OF FINANCIAL POSITION AND CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION AS OF AND FOR THE YEAR ENDED JANUARY 31, 2016

(In thousands)

1. BASIS OF REPORTING

In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position and consolidating statement of operations and changes in unrestricted net asset information as of and for the year ended January 31, 2016 for the Obligated Group exclude the effects of consolidating entities controlled by members of the Obligated Group but which themselves are not members of the Obligated Group. Those entities which are not members of the Obligated Group are included in Covenant Retirement Services. The balances for Covenant Retirement Communities and the Obligated Group do not include interests in controlled entities.

RECEIVED
JUN 21 2016
CONTINUING CARE
CONTRACTS BRANCH

Covenant Retirement Communities West, Inc.

Report on Audit of Liquid Reserves and Additional Information as of and for the Year Ended January 31, 2016, and Independent Auditors' Report

COVENANT RETIREMENT COMMUNITIES WEST, INC.

TABLE OF CONTENTS

Plante & Moran, PLLC
Suite 200
2155 Point Blvd.
Elgin, IL 60123
Tel: 847.697.6161
Fax: 847.697.6176
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Covenant Retirement Communities West, Inc.
San Diego, California

We have audited the liquid reserves report of Covenant Retirement Communities West, Inc., which includes The Samarkand, Mount Miguel Covenant Village, and Covenant Village of Turlock (collectively, the "Organization") as of January 31, 2016 and for the year then ended, listed in Part 5 - Liquid Reserves in the table of contents (the "liquid reserves report").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the liquid reserves report in accordance with complying with California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the liquid reserve report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the liquid reserves report based on our audit. We conducted our audit 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 liquid reserves report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the liquid reserves report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the liquid reserves report, 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 liquid reserves report 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 liquid reserves report.

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

To the Board of Directors
Covenant Retirement Communities West, Inc.
San Diego, California

Opinion

In our opinion, the liquid reserves report referred to above presents fairly, in all material respects, the liquid reserve requirements of Covenant Retirement Communities West, Inc. as of January 31, 2016 in conformity with the report preparation provision of California Health and Safety Code Section 1792.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic liquid reserves report taken as a whole. The additional information listed in Parts 1, 2, 3, 6, 7, and 9 in the table of contents is presented for the purpose of additional analysis. This additional information is the responsibility of management. Such information has not been subjected to the auditing procedures applied in our audit of the basic liquid reserves report and, accordingly, we express no opinion on it.

Restricted Use

This special purpose report is intended solely for the use of Covenant Retirement Communities West, Inc.'s management and board of directors and for filing with the California Department of Social Services and is not intended to be and should not be used or relied upon for any other purpose.

Plante & Moran, PLLC

May 13, 2016

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(C) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b)+(c)+(d))
COPs 92	7/15/1992	$ -	$ 2,370	$ 27,763	$ 30,133
COPs 95	7/15/1995	-	2,747	35,115	37,862
FL 98	1/1/1998	-	117,183	-	117,183
CO 05	8/15/2005	-	1,990,021	-	1,990,021
IL 11A	12/1/2011	-	294,895	-	294,895
IL 11B	12/1/2011	1,650,000	804,605	-	2,454,605
CO 12 A	9/7/2012	-	5,110,250	-	5,110,250
CO 12 B	9/7/2012	-	1,033,550	-	1,033,550
CO 12 C	9/7/2012	3,115,000	809,150	-	3,924,150
CO 13 A	7/31/2013	-	1,233,888	-	1,233,888
CO 13 B	7/31/2013	-	552,825	-	552,825
CA 13 C	7/31/2013	-	1,150,313	-	1,150,313
		$ 4,765,000	**$ 13,101,797**	**$ 62,878**	**$ 17,929,675**

NOTE: For column (b), do not include voluntary payments made to pay down principal.

Provider: Covenant Retirement Communities

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(C) Amount of most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns c * d)
CO 15 A	04/01/15	$ 3,469,785	$ 2,045,000	$ 1	$ 2,045,000
CA 15 B	04/01/15	217,797	1,825,000	1	1,825,000
		$ 3,687,582	**$ 3,870,000**	**$ 2**	**$ 3,870,000**

NOTE: For column (b), do not include voluntary payments made to pay down principal.

Provider: Covenant Retirement Communities

Items from Combined Statements of Cash Flows to Forms 5-1 and 5-2
Long-Term Debt Incurred in Prior and Current Fiscal Years
For the Fiscal Year Ended January 31, 2016

	CRC Total
Principal paid on long-term debt per Schedule 5-1 & 5-2	$ 8,635,000
Early redemption of bonds	145,690,000
+ Total per Cash Flows - Payment of Debt	$ 154,325,000
+ Combined Statements of Cash Flows	$ 154,325,000

Items from Combined Statements of Cash Flows to Forms 5-1 and 5-2
Long-Term Debt Incurred in Prior and Current Fiscal Years
For the Fiscal Year Ended January 31, 2016

	CRC Total
Interest paid on long-term debt	$ 16,789,000
Credit enhancement premiums paid	63,000
Interest received from trustee held funds	
Interest paid on other debt	3,284,000
+ Total per Cash Flows - Interest Paid	$ 20,136,000
+ Combined Statements of Cash Flows	$ 20,136,000

Provider: Covenant Retirement Communities, Inc.
California Reserve Report
Form 5-3
Long-Term Debt Incurred in Prior and Current Fiscal Years

Line		
1	Total from Form 5-1 bottom of Column (e)	$ 17,929,675
2	Total from Form 5-2 bottom of Column (e)	3,870,000
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	-
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	$ 21,799,675

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$24,129,000
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$100,000	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$20,000	
	c.	Depreciation	$3,549,000	
	d.	Amortization	**$9,000**	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$5,799,000	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		**$9,477,000**
4		Net Operating Expenses		$14,652,000
5		Divide Line 4 by 365 and enter the result.		$40,142
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$3,010,650

PROVIDER: Covenant Retirement Communities
COMMUNITY: The Samarkand

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$32,157,000
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$1,129,000	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$12,000	
	c.	Depreciation	$2,412,000	
	d.	Amortization	$37,000	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$15,729,000	
	f.	Extraordinary expenses approved by the Department		
3		Total Deductions		$19,319,000
4		Net Operating Expenses		$12,838,000
5		Divide Line 4 by 365 and enter the result.		$35,173
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$2,637,975

PROVIDER: Covenant Retirement Communities
COMMUNITY: Covenant Village of Turlock

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$20,069,000
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$1,154,000	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$1,400	
	c.	Depreciation	$2,234,000	
	d.	Amortization	$25,000	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$4,648,000	
	f.	Extraordinary expenses approved by the Department		
3		Total Deductions		$8,062,400
4		Net Operating Expenses		$12,006,600
5		Divide Line 4 by 365 and enter the result.		$32,895
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$2,467,125

PROVIDER: Covenant Retirement Communities
COMMUNITY: Mount Miguel Covenant Village

Covenant Retirement Communities
California Reserve Report
Form 5-4 Support for Line 2e
Revenue received during the year for services rendered to residents who did not have a continuing care contract

	Samarkand	Covenant Village of Turlock	Mount Miguel Covenant Village
Maintenance fees and Ancillary service fees received from non-contract residents	$ 5,770,000	$ 15,728,000	$ 4,642,000
Other operating revenue from non-contract residents (e.g., telephone charges, cable TV, other)	29,000	1,000	6,000
Total per Form 5-4, Line 2(e)	$ 5,799,000	$ 15,729,000	$ 4,648,000

Items from Combined Statements of Cash Flows & Supplemental Information to Combined Statements of Cash Flows for Calculation of Cash Operating Expenses For the Fiscal Year Ended January 31, 2016

	CRC Total	Samarkand	Mt. Miguel	Turlock	All Others
*** Depreciation**	$ 41,057,000	$ 3,549,000	$ 2,234,000	$ 2,412,000	$ 32,862,000
*** Amortization**	$ 619,000	$ 9,000	$ 25,000	$ 37,000	$ 548,000
Routine Resident Services and Other Items	$ 225,971,000	$ 16,145,000	$ 13,826,000	$ 11,801,000	$ 184,199,000
Revenues received from non-contract residents	26,176,000	5,799,000	4,648,000	15,729,000	0
+ Total per Cash Flows - Cash from Residents	$ 252,147,000	$ 21,944,000	$ 18,474,000	$ 27,530,000	$ 184,199,000
Interest paid	$ 20,073,000	$ 100,000	$ 1,154,000	$ 1,129,000	$ 17,690,000
Credit enhancement premiums paid for long-term debt	63,000	20,000	1,400	12,000	29,600
+ Total per Cash Flows - Interest Paid	$ 20,136,000	$ 120,000	$ 1,155,400	$ 1,141,000	$ 17,719,600

+ Combined Statements of Cash Flows
* Supplemental Information to Combined Statement of Cash Flows

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Covenant Retirement Communities West, Inc.
Quarter Ended: January 31, 2016

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended January 31, 2016 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year January 31, 2016 are as follows:

		Amount
[1]	Debt Service Reserve Amount	21,799,675
[2]	Operating Expense Reserve Amount	8,115,750
[3]	**Total Liquid Reserve Amount**	29,915,425

Qualifying assets sufficient to fulfill the above requirements are held as follows:

			Amount (market value at the end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents				2,013,866
[5]	Investment Securities				3,185,470
[6]	Equity Securities				6,415,141
[7]	Unused/Available Lines of Credit				
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve		29,412,761		(not applicable)
[10]	Other: (describe qualify asset)				
	Total Amount of Qualifying Assets				
	Listed for Liquid Reserve:	[11]	29,412,761	[12]	11,614,477
	Total Amount Required	[13]	21,799,675	[14]	8,115,750
	Surplus/(Deficiency):	[15]	7,613,086	[16]	3,498,727

Signature: Elizabeth B. Gutierrez

(Authorized Representative)

Sr. VP / CFO

(Title)

Date: 4/25/16

FORM 5-5

Covenant Retirement Communities, West

Form 5-5 Attachment Re: Reserves

The reserves included on Form 5-5 are categorized as follows:

Benevolent Care Fund:	$	13,630,336
Property Replacement Fund:		6,709,068
Capital Reserve Fund:		23,458,542
Other Board Designated Funds		7,266,590
Good Neighbor Fund		934,840
Total Funds	$	51,999,376
Portion of Funds Consisting of Approved Securities		21.92%
Reserves (cash, investment securities and equities included on Form 5-5)	$	11,399,856
Additional Cash Not in Reserves		214,621
Total Qualifying Assets per Form 5-5	$	11,614,477

Description of Reserves:

Benevolent Care Fund:

Principal accumulates as a board designated endowment fund. Earnings are utilized to offset benevolent care provided to residents.

Property Replacement Fund:

Reserves established to pay for non-routine capital. For example: roofs, HVAC systems, etc.

Capital Reserve Fund:

Reserve is to provide funds for optional early redemption of variable rate debt (in a rising interest rate environment). Reserves are also available to internally finance significant campus capital renovations and expansions.

Other Board Designated Funds:

These reserves include the funds held to pay refundable contract obligations as well as other miscellaneous Board designations.

Good Neighbor Fund:

This fund is held by the Samarkand only and is utilized to assist residents who are receiving an benevolent care discount for their monthly fee with other personal needs (e.g., new eye glasses).

COVENANT RETIREMENT COMMUNITIES WEST, INC.

NOTE TO LIQUID RESERVES REPORT
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2016

1. BASIS OF ACCOUNTING

The accompanying liquid reserves report on pages 3 through 15 has been prepared in accordance with the provisions of the Health and Safety Code Section 1792 administered by the State of California Department of Social Services. The liquid reserves report includes the accounts of the following entities of Covenant Retirement Communities West, Inc.: The Samarkand, Mount Miguel Covenant Village, and Covenant Village of Turlock. Covenant Retirement Communities West, Inc. and the related entities are subsidiaries of Covenant Retirement Communities, Inc., an Illinois not-for-profit corporation responsible for operating retirement, assisted-living, and skilled-care facilities.

* * * * * *

Part 1
Annual Provider Fees

Continuing Care Retirement Community
Disclosure Statement
General Information

FACILITY NAME: Covenant Village of Turlock

ADDRESS: 2125 North Olive Avenue, Turlock, CA   ZIP CODE: 95382   PHONE: 209-632-9976

PROVIDER NAME: Covenant Retirement Communities   FACILITY OPERATOR: Covenant Retirement Communities

RELATED FACILITIES: See Page 2   RELIGIOUS AFFILIATION: Evangelical Covenant Church

YEAR OPENED: 1977   NO. OF ACRES: 26   MULTI-STORY: ____   SINGLE STORY: ____   BOTH: Y

MILES TO SHOPPING CENTER: 1 mile   MILES TO HOSPITAL: less than 1/4 mile

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	37	ASSISTED LIVING	82
APARTMENTS - 1 BDRM	87	SKILLED NURSING	196
APARTMENTS - 2 BDRM	57	SPECIAL CARE	0
COTTAGES/HOUSES	35	DESCRIBE SPECIAL CARE	
% OCCUPANCY AT YEAR END	91%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT   ACCREDITED: ☐ Y ☑ N   BY: ________

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☐ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☑ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☑ 50% ☑ PRORATED TO 0%   OTHER: ________

RANGE OF ENTRANCE FEES: $ 73,000 TO $ 360,000   LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 60 Health Care Days; 10% Discount or 30 Health Care Days

ENTRY REQUIREMENTS: MIN. AGE: 62   PRIOR PROFESSION: N/A   OTHER: ________

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☐	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☑	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☑	☐
LIBRARY	☑	☐
PUTTING GREEN	☑	☐
SHUFFLEBOARD	☑	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☑	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☑	☐
OTHER	☑	

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	4/mo	
NUMBER OF MEALS/DAY	1 Depending on unit	2
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☐	☐
ACTIVITIES PROGRAM	☑	☑
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☑
CABLE TV	☑	☐
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☑	☑
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☑
PERSONAL NURSING/HOME CARE	☐	☑
TRANSPORTATION-PERSONAL	☐	☑
TRANSPORTATION-PREARRANGED	☑	☐
OTHER: Computer Lab		

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Covenant Retirement Communities, Inc.

CCRC's	LOCATION (City, State)	Phone (with area code)
Covenant Village of Golden Valley	Minneapolis, Minnesota	763-546-6125
Covenant Shores	Mercer Island, Washington	206-268-3000
Covenant Village of Colorado	Westminster, Colorado	303-424-4828
Covenant Village of Cromwell	Cromwell, Connecticut	860-635-5511
Covenant Village of Florida*	Plantation, Florida	954-472-2860
Covenant Village of the Great Lakes	Grand Rapids, Michigan	616-735-4541
Covenant Village of Northbrook	Northbrook, Illinois	847-480-6380
Covenant Village of Turlock	Turlock, California	209-632-9976
The Holmstad	Batavia, Illinois	630-879-4000
Mount Miguel Covenant Village	Spring Valley, California	619-479-4790
The Samarkand	Santa Barbara, California	805-687-0701
Windsor Park*	Carol Stream, Illinois	630-682-4377

MULTI-LEVEL RETIREMENT COMMUNITIES

Covenant Home of Chicago	Chicago, Illinois	773-506-6900

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE**

PROVIDER NAME: **Covenant Retirement Communities, Inc. (Covenant Village of Turlock)**

In Thousands

	2013	2014	2015	2016
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(excluding amortization of entrance fee income)	$ 205,391	$ 225,848	$ 246,510	$ 267,812
LESS OPERATING EXPENSES				
(excluding depreciation, amortization, & interest)	$ 191,096	$ 200,292	$ 218,904	$ 237,801
NET INCOME FROM OPERATIONS	$ 14,295	$ 25,556	$ 27,606	$ 30,011
LESS INTEREST EXPENSE	$ 17,449	$ 15,807	$ 16,614	$ 15,743
PLUS CONTRIBUTIONS	$ 24	$ 1,039	$ 632	$ 1,059
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	$ -	$ -	$ -	$ -
NET INCOME (LOSS) BEFORE ENTRANCE FEES,				
DEPRECIATION AND AMORTIZATION	$ (3,130)	$ 10,788	$ 11,624	$ 15,327
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	$ 33,920	$ 50,199	$ 62,614	$ 66,311

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
		* See Attached Sheet *			

FINANCIAL RATIOS (see next page for ratio formulas)

	2013	2014	2015	2016
DEBT TO ASSET RATIO	45.91	46.01	43.64	41.91
OPERATING RATIO	101.54	95.68	95.54	94.67
DEBT SERVICE COVERAGE RATIO	1.64	2.62	3.22	3.40
DAYS CASH-ON-HAND RATIO	304.16	327.67	310.99	302.89

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2013	%	2014	%	2015	%	2016	%
STUDIO	$ 1,625.00	2.8	$ 1,670.00	2.8	$ 1,710.00	2.4	$ 1,770.00	3.5
ONE BEDROOM	$ 2,252.50	3.0	$ 2,380.00	5.7	$ 2,444.00	2.7	$ 2,528.00	3.4
TWO BEDROOM	$ 3,116.00	11.0	$ 3,202.00	2.8	$ 3,286.50	2.6	$ 3,392.50	3.2
COTTAGE/HOUSE	$ 1,965.00	3.0	$ 2,020.00	2.8	$ 2,075.00	2.7	$ 2,140.00	3.1
ASSISTED LIVING	$ 4,290.00	4.0	$ 4,440.00	3.5	$ 4,300.00	-3.2	$3,350-4500/ Month	4.7
SKILLED NURSING	$368/ Day	31.4	$381/ Day	3.5	$395/ Day	3.5	$325-$465/ Day	3.7
SPECIAL CARE	$ -							

COMMENTS FROM PROVIDER: Second Person Care Fees in Residential: 2013 = $815, 2014= $835, 2015 = $435 or $ 855 Depending on unit, 2016= $450 of $855 Depending on unit.
The calculation methodology for the ONE BEDROOM, TWO BEDROOM and COTTAGE/HOUSE unit is based on an average as there are several unit types.

PROVIDER NAME: Covenant Retirement Communities, Inc.
DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END
As of January 31, 2016
In Thousands

LENDER	1/31/16 OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
California Statewide Communities Development Authority Variable Rate Certificates of Participation					
Series 2013C	20,450	5.625	7/31/2013	12/1/2036	23 years
Illinois Finance Authority Revenue Refunding Direct Placement Bonds					
Series 2011A	15,830	variable	12/14/2011	12/1/2029	18 years
Series 2011B	37,965	variable	12/14/2011	12/1/2029	18 years
Colorado Health Facilities Authority Revenue Bonds					
Series 2012A	104,205	4.50-5.00	9/7/2012	12/1/2033	21 years
Series 2012B	22,905	4.00-5.00	9/7/2012	12/1/2026	14 years
Series 2012C	14,250	2.00-5.00	9/7/2012	12/1/2022	10 years
Series 2013A	21,995	4.250-5.750	7/31/2013	12/1/2036	23 years
Series 2013B	17,550	3.150	7/31/2013	12/1/2018	5 years
Series 2015A	110,760	1.00-5.00	4/1/2015	12/1/2035	21 years
Series 2015B	20,515	variable	4/1/2015	12/1/2024	10 years
Total long-term debt	386,425				
Less current maturities	11,590				
Plus unamortized OIP - net of unamortized discount	12,051				

PROVIDER NAME: Covenant Retirement Communities, Inc.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

Long-Term Debt, less Current Portion
Total Assets

OPERATING RATIO

Total Operating Expenses
-- Depreciation Expense
-- Amortization Expense
Total Operating Revenues
--Amortization of Deferred Revenues

DEBT SERVICE COVERAGE RATIO

Total Excess of Revenues over Expenses
+ Interest, Depreciation,
and Amortization Expenses
-- Amortization of Deferred Revenue
+ Net Proceeds from Entrance Fees
Annual Debt Service

DAYS CASH ON HAND RATIO

Unrestricted Current Cash
And Investments
+ Unrestricted Non-Current Cash
and Investments
(Operating Expenses - Depreciation
- Amortization)/365

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Continuing Care Retirement Community
Disclosure Statement
General Information

FACILITY NAME: Mount Miguel Covenant Village

ADDRESS: 325 Kempton Street, Spring Valley, CA ZIP CODE: 91977-5810 PHONE: 619-479-4790

PROVIDER NAME: Covenant Retirement Communities FACILITY OPERATOR: Covenant Retirement Communities

RELATED FACILITIES: See Page 2 RELIGIOUS AFFILIATION: Evangelical Covenant Church

YEAR OPENED: 1964 NO. OF ACRES: 28 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: Y

MILES TO SHOPPING CENTER: 1 mile MILES TO HOSPITAL: 8 miles

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	28	ASSISTED LIVING	36
APARTMENTS - 1 BDRM	85	SKILLED NURSING	86
APARTMENTS - 2 BDRM	127	SPECIAL CARE	10
COTTAGES/HOUSES	8	DESCRIBE SPECIAL CARE	
% OCCUPANCY AT YEAR END	95%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☐ Y ☑ N BY: ________

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☐ FEE FOR SERVICE

☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☐ 50% ☑ PRORATED TO 0% OTHER: Monthly

RANGE OF ENTRANCE FEES: $ 98,000 TO $ 349,326 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 60 Health Care Days; 10% Discount

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: ________

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☐	☐
CHAPEL	☑	☐
COFFEE SHOP	☐	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☑
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☑	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☐	☐
SWIMMING POOL-OUTDOOR	☑	☐
TENNIS COURT	☑	☐
WORKSHOP	☑	☐
OTHER	☐	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	4	
NUMBER OF MEALS/DAY	1	2
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☐
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☐	☐
MEDICATION MANAGEMENT	☐	☑
NURSING/WELLNESS CLINIC	☑	☐
PERSONAL NURSING/HOME CARE	☐	☐
TRANSPORTATION-PERSONAL	☐	☐
TRANSPORTATION-PREARRANGED	☐	☑
OTHER ________	☐	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Covenant Retirement Communities, Inc.

CCRC's	LOCATION (City, State)	Phone (with area code)
Covenant Village of Golden Valley	Minneapolis, Minnesota	763-546-6125
Covenant Shores	Mercer Island, Washington	206-268-3000
Covenant Village of Colorado	Westminster, Colorado	303-424-4828
Covenant Village of Cromwell	Cromwell, Connecticut	860-635-5511
Covenant Village of Florida*	Plantation, Florida	954-472-2860
Covenant Village of the Great Lakes	Grand Rapids, Michigan	616-735-4541
Covenant Village of Northbrook	Northbrook, Illinois	847-480-6380
Covenant Village of Turlock	Turlock, California	209-632-9976
The Holmstad	Batavia, Illinois	630-879-4000
Mount Miguel Covenant Village	Spring Valley, California	619-479-4790
The Samarkand	Santa Barbara, California	805-687-0701
Windsor Park*	Carol Stream, Illinois	630-682-4377

MULTI-LEVEL RETIREMENT COMMUNITIES

Covenant Home of Chicago	Chicago, Illinois	773-506-6900

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE**

PROVIDER NAME: Covenant Retirement Communities, Inc. (Mount Miguel Covenant Village)
In Thousands

	2013	2014	2015	2016
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(excluding amortization of entrance fee income)	$ 205,391	$ 225,848	$ 246,510	$ 267,812
LESS OPERATING EXPENSES				
(excluding depreciation, amortization, & interest)	$ 191,096	$ 200,292	$ 218,904	$ 237,801
NET INCOME FROM OPERATIONS	$ 14,295	$ 25,556	$ 27,606	$ 30,011
LESS INTEREST EXPENSE	$ 17,449	$ 15,807	$ 16,614	$ 15,743
PLUS CONTRIBUTIONS	$ 24	$ 1,039	$ 632	$ 1,059
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	$ -	$ -	$ -	$ -
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$ (3,130)	$ 10,788	$ 11,624	$ 15,327
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	$ 33,920	$ 50,199	$ 62,614	$ 66,311

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
		* See Attached Sheet *			

FINANCIAL RATIOS (see next page for ratio formulas)

	2013	2014	2015	2016
DEBT TO ASSET RATIO	45.91	46.01	43.64	41.91
OPERATING RATIO	101.54	95.68	95.54	94.67
DEBT SERVICE COVERAGE RATIO	1.64	2.62	3.22	3.40
DAYS CASH-ON-HAND RATIO	304.16	327.67	310.99	302.89

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2013	%	2014	%	2015	%	2016	%
STUDIO	$ 1,537.00	3.2	$ 1,591.00	3.5	$ 1,647.00	3.5	$ 1,729.00	5.0
ONE BEDROOM	$ 1,878.00	3.0	$ 1,939.00	3.3	$ 2,002.00	3.3	$ 2,097.00	4.8
TWO BEDROOM	$ 2,228.00	2.8	$ 2,295.00	3.0	$ 2,364.00	3.0	$ 2,470.00	4.5
COTTAGE/HOUSE	N/A		N/A		N/A		N/A	
ASSISTED LIVING	$ 4,096.00	4.0	$ 4,260.00	4.0	$ 4,430.00	4.0	$ 4,784.00	8.0
SKILLED NURSING	$284/Day	4.0	$295/Day	4.0	$307/Day	4.0	$322/Day	5.0
SPECIAL CARE			$6,000.00		$6,750.00	12.5		

COMMENTS FROM PROVIDER: Second Person Care Fees in Residential: 2013 = $730; 2014 = $767; 2015 = $805; 2016 = $861
Assisted Living pricing adjusted due to service level pricing: 2014 - SL2: $244 SL3: $505 SL4 $916 SL5 $1,373; 2015 - SL2 $244: SL3 $505: SL4 $941: SL5 $1,412; 2016 - SL2 $244: SL3 $505; SL4 $941: SL5 $1,412

PROVIDER NAME: Covenant Retirement Communities, Inc.
DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END
As of January 31, 2016
In Thousands

LENDER	1/31/16 OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
California Statewide Communities Development Authority Variable Rate Certificates of Participation					
Series 2013C	20,450	5.625	7/31/2013	12/1/2036	23 years
Illinois Finance Authority Revenue Refunding Direct Placement Bonds					
Series 2011A	15,830	variable	12/14/2011	12/1/2029	18 years
Series 2011B	37,965	variable	12/14/2011	12/1/2029	18 years
Colorado Health Facilities Authority Revenue Bonds					
Series 2012A	104,205	4.50-5.00	9/7/2012	12/1/2033	21 years
Series 2012B	22,905	4.00-5.00	9/7/2012	12/1/2026	14 years
Series 2012C	14,250	2.00-5.00	9/7/2012	12/1/2022	10 years
Series 2013A	21,995	4.250-5.750	7/31/2013	12/1/2036	23 years
Series 2013B	17,550	3.150	7/31/2013	12/1/2018	5 years
Series 2015A	110,760	1.00-5.00	4/1/2015	12/1/2035	21 years
Series 2015B	20,515	variable	4/1/2015	12/1/2024	10 years
Total long-term debt	386,425				
Less current maturities	11,590				
Plus unamortized OIP - net of unamortized discount	12,051				

PROVIDER NAME: Covenant Retirement Communities, Inc.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenues}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Continuing Care Retirement Community
Disclosure Statement
General Information

FACILITY NAME: The Samarkand

ADDRESS: 2550 Treasure Drive, Santa Barbara, CA ZIP CODE: 93105-4148 PHONE: 805-687-0701

PROVIDER NAME: Covenant Retirement Communities FACILITY OPERATOR: Covenant Retirement Communities

RELATED FACILITIES: See Page 2 RELIGIOUS AFFILIATION: Evangelical Covenant Church

YEAR OPENED: 1966 NO. OF ACRES: 17 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: Y

MILES TO SHOPPING CENTER: 1 mile MILES TO HOSPITAL: 1 mile

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	16	ASSISTED LIVING	38
APARTMENTS - 1 BDRM	65	SKILLED NURSING	43
APARTMENTS - 2 BDRM	122	SPECIAL CARE	36
COTTAGES/HOUSES	9	DESCRIBE SPECIAL CARE	Memory Care (AL = 16, SN = 20)
% OCCUPANCY AT YEAR END	93%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☐ Y ☑ N BY: ___

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☑ FEE FOR SERVICE

☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☑ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☑ 50% ☑ PRORATED TO 0% OTHER: ___

RANGE OF ENTRANCE FEES: $ 112,500 TO $ 658,500 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 60 Health Care Days; 10% Discount or 30 Health Care Days

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: ___

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☑	☐
COFFEE SHOP	☑	☑
CRAFT ROOMS	☑	☑
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☐	☐
SWIMMING POOL-OUTDOOR	☑	☐
TENNIS COURT	☐	☐
WORKSHOP	☑	☐
OTHER -	☐	☑

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	4	
NUMBER OF MEALS/DAY	1	2
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☑
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☑
CABLE TV	☐	☑
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☐	☑
NURSING/WELLNESS CLINIC	☑	☑
PERSONAL NURSING/HOME CARE	☐	☑
TRANSPORTATION-PERSONAL	☐	☑
TRANSPORTATION-PREARRANGED	☑	☑
OTHER Wireless Internet Access	☑	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Covenant Retirement Communities, Inc.

CCRC's	LOCATION (City, State)	Phone (with area code)
Covenant Village of Golden Valley	Minneapolis, Minnesota	763-546-6125
Covenant Shores	Mercer Island, Washington	206-268-3000
Covenant Village of Colorado	Westminster, Colorado	303-424-4828
Covenant Village of Cromwell	Cromwell, Connecticut	860-635-5511
Covenant Village of Florida*	Plantation, Florida	954-472-2860
Covenant Village of the Great Lakes	Grand Rapids, Michigan	616-735-4541
Covenant Village of Northbrook	Northbrook, Illinois	847-480-6380
Covenant Village of Turlock	Turlock, California	209-632-9976
The Holmstad	Batavia, Illinois	630-879-4000
Mount Miguel Covenant Village	Spring Valley, California	619-479-4790
The Samarkand	Santa Barbara, California	805-687-0701
Windsor Park*	Carol Stream, Illinois	630-682-4377

MULTI-LEVEL RETIREMENT COMMUNITIES

Covenant Home of Chicago	Chicago, Illinois	773-506-6900

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE**

PROVIDER NAME: **Covenant Retirement Communities, Inc. (The Samarkand)**

In Thousands

	2013	2014	2015	2016
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(excluding amortization of entrance fee income)	$ 205,391	$ 225,848	$ 246,510	$ 267,812
LESS OPERATING EXPENSES				
(excluding depreciation, amortization, & interest)	$ 191,096	$ 200,292	$ 218,904	$ 237,801
NET INCOME FROM OPERATIONS	$ 14,295	$ 25,556	$ 27,606	$ 30,011
LESS INTEREST EXPENSE	$ 17,449	$ 15,807	$ 16,614	$ 15,743
PLUS CONTRIBUTIONS	$ 24	$ 1,039	$ 632	$ 1,059
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	$ -	$ -	$ -	$ -
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$ (3,130)	$ 10,788	$ 11,624	$ 15,327
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	$ 33,920	$ 50,199	$ 62,614	$ 66,311

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD

* See Attached Sheet *

FINANCIAL RATIOS (see next page for ratio formulas)

	2013	2014	2015	2016
DEBT TO ASSET RATIO	45.91	46.01	43.64	41.91
OPERATING RATIO	101.50	95.68	95.54	94.67
DEBT SERVICE COVERAGE RATIO	1.64	2.62	3.22	3.40
DAYS CASH-ON-HAND RATIO	304.16	327.67	310.99	302.89

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2013	%	2014	%	2015	%	2016	%
STUDIO	$ 1,885 - 2,635	3.0	$ 1,940 - 2,715	3.0	$ 1,985 - 2,775	3.0	$ 2,065 - 2,885	4.0
ONE BEDROOM	$ 2,980.00	2.9	$ 3,070.00	3.0	$ 3,135.00	3.0	$ 3,260.00	4.0
TWO BEDROOM	$ 3,320.00	2.9	$ 3,420.00	3.0	$ 3,500.00	3.0	$ 3,640.00	4.0
COTTAGE/HOUSE	$ 5,185.00	3.0	$ 5,340.00	3.0	$ 5,445.00	3.0	$ 5,660.00	3.9
ASSISTED LIVING	$ 4,350 - 5,820	4.9	$ 4,480 - 5,995	4.7	$ 4,685 - 6,265	4.7	$ 4,940 - 6,575	5.0
ASSISTED LIVING SPECIAL CARE	$ 6,475.00	4.9	$ 6,770.00	4.6	$ 6,775 - 7,075	4.5	$ 7,090 - 7,425	4.9
SKILLED NURSING	$331.00/day	5.7	$346.00/day	4.5	$360.00/day	4.5	$374.00/day	3.9

COMMENTS FROM PROVIDER: Second Person Care Fees in Residential: 2013 = $775.00; 2014 = $805.00; 2015 = $825.00; 2016 = $860.00
Second Person Fees in Assisted Living: 2013 = $2,420.00; 2014 = $2,495.00; 2015 = $2,610.00; 2016 = $2,715.00

PROVIDER NAME: Covenant Retirement Communities, Inc.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

Long-Term Debt, less Current Portion
Total Assets

OPERATING RATIO

Total Operating Expenses
-- Depreciation Expense
-- Amortization Expense
Total Operating Revenues
--Amortization of Deferred Revenues

DEBT SERVICE COVERAGE RATIO

Total Excess of Revenues over Expenses
+ Interest, Depreciation,
and Amortization Expenses
-- Amortization of Deferred Revenue
+ Net Proceeds from Entrance Fees
Annual Debt Service

DAYS CASH ON HAND RATIO

Unrestricted Current Cash
And Investments
+ Unrestricted Non-Current Cash
and Investments
(Operating Expenses - Depreciation
- Amortization)/365

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Form 7-1 Report on CCRC Monthly Service Fees
Turlock

	Residential Living	Assisted Living	Skilled Nursing
1 Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$1,770- $4,100	$3,350-$4,500	$325-$465/ day
2 Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.3%	4.7%	3.3% - 4.84%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of theis form and specify the names of the provider and community.)

3 Indicate the date the fee increase was implemented: 2/1/2015

(If more than 1 increase was implemented, indicate the dates for each increase.)

4 Check each of the appropriate boxes:

☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the vasis for determining the amount of the increase, and the data used for calculating the increase.

☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

5 On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

Form 7-1 Report on CCRC Monthly Service Fees
Mount Miguel

	Residential Living	Assisted Living	Skilled Nursing
1 Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$1,729 - $4,695	$4,784 - $13,500	$8,230 - $11,656
2 Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.5 - 5.00%	8.00%	4.00%

☐ Check here if monthly service fees at this community were <u>not</u> increased during the reporting period. (If you checked this box, please skip down to the bottom of theis form and specify the names of the provider and community.)

3 Indicate the date the fee increase was implemented: 2/1/2015

(If more than 1 increase was implemented, indicate the dates for each increase.)

4 Check each of the appropriate boxes:

[X] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[X] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[X] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[X] At the meeting with residents, the provider discussed and explained the reasons for the increase, the vasis for determining the amount of the increase, and the data used for calculating the increase.

[X] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[X] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

5 On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

Form 7-1 Report on CCRC Monthly Service Fees
Samarkand

	Residential Living	Assisted Living	Skilled Nursing
1 Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$2,065 to $5,660	$4,940 to $7,425	$11,220 to $15,660
2 Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.9% to 4.0%	4.7% to 5.4%	3.9% to 4.0%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of theis form and specify the names of the provider and community.)

3 Indicate the date the fee increase was implemented: **2/1/2015**

(If more than 1 increase was implemented, indicate the dates for each increase.)

4 Check each of the appropriate boxes:

[x] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[x] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[x] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[x] At the meeting with residents, the provider discussed and explained the reasons for the increase, the **basis** for determining the amount of the increase, and the data used for calculating the increase.

[x] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[x] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

5 On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

The data utilized in establishing adjustments in monthly care fees include projected increases in costs such as salary and benefits, food costs, utilities, contract services, supplies and other operating costs and economic analyses of market conditions. The development of the budget, which includes planning for next years' costs of salary and benefits, food costs, utilities, contract services, supplies and other operating costs is a six-month process which starts with ten year forecasting in the spring. For the budget process, the last four years' expenditures are reviewed as well as actual year-to-date expenditures for the current year and an estimated actual for the remaining months of the year.

Budgeted apartment revenues are calculated for the residential units by taking into account occupancy percentages by apartment type and specific monthly rates. Budgeted revenues at the personal care and skilled nursing facilities take into account room type, occupancy percentages by patient payer type and specific monthly and/or daily rates.

Revenues generated from monthly fees are budgeted for in the operating plan. These revenues are planned to cover operating costs and an operating margin consistent with industry standards.

Adjustments to monthly fees typically only occur annually on the first day of the fiscal year, February 1.

FORM 9-1
CALCULATION OF REFUND RESERVE AMOUNT

[1] Resident Name	[2] Sex	[3] Entrance Fee	[4] Refund %	[5] Refund Amount (promised after 6 yrs)	[6] Age	[7] Life Exp.	[9] Present Value Multiplier	[10] Present Value of Refund
Resident #1	F	$542,900	90%	$488,610	88	5.613	0.705	$344,451
								$0
								$0
								$0
								$0
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								$0
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								$0
								$0
								$0
							TOTAL AMOUNT REQUIRED FOR REFUND RESERVE :	$344,451

PROVIDER: Covenant Retirement Communities, Inc.
COMMUNITY: The Samarkand

RECEIVED
JUN 23 2016
CONTINUING CARE
CONTRACTS BRANCH

Covenant Retirement Communities
Key Indicator Write-Up
January 31, 2016

Because CRC's fiscal year ends on 1/31/xx, we completed the ratios using the 2015 column, for example, for our 1/31/16 audit results as this most closely matches with a calendar year end.

The following information describes some of the changes in Covenant Retirement Communities' (CRC) ratios from the fiscal year ended 01/31/15 to 01/31/16.

Margin Indicators: Margin ratios improved due to an improvement of the operating margin (which is positive as of 01.31.16) and an increase in proceeds from entrance fees. CRC had 377 move ins. While this number is lower than last year, less incentives are being offered, so entrance fee receipts are higher. Additionally, resident days were up 3%.

Liquidity Indicators: Unrestricted cash and investments and days cash on hand decreased mostly due to poor market conditions at the end of January. Since the end of January, there has been significant recovery of those losses.

Entrance fees (deferred revenue, annual e/f proceeds): Entrance fees increased in FY2016 related to significant marketing efforts. While there were less move ins in FY16 compared to FY15, less incentives were offered, thus increasing the amount of proceeds.

Capital asset expenditures decreased mostly because the Northbrook town center construction was ongoing and completed at the end of FY15 (there were minimal expenditures for this project in FY16). Another construction project at the Mount Miguel campus is ongoing, but due to project delays, expenditures on that project during FY16 were less than expected. See the MD&A for more information on this project.

Debt Service Coverage Ratios: Debt service coverage ratio (revenue basis) increased due to an improvement in operations. The improvement in operations as described above and more fully described in the attached MD&A. The debt service coverage ratio increased due to an improvement in operations and an increase in entrance fee proceeds.

Attached is the MD&A for your reference. This file more fully describes the results of operations and ratios for the year ended 01/31/16.

Covenant Retirement Communities, Inc.
Management Discussion and Analysis
January 31, 2016

This reporting package contains financial information for the Obligated Group of Covenant Retirement Communities, Inc. ("CRC"), and Covenant Retirement Services, Inc. ("CRS"). CRS and its affiliates are not included in the Obligated Group therefore comments regarding operating results are provided for each group separately.

CRC Obligated Group

The Obligated Group of Covenant Retirement Communities ended fiscal year 2016 with operating income of $145 thousand, an improvement of $4.8 million from fiscal 2015. Operating revenues increased $24 million. Of this increase, $20 million is related to an increase in routine resident service revenue and ancillary revenue which is caused by a 3% increase in resident days (excludes increase related to Brandel Manor in Turlock), an increase in private pay rates, a continued upward trend in Medicare utilization and the inclusion of a full year of operating revenues of Brandel Manor (see information on the Brandel Manor acquisition in prior MD&A). Amortization of entrance fees also increased approximately $4 million. Operating expenses increased $19 million due to the following: (1) wages, which are a large part of total operating expenses, increased an average of 2-3% from fiscal 2015; (2) nursing and ancillary services expense which correlates to higher resident days and Medicare utilization; (3) dining services also related to the increase in resident days; (4) administrative and general, for a variety of reasons, including consulting and recruiting fees; (5) depreciation expense which reflects CRC's commitment to capital reinvestment plus a full year of depreciation expense of the Evergreen building at Northbrook which opened in December 2014, and (6) the inclusion of a full year of operating expenses of Brandel Manor. CRC's Net Operating Margin (NOM) is favorable compared to the prior year end at 6.9% versus 6.1% for fiscal 2015.

It was another positive sales year with 356 reoccupancies and 21 new move-ins. Despite the actual number of reoccupancies being lower this year as compared to last year, net entrance fee proceeds increased $4.1 million from the prior year as less incentives were given. Residential occupancy slightly decreased from 91.7% at 01/31/2015 to 91.5% at 01/31/2016; all but three campuses are above 90% occupancy. Assisted living occupancy also slightly decreased from 91% to 90% and skilled nursing occupancy decreased from 92% to 85%. Although Medicare days were ahead of budget and higher than the prior year, CRC's Medicaid days were down. In FY'16, the skilled nursing net revenue still improved from the prior year despite the decline in overall occupancy. Management continues to evaluate and strategize on the skilled nursing census situation.

The maximum annual debt service coverage ratio has improved from 2.73x in the prior year to 3.13x. Days cash on hand decreased from 335 days in the prior year to 327. The market conditions at the end of January created unusual unrealized losses at the end of the fiscal year, which negatively impacted days cash on hand. CRC has since seen some recovery in those losses. CRC is in compliance with all covenants at January 31, 2016 as shown in the reporting package.

CRC reported aggregate investment losses of ($6.4) million due to poor market conditions at the end of the year, as noted above. The negative fair market value of CRC's three swap agreements declined by $1.9 million. These changes are reflected in non-operating income.

CRC recorded a loss on extinguishment of debt of ($5.7) million related to the refinancing transaction that occurred on April 2, 2015 as noted in the audit report footnotes and previously reported on EMMA.

Fitch Ratings affirmed CRC's rating at BBB+ and revised the outlook from stable to positive.

2013 Financing Projects

The new residential living building at Covenant Village of Northbrook, Evergreen, which was financed with 2013 bond proceeds, is now complete and being occupied. At January 31st, of the 55 total units, 54 of the units are occupied and 1 unit remains available. As previously disclosed, CRC anticipated a partial pay off of the $17.5 million TEMPS bonds that were borrowed for the purpose of the Evergreen project as units became occupied and entrance fees received. CRC redeemed $10 million of TEMP bonds on April 29th.

The Mount Miguel Town Center construction, which was also part of the 2013 bond financing, is underway, but due to project delays related to permitting and unknown underground conditions, the time and cost of the project has increased. It is projected that the cost of the project will increase by up to $3.5 million and that the building will open in late 2016. CRC's Board has approved the use of reserves to cover the project fund shortfall.

Covenant Retirement Services, Inc.

The consolidated statements of financial position and statements of operations include Covenant Retirement Services (separately presented in the combining schedules). CRS is a sub-parent organization that is wholly owned by CRC, Inc. CRS and its affiliate entities are not part of the Obligated Group. This group of entities operates in the areas of capital project development, property ownership, senior living rental, and home health care. The combined operating loss at the end of fiscal 2016 is ($1.1) million; this loss is $1.4 million better than the prior fiscal year.

Total Operating Revenue increased by approximately $1.8 million year over year, primarily reflecting growth at CovenantCare at Home. The combined CRS Net Operating Margin (NOM) is 4.1% through the end of fiscal 2016 versus .53% in the prior year.

Construction was completed on the new rental community in Tulsa, Oklahoma, Covenant Place of Tulsa ("Tulsa"); the facility opened in December 2015. Tulsa is a similar model to Lenexa. It has 46 residential apartments and 34 assisted living apartments. As a result of this new development project, external borrowings of CRS have increased. CRC, along with Lenexa, has guaranteed 50% of the loan commitment. The guarantee can be reduced in the future upon the achievement of various covenants.

CRC wrote off $7.2 million in advances related to certain CRS entities. CovenantCare at Home represented the largest share of those write offs. Advances and accumulated interest on agencies that are no longer operating were deemed uncollectible. Approximately half of the write offs were tied to accumulated interest charges versus actual cash advanced for operations.

Summary

CRC's commitment to improving operations by maximizing efficiencies and increasing occupancies is evident through the positive operating results of the Obligated Group. With CRC's new president and other new key positions, the focus will continue to be on operations while also addressing areas of strategy in the year ahead.

Date Prepared: 6/18/2016

KEY INDICATORS REPORT

COVENANT RETIREMENT COMMUNITIES, INC.

Chief Executive Officer Signature

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

	1/31/2012	1/31/2013	1/31/2014	1/31/2015	1/31/2016	1/31/2017 Projected	1/31/2018	1/31/2019	1/31/2020	1/31/2021	1/31/2022	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Preferred Trend Indicator
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)												N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	4.08%	3.67%	4.60%	8.42%	6.87%	6.24%	7.07%	8.04%	8.51%	8.88%	9.25%	↑
3. Net Operating Margin - Adjusted (%)	21.46%	18.98%	24.56%	25.50%	25.38%	22.95%	21.34%	21.96%	22.47%	22.54%	22.61%	↓
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments ($000)	$177,857	$171,813	$191,454	$198,145	$206,793	$ 236,472	$264,446	$282,748	$301,474	$322,369	$344,323	↑
5. Days Cash on Hand (Unrestricted)	348	333	344	335	327	324	334	356	384	421	459	↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees ($000)	$224,032	$226,122	$243,387	$270,097	$266,157	$ 291,185	$303,864	$313,693	$324,056	$333,433	$342,810	N/A
7. Net Annual E/F proceeds ($000)	$30,146	$33,920	$50,199	$62,516	$66,311	$ 54,573	$54,047	$55,412	$57,900	$56,856	$59,835	N/A
8. Unrestricted Net Assets ($000)	$64,358	$61,201	$73,400	$70,344	$52,523	$62,703	$100,429	$113,136	$129,714	$150,742	$158,279	N/A
9. Annual Capital Asset Expenditure ($000)	$28,565	$40,170	$55,247	$60,650	$51,205	$52,547	$40,050	$37,550	$35,350	$35,150	$35,150	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	0.26	0.43	0.89	0.85	1.13	0.85	0.88	1.00	1.07	1.17	1.23	↑
11. Annual Debt Service Coverage (x)	1.90	1.74	2.64	2.73	3.13	3.09	2.84	3.07	3.18	3.40	3.62	↑
12. Annual Debt Service/Revenue (%)	11.95%	10.30%	11.00%	10.75%	8.95%	9.11%	8.81%	8.52%	8.24%	7.95%	7.68%	↓
13. Average Annual Effective Interest Rate (%)	4.70%	4.50%	4.30%	4.30%	4.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	52.03%	47.81%	46.15%	45.28%	50.63%	63.09%	72.86%	82.37%	91.17%	101.46%	113.13%	↑
15. Average Age of Facility (years)	10.60	10.42	10.47	10.46	10.90	11.09	12.28	13.05	13.79	14.53	14.53	↓

Average Annual Occupancy by Site (%)

	Actual 1/31/2012	Actual 1/31/2013	Actual 1/31/2014	Actual 1/31/2015	Actual 1/31/2016	Estimate 1/31/2017	Estimate 1/31/2018	Estimate 1/31/2019	Estimate 1/31/2020	Estimate 1/31/2021
Samarkand	87.58%	82.73%	90.08%	91.13%	91.82%	93.17%	91.92%	91.92%	91.52%	91.92%
Covenant Village of Turlock	78.50%	76.40%	84.26%	91.77%	89.55%	92.73%	91.90%	92.30%	92.70%	92.70%
Mount Miguel Covenant Village	92.78%	91.54%	89.89%	94.96%	91.84%	93.82%	92.65%	92.65%	92.65%	92.65%