

ECUMEN AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

ECUMEN AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ecumen and Subsidiaries
Shoreview, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ecumen and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ecumen and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The management’s discussion and analysis on pages 3-8, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Organization adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present the debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize the debt issuance costs over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 3, 2017

ECUMEN AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

Executive Overview

Ecumen (the Organization), headquartered in Shoreview, Minnesota, is one of the largest senior living providers of senior housing and services in Minnesota and surrounding states. Ecumen is a 501(c)(3) organization affiliated with the Evangelical Lutheran Church in America (ELCA).

The Organization's mission is to create home for older adults wherever they choose to live. Our strategy for more than a decade has been to transform Ecumen's nursing home based service model to one that is better able to respond to a broader range of customer needs and desires. The Organization is intently focused on changing the way aging is viewed by identifying and developing new products and services that allow seniors to age in whatever setting they call home.

Since 2003, an important component of Ecumen's transformation has been, and continues to be, the diversification of our revenue through strategic repositioning of our key campus locations and the addition of new communities throughout the state of Minnesota. As a result of these initiatives, the Organization added approximately 1,300 units of market rate assisted and independent living offerings and reduced its nursing home beds by 778 units. The Organization now has 1,694 stabilized market rate housing units with another 133 units that have not yet reached stabilization, and 526 skilled nursing home beds, of which approximately one-third are transitional care or premium pay beds.

The Organization sold a nursing home and four market rate housing projects in 2016. These projects were located in rural Southern Minnesota and struggled to maintain occupancy and attract and retain staff. These sales resulted in the reduction of 90 nursing home beds and 71 market rate housing units.

The Organization completed financing and began pre-sales and construction in 2015 on Abiitan Mill City, a new senior living community in downtown Minneapolis. This \$42 million, 133-unit community opened in December 2016.

The Organization also began developing cooperative senior housing in 2015 under the Zvago brand name and has several projects in various stages of planning and development. The cooperative projects will be managed by Ecumen and will provide exposure to a younger demographic. The cooperatives will also serve as a valuable referral source to Ecumen's housing with services communities should a higher level of care be needed. The Organization began pre-sales for its first cooperative project located in Glen Lake, Minnesota in early 2015. Financing and construction of this project began in 2016 and the project is expected to open in April 2017. This cost of this 54-unit project is expected to be approximately \$18.8 million. The Organization began pre-sales on two additional cooperative projects in 2016, located in St. Anthony and Apple Valley, Minnesota. These projects are comprised of 49 and 58 units, respectively. Financing and construction for these two projects is projected to begin in 2017 and are expected to open in 2018. The cooperative projects are included in Ecumen's 2015 and 2016 consolidated financial statements and will continue to be included until such time as project construction is complete and substantially all membership units are sold. At that time, ownership of the cooperative will be transitioned to the resident member owners and removed from Ecumen's consolidated financial statements.

ECUMEN AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

Executive Overview (Continued)

Following is a summary of the change in revenue and unit mix from 2003 to 2016.

	Revenue Mix		Unit Mix	
	2016	2003	2016	2003
Nursing Homes	42 %	76 %	18 %	57 %
Market Rate Housing	46	10	64	21
Subsidized Housing	2	3	18	22
Community Based Services	6	8	-	-
Management and Consulting	4	3	-	-
Totals	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Community based services, primarily hospice, and technology will play a much greater role in helping enhance our customers' independence by providing them with new and improved choices. The Organization is working aggressively to expand its private pay and Medicare based home care and hospice services. Our objective is to deliver these services in every geographic market where we have a campus or senior housing presence. We opened a Twin Cities hospice agency in February 2016 and anticipate expanding into the North Branch, Minnesota market in 2017. We are also exploring various partnering opportunities with unrelated organizations to deliver health care services and pilot and implement several health care related technologies that help improve the quality of life for the seniors we serve.

The Organization provides a full range of third-party development and operational management services and has greatly expanded its work in 2015 and 2016 with third-party partners who want to develop and operate senior housing communities. The Organization has several development projects underway throughout the upper Midwest which will generate additional development revenue and add three communities with over 400 additional housing units to the existing managed portfolio, which currently consists of 14 senior housing communities totaling 913 housing units and 6 skilled nursing communities totaling 341 skilled nursing home beds.

**ECUMEN AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)**

Summary of Financial Results

The following table summarizes our operating revenue, operating EBITDA and our excess (deficit) of revenue over expense for 2016 and 2015:

	\$ in 000's	
	2016	2015
Operating Revenue	\$ 163,459	\$ 152,210
Operating EBITDA - Before Startups	\$ 21,841	\$ 21,527
Operating EBITDA - Startups *	(1,567)	(735)
Total Operating EBITDA	\$ 20,274	\$ 20,792
Operating Income (Loss) - Before Startups	\$ (614)	\$ (1,310)
Operating Income (Loss) - Startups *	(1,670)	(785)
Total Operating Income (Loss)	(2,284)	(2,095)
Other Income and Expense	2,774	(1,096)
Excess (Deficit) of Revenue over Expense	\$ 490	\$ (3,191)

* Startups represent Abiitan Mill City, Ecumen Hospice and Zvago Glen Lake

Revenue increased by \$11.2 million or 7.4% in 2016, to \$163.5 million. Skilled nursing homes contributed \$5.8 million of the revenue increase primarily as a result of increased Medicaid reimbursement rates due to the change to the Value Based Nursing Facility Reimbursement System that became effective January 1, 2016. The expansion of our community based services, improved occupancy in both skilled nursing homes and market rate housing, the development fee earned on the Zvago Glen Lake cooperative, as well as an increase in third-party management fee revenue contributed the balance of the revenue increase.

Operating EBITDA (defined as operating income (loss) excluding interest expense, depreciation, and amortization) before startups increased by \$0.3 million in 2016. We continued to invest in our employees by increasing wages in response to competitive pressure to attract and retain the staff necessary to meet customer demands. The Organizations startup EBITDA loss was due primarily to increased operating expense associated with opening our new Twin Cities Hospice program, opening of Abiitan Mill City, and pre-opening marketing and organizational costs at our Zvago cooperative projects.

The Organization reported an operating loss before startups of \$0.6 million in 2016 compared to a loss of \$1.3 million in 2015 as a result of lower interest expense and a \$0.3 million increase in operating EBITDA. Non-operating income increased by \$3.9 million in 2016 primarily due to a \$2.8 million increase in investment income versus 2015 and \$0.8 million increase in net fundraising income.

**ECUMEN AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)**

Summary of Financial Results (Continued)

The Organization generated cash flow from operating activities of \$12.5 million in 2016 compared to an operating cash flow of \$13.3 million in 2015. The decrease in operating cash flow was the result of increased working capital requirements. Unrestricted cash and investments increased from \$38.8 million at December 31, 2015 to \$42.1 million at December 31, 2016. Our 2016 debt service coverage ratio decreased to 1.34 compared with 1.55 in 2015. Realized investment gains of \$3.3 million in early 2015, resulting from a transition in investment managers, had a positive impact on 2015 debt service coverage. Excluding the impact of the investment gains, the debt service coverage in 2015 would have been 1.34.

Total Revenue

Total Revenue from continuing operations in 2016 increased to \$163.5 million, or 7.4%, over 2015. The following table summarizes total revenue by segment:

	\$ in 000's		% Change
	2016	2015	
Nursing Homes	\$ 68,293	\$ 62,482	9.3%
Market Rate Housing	74,843	73,279	2.1%
Subsidized Housing	4,179	4,045	3.3%
Community Based Services	9,955	8,261	20.5%
Management and Consulting	6,189	4,143	49.4%
Total Operating Revenue	\$ 163,459	\$ 152,210	7.4%

Nursing home revenue increased from \$62.5 million in 2015 to \$68.3 million in 2016, an increase of 9.3%. During 2015, Minnesota passed legislation which significantly increased skilled nursing home reimbursement rates through the Medicaid program beginning in January 2016 which accounted for a 10.7% increase in Medicaid and Private revenue in 2016. Average nursing home occupancy was 91.0% up 1.1% from 2015 occupancy of 89.9%. The Organization sold a nursing home located in Litchfield, Minnesota in mid-July 2016 which reduced revenue by \$2.5 million. Much of the Medicaid rate increase has been used to fund higher labor costs in both 2015 and 2016.

Market rate housing revenue increased by 2.1% from \$73.3 million in 2015 to \$74.8 million in 2016. The improvement was primarily due to general increases in market rent and service rates as well as a slight improvement in occupancy, which averaged 94.2% and 94.1% in 2016 and 2015, respectively. The Organization sold four market rate housing sites, located in rural Southern Minnesota, in mid-July 2016 which reduced revenue by \$1.1 million, partially offsetting the impact of improved occupancy and general rate increases.

Community Based Service revenue increased by 20.5% to \$10.0 million in 2016 primarily as a result of opening Ecumen's Twin City Hospice.

Management and Consulting revenue increased from \$4.1 million in 2015 to \$6.2 million in 2016, an increase of 49.4%. The increase is entirely due to the recognition of our development fee related to the Zvago Glen Lake cooperative.

ECUMEN AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

Operating Income (Loss)

The Organization reported an operating loss of \$2.3 million in 2016 compared to a \$2.1 million operating loss in 2015. The following table summarizes income (loss) from operations by segment:

	\$ in 000's	
	2016	2015
Nursing Homes	\$ 1,816	\$ (2,464)
Market Rate Housing	4,211	5,248
Subsidized Housing	(881)	(417)
Community Based Services	(655)	(391)
Corporate Services (Net of Management and Consulting Revenue)	(5,105)	(3,286)
Total Operating Income (Loss) - Before Startups	(614)	(1,310)
Startups*	(1,670)	(785)
Total Operating Income (Loss)	\$ (2,284)	\$ (2,095)

* Startups represent Abitan Mill City, Ecumen Hospice and Zvago Glen Lake

Skilled nursing reported operating income of \$1.8 million in 2016 compared to a loss of \$2.5 million in 2015, an increase of \$4.3 million. The sale of the Litchfield Nursing Home in mid-July 2016 improved operating income by \$0.6 million. The Organization invested in its labor force in 2015 in order to respond to competitive pressure to attract and retain the staff necessary to meet customer demands. This investment was made in anticipation of increased Medicaid rates that became effective in January 2016. The increase in Medicaid rates and improved occupancy more than offset the impact of salary increases.

Market rate housing reported operating income of \$4.2 million compared to \$5.2 million in 2015, a decline of \$1.0 million. Increased labor costs, particularly at our campus sites with skilled nursing, more than offset the revenue gains.

Community Based Services reported an operating loss of \$0.7 million in 2016 compared to an operating loss of \$0.4 million in 2015. The majority of the loss was sustained in the Twin City metro home care agency as we were not able to attain our Medicare growth objectives.

**ECUMEN AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)**

Financial Condition – Liquidity and Capital Resources

The Organization's strategic growth and redevelopment has been financed primarily through accessing the tax-exempt bond market, HUD sourced financings and private bank placements. The equity required to finance new projects or acquisitions is typically sourced from operating cash flow or through fundraising efforts. The Organization used cash from operations to fund capital improvements of \$7.2 million and \$6.8 million in 2016 and 2015, respectively. The Organization refinanced approximately \$16.2 million and \$4.0 million of its outstanding debt in 2016 and 2015, respectively, which has contributed to improved liquidity and a reduction of \$0.4 million in interest cost compared to 2015. The Organization recognized a \$0.5 million and \$0.2 million loss on debt refinancing in 2016 and 2015, respectively, related primarily to the write-off of prior debt issuance costs as a result of these refinancing transactions. At December 31, 2016, approximately 74% of our outstanding debt was financed through long term fixed rate debt, 19% is fixed subject to interest rate resets, and 7% of our debt is subject to floating rates. Our average interest rate on average debt was approximately 3.7% in 2016 and 3.9% in 2015.

Following are some of the key financial numbers and ratios from the Organization's continuing operations for 2016 and 2015:

At December 31, \$ in 000's	2016	2015
Unrestricted Cash and Investments	\$ 42,112	\$ 38,778
Total Indebtedness	\$ 271,512	\$ 274,637
Net Assets	\$ 33,841	\$ 32,989
Key Ratios:		
Days Cash on Hand	101	100
Cash and Investments as a % of Debt	16%	14%
Debt Service Coverage Ratio	1.34	1.55

Ecumen's financial statements are designed to present users with a general overview of the Organization's finances and to demonstrate the Organization's accountability. If you have any questions about the report or need additional information, please contact the finance department at Ecumen, 3530 Lexington Avenue, Shoreview, Minnesota 55126.

**ECUMEN AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,213,410	\$ 7,009,223
Current Portion of Assets Limited as to Use	7,164,715	4,879,711
Accounts Receivable, Net	14,350,427	11,368,723
Other Current Assets	1,266,816	1,507,727
Total Current Assets	31,995,368	24,765,384
ASSETS LIMITED AS TO USE	21,292,109	48,416,051
Less: Current Portion of Assets Limited as to Use	(7,164,715)	(4,879,711)
Noncurrent Assets Limited as to Use	14,127,394	43,536,340
PROPERTY AND EQUIPMENT, NET	258,393,549	230,501,188
OTHER ASSETS		
Investments	30,841,010	28,969,011
Investment in Perpetual Trusts	2,450,462	2,422,748
Notes Receivable, Net	174,522	646,667
Total Other Assets	33,465,994	32,038,426
Total Assets	\$ 337,982,305	\$ 330,841,338
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt and Capital Leases	\$ 9,660,302	\$ 7,196,731
Accrued Interest	2,335,636	2,530,426
Other Current Liabilities	24,367,655	15,278,304
Total Current Liabilities	36,363,593	25,005,461
OTHER LIABILITIES		
Long-Term Debt, Less Current Maturities	264,944,333	270,120,646
Capital Leases, Less Current Maturities	1,485,000	1,751,000
Other Liabilities	1,348,289	975,571
Total Other Liabilities	267,777,622	272,847,217
NET ASSETS		
Unrestricted:		
Unrestricted	26,553,149	25,552,706
Noncontrolling Interest	(60,705)	82,334
Total Unrestricted	26,492,444	25,635,040
Temporarily Restricted	3,860,590	3,942,077
Permanently Restricted	3,488,056	3,411,543
Total Net Assets	33,841,090	32,988,660
Total Liabilities and Net Assets	\$ 337,982,305	\$ 330,841,338

See accompanying Notes to Consolidated Financial Statements.

ECUMEN AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016		2015	
	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUE				
Resident Service Revenue	\$ 153,643,926	94.0 %	\$ 144,357,095	94.8 %
Other Operating Revenue	9,815,474	6.0	7,852,600	5.2
Total Revenue	163,459,400	100.0	152,209,695	100.0
OPERATING EXPENSE				
Other Operating Expenses	143,185,598	87.6	131,417,934	86.3
Depreciation	12,522,013	7.7	12,449,854	8.2
Interest and Amortization	10,036,202	6.1	10,436,578	6.9
Total Operating Expense	165,743,813	101.4	154,304,366	101.4
OPERATING LOSS	(2,284,413)	(1.4)	(2,094,671)	(1.4)
OTHER INCOME AND EXPENSE				
Net Fundraising Income (Expense)	609,795		(175,480)	
Investment Income (Expense)	2,104,093		(657,684)	
Loss on Debt Refinancing	(498,840)		(156,196)	
Other Income (Expense)	558,863		(106,813)	
Total Other Income and Expense	2,773,911		(1,096,173)	
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	489,498		(3,190,844)	
Net Assets Released from Restrictions - Purchase of Property and Equipment	367,906		389,155	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FROM CONTINUING OPERATIONS	857,404		(2,801,689)	
Loss from Discontinued Operations	-		(204,099)	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 857,404		\$ (3,005,788)	

See accompanying Notes to Consolidated Financial Statements.

ECUMEN AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - December 31, 2014	\$ 28,640,828	\$ 3,782,126	\$ 3,650,418	\$ 36,073,372
Deficit of Revenue over Expense	(3,190,844)	-	-	(3,190,844)
Gifts and Grants	-	1,296,916	20,000	1,316,916
Change in Investments in Perpetual Trusts	-	-	(258,875)	(258,875)
Net Assets Released from Restrictions - Operations	-	(747,810)	-	(747,810)
Net Assets Released from Restrictions - Purchase of Property and Equipment	389,155	(389,155)	-	-
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	(2,801,689)	159,951	(238,875)	(2,880,613)
Loss from Discontinued Operations	(204,099)	-	-	(204,099)
CHANGE IN NET ASSETS	(3,005,788)	159,951	(238,875)	(3,084,712)
Net Assets - December 31, 2015	25,635,040	3,942,077	3,411,543	32,988,660
Excess of Revenue over Expense	489,498	-	-	489,498
Gifts and Grants	-	1,810,259	48,799	1,859,058
Change in Investments in Perpetual Trusts	-	-	27,714	27,714
Net Assets Released from Restrictions - Operations	-	(1,523,840)	-	(1,523,840)
Net Assets Released from Restrictions - Purchase of Property and Equipment	367,906	(367,906)	-	-
CHANGE IN NET ASSETS	857,404	(81,487)	76,513	852,430
Net Assets - December 31, 2016	<u>\$ 26,492,444</u>	<u>\$ 3,860,590</u>	<u>\$ 3,488,056</u>	<u>\$ 33,841,090</u>

See accompanying Notes to Consolidated Financial Statements.

ECUMEN AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets from Continuing Operations	\$ 852,430	\$ (2,880,613)
Change in Net Assets from Discontinued Operations	-	(204,099)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	12,522,013	12,449,854
Amortization	363,744	365,387
Environmental Expense	11,180	10,980
Loss on Debt Refinancing	498,840	156,196
Net (Gain) Loss on Sale of Assets	(570,042)	95,833
Actuarial Adjustment for Gift Annuities	26,878	43,672
Provision for Bad Debts	(735,627)	(343,402)
Net Unrealized (Gain) Loss on Investments	(1,199,666)	4,692,410
Contributions and Investment Income Received Restricted for Long-Term Investment	(1,859,057)	(1,316,916)
Change in Current Assets and Liabilities:		
Accounts and Notes Receivable	(2,246,077)	995,102
Other Current Assets	139,675	352,816
Other Current Liabilities	4,699,060	(1,145,748)
Net Cash Provided by Operating Activities	12,503,351	13,271,472
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(7,160,828)	(6,773,999)
Notes Receivable	472,145	(956,960)
Purchase of Investments	(1,039,892)	(16,038,640)
Proceeds from Sale of Investments	1,039,548	11,643,587
Decrease in Assets Under Bond and Mortgage Agreements	1,361,170	633,854
Increase in Subsidized Housing Reserve and Escrow Funds	(125,740)	(216,741)
Net Cash Used by Investing Activities	(5,453,597)	(11,708,899)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments of Long-Term Debt	(6,607,179)	(6,329,459)
Payment of Financing Costs	(82,956)	(153,791)
Payments to Annuitants	(14,489)	(84,705)
Contributions and Investment Income Received Restricted for Long-Term Investment	1,859,057	1,316,916
Net Cash Used by Financing Activities	(4,845,567)	(5,251,039)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,204,187	(3,688,466)
Cash and Cash Equivalents - Beginning of Year	7,009,223	10,697,689
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 9,213,410	\$ 7,009,223

See accompanying Notes to Consolidated Financial Statements.

ECUMEN AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 9,691,836	\$ 9,625,297
 SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	\$ 17,288,252	\$ 44,535,900
Purchase of Property and Equipment	(1,375,387)	(2,361,190)
Debt Repayment	(16,243,750)	(4,035,900)
Funds Used (Deposited into) Assets Held Under Bond Indenture Agreement, Net	1,200,102	(37,171,990)
Payment of Financing and Related Costs	(869,217)	(966,820)
Net Proceeds from Issuance of Long-Term Debt	\$ -	\$ -
 Construction in Progress Included in Accounts Payable	 \$ 1,920,450	 \$ 662,665

See accompanying Notes to Consolidated Financial Statements.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Ecumen

Ecumen is a Minnesota nonprofit corporation organized primarily to own, operate, manage and support senior living and health care communities. Housing and services for seniors are provided at Ecumen communities through a continuum of care including various levels of residential living and skilled nursing as well as other community-based programs and services including home health care and outpatient therapies. Ecumen currently operates primarily in Minnesota, but also has operations in surrounding states.

Ecumen operates through a number of wholly-owned nonprofit subsidiaries and Limited Liability Companies (LLCs) and is the sole owner of Ecumen Services, Inc., a for-profit subsidiary which provides management, development and consulting services to unrelated owners and sponsors of senior housing, skilled nursing and other senior service organizations. Ecumen is also the sole member of the Ecumen Foundation, and is the general partner of NBSH Limited Partnership dba: Uptown Maple Commons, which are further described below.

As of December 31, 2016, Ecumen and its affiliates owned or leased 46 health care and other facilities; including 10 U.S. Department of Housing and Urban Development subsidized housing projects. An additional 20 health care and other facilities were managed for unrelated third-party owners.

Ecumen's Board of Trustees is elected by six Minnesota synods of the Evangelical Lutheran Church in America (ELCA).

Ecumen Foundation

Ecumen Foundation, and its two subsidiary foundations (the Foundation), are Minnesota nonprofit corporations organized to serve the needs of Ecumen for charitable fund investment, management and administration. The Foundation has been designated by Ecumen as the entity to receive, invest, manage and administer charitable gifts given to any Ecumen organization.

NBSH Limited Partnership dba: Uptown Maple Commons

Ecumen is the general partner of NBSH Limited Partnership dba: Uptown Maple Commons (the Partnership), which was formed October 28, 1999 as a limited partnership for the purpose of owning and operating a 32-unit affordable rental housing project in North Branch, Minnesota for seniors and the disabled. Ecumen is the general partner of the Partnership and as a result is required to include the financial statements of the Partnership in the accompanying consolidated financial statements. The interest of the limited partners is reported as noncontrolling interest on the consolidated balance sheets as of December 31, 2016 and 2015.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Principles of Consolidation

The accompanying consolidated financial statements include all the accounts of Ecumen, each of its respective wholly owned subsidiaries and the Partnership. All material intercompany balances and transactions have been eliminated in the consolidated financial statements. The consolidated organizations are commonly referred to as the Organization in the consolidated financial statements and comprise the business.

Income Taxes

With the exception of Ecumen Services, Inc., a wholly-owned subsidiary of Ecumen and the Partnership, the Organization has been granted exempt status relative to federal and Minnesota corporate income taxes under Section 501(c)(3) of the federal Internal Revenue Code and applicable state codes.

Income or loss from activities considered unrelated to Ecumen's tax exempt purpose is recorded in the accounts of Ecumen Services, Inc. Income taxes for Ecumen Services, Inc. are recorded at the prevailing statutory rates and are included in operating expense. There were no income taxes payable at December 31, 2016 or December 31, 2015.

The Organization's income tax returns are subject to review and examination by federal, state, and local authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

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

Unrestricted – Those resources over which the Board of Trustees has discretionary control. Designated amounts represent those amounts that the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions that will be satisfied by actions of the Organization or passage of time. Income earned, including capital appreciation, is recognized during the period earned.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Presentation (Continued)

Permanently Restricted – Those resources subject to donor imposed restrictions that they be maintained permanently by the Organization. The donors of these resources permitted the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Income earned on temporary or permanently restricted support, including realized capital appreciation is recognized in the period earned. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

Resident Service Revenue

Resident service revenue includes rent, room charges and ancillary services to residents of the licensed nursing facilities, senior housing apartments and related services and is recorded at established billing rates net of contractual adjustments resulting from agreements with third-party payors, if applicable.

Provisions for estimated third-party settlements are provided in the period the related services are rendered. Differences between the amounts accrued and the subsequent settlements are recorded into operations in the year of settlement.

Excess (Deficit) of Revenue over Expense

The consolidated statements of unrestricted activities includes a line entitled the “excess (deficit) of revenue over expense” which is the performance indicator for the Organization. Changes in unrestricted net assets which are excluded from excess (deficit) of revenue over expense, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

The excess (deficit) of revenue over expense is influenced by the startup of new projects. For each of the years ended December 31, 2016 and 2015, the Organization has been in various stages of redeveloping existing properties, and developing, constructing and opening new senior living projects. The Organization expenses all of the marketing and other pre-opening costs during the development and stabilization of these projects. Once the project is open for occupancy, the interest cost and depreciation is also expensed, even though the project is not fully occupied. The Organization incurred expense in excess of revenue of approximately \$1.5 million for these projects in 2016.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Third-Party Reimbursement Agreements

Medicaid

The licensed nursing facilities participate in the Medicaid program that is administered by the Minnesota Department of Human Services (DHS). Medicaid and private paying residents are classified into one of 48 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

Effective January 1, 2016, nursing facilities are paid under the Value Based Nursing Facility Reimbursement System (VBR) as approved during the 2015 Minnesota State Legislative Session. Under the VBR system, care related costs will be reimbursed at actual cost subject to certain limitations. Other operating costs will be reimbursed using a pricing model, which results in the rates of these costs being the same for all nursing facilities in the state. Certain other costs, such as qualifying employer health insurance costs, will be reimbursed at an external fixed payment rate and will be cost based with no limitations.

The change to the VBR system also includes a hold harmless provision which protects nursing home facilities from being paid at rates lower than those in effect December 31, 2015. Nursing facilities will also be protected from significant decreases in rates in a single year related to care related costs.

By Minnesota Statute, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

For both of the years ended December 31, 2016 and 2015, the percentage of resident days covered under the Medicaid program at the Organization's skilled nursing communities was 41.3%.

Medicare

The Organization owns licensed nursing facilities that participate in the Medicare program. The home health and hospice agencies operated by the Organization also participate in the Medicare program.

By Minnesota Statute, a skilled nursing facility which participates in the Medicaid program must also participate in the Medicare program. This program is administered by the United States Centers for Medicare and Medicaid Services (CMS).

The Organization is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services (SNFs). The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however they do not contain a cost settlement.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Third-Party Reimbursement Agreements (Continued)

Medicare (Continued)

Nursing facilities licensed for participation in the Medicare and Medical Assistance programs are subject to annual surveys. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance, which would have a negative impact on the revenues of the nursing facility.

The Organization's home health agencies are reimbursed a prospective amount based on the level of care required by each patient. This prospective amount is paid periodically over the episode of care, which spans a 60-day period, starting when the first billable visit is furnished to a Medicare beneficiary.

For the years ended December 31, 2016 and 2015, the percentage of resident days covered under the Medicare program at the Organization's skilled nursing communities was 22.3% and 22.0%, respectively.

Occupancy Percentages

For the years ended December 31, 2016 and 2015, occupancy percentages were as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Units</u>	<u>Occupancy</u>	<u>Units</u>	<u>Occupancy</u>
Skilled Nursing	526	91.0 %	616	89.9 %
Market Rate Housing	1,828	94.2 %	1,764	94.1 %
Subsidized Housing	534	98.7 %	534	97.8 %
Total	<u>2,888</u>		<u>2,914</u>	

Cash and Cash Equivalents

The Organization considers all money market accounts and certificates of deposit with maturity dates of three months or less to be cash equivalents. Certificates of deposit are stated at cost, which approximates market value.

The Organization places its cash and investments with various financial institutions. At times such deposits may be in excess of FDIC insurance limits.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivable and Notes Receivable

The Organization carries accounts receivable at the original charge for services rendered less an estimated allowance for doubtful accounts. An adjustment to the allowance for doubtful accounts is recorded quarterly based on historical collection experience and management's evaluation of receivables at the end of each quarter. Included in notes receivable are funds Ecumen advanced to entity's for which Ecumen is the management agent to cover deficiencies in operating cash flow. These notes mature in December 2017 and are secured by a guaranty agreement. Payments on these notes are current and no allowance was deemed necessary at December 31, 2016 and 2015. At December 31, 2016 and 2015, the amount due on these notes receivable was approximately \$0.2 million and \$0.6 million, respectively. Accounts receivable are presented net of an allowance for doubtful accounts in the amount of approximately \$1.1 million and \$0.4 million at December 31, 2016 and 2015, respectively.

Assets Limited as to Use

Assets limited as to use include resident funds and deposits held in trust, assets held by trustees under bond and mortgage indenture agreements, assets held under HUD mortgage agreements, and assets reserved for worker's compensation claims. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets.

Under the various HUD regulatory agreements, the HUD entities are required to make deposits into restricted escrow and reserve for replacement accounts. HUD projects are required to deposit any surplus cash from operations into a residual receipts account. All disbursements from the reserve for replacement and residual receipts account require proper written approval from HUD.

Assets limited as to use are primarily invested in cash and cash equivalents, certificates of deposit and guaranteed investment contracts which are valued at cost on the consolidated balance sheets.

Property and Equipment

Property and equipment with an original cost at or above two thousand dollars are recorded at cost for purchased assets or fair market value at date of receipt for donated assets. The capitalization threshold was increased in 2016 to two thousand dollars from one thousand dollars in 2015. Depreciation is computed using the straight-line method over the estimated useful lives of the asset.

Construction in progress costs are deferred until the projects are completed and placed into service at which time these costs are depreciated over the useful life of the asset.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Interest Capitalization

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets, and depreciated over the estimated useful lives by the straight-line method of depreciation. Interest costs of \$1.9 million and \$ 1.2 million have been capitalized as a component of property cost for the years ended December 31, 2016 and 2015, respectively.

Investments

Investments are primarily invested in marketable equity securities, fixed income securities, mutual funds and United States Treasury Bills. Investments are classified as trading securities and are carried at fair value with realized and unrealized gains and losses included in the excess (deficit) of revenue over expense performance indicator.

Unrealized gains and losses on temporarily restricted and permanently restricted investments, other than perpetual trusts, are reported as temporarily restricted net assets. To the extent that unrealized losses related to permanently restricted investments exceed unrealized gains the amount of this excess will be reported in unrestricted net assets. The cost of securities sold is based on the specific identification method.

Investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that change in the values of investments will occur in the near term and that such changes could be material.

Fair Value of Financial Instruments

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

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

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

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value of Financial Instruments (Continued)

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

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually results when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value. However, the Organization may elect to measure newly acquired financial instruments at fair value in the future.

Charitable Gift Annuities Payable

The Organization has a gift annuity program whereby donors may contribute assets to the Organization in exchange for the right to receive a fixed dollar annual return during their lifetime. A portion of the transfer is considered to be a charitable contribution. The difference between the amount provided for the gift annuity and the present value of the liability for future payments is recognized in accordance with the donor's intentions at the date of the gift as specified by the donor. The Organization uses published mortality rate tables adopted by the United States Internal Revenue Service. The annuity liability is revalued annually based upon computed present values. Total charitable gift annuities payable was \$0.4 million at both December 31, 2016 and 2015. The current portion of gift annuities payable as of December 31, 2016 and 2015 was approximately \$51,000 and \$52,000, respectively, and is included in Other Current Liabilities on the consolidated balance sheets.

Real Estate Taxes

The real estate owned by the Organization related to providing licensed skilled nursing care has been exempted from ad valorem property taxes by the state of Minnesota and its political subdivisions. Property used by the Organization for other purposes is not generally exempt from ad valorem property taxes.

Asset Retirement Obligations

Asset retirement obligations represent obligations to dispose of assets that are legally required to be removed at a future date. They are recorded at the net present value using a risk-free interest rate and inflationary rate. Asset retirement obligations are recorded as Other Liabilities on the consolidated balance sheets.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Other Operating Revenue

Other operating revenue consists primarily of additional services that are provided to the residents and other members of the senior population primarily in the state of Minnesota and surrounding states, including North Dakota. These services include home delivered meals, outreach services, vending and other miscellaneous services.

Contributed Services

The Organizations receive a substantial amount of services donated by volunteers. No amounts have been reflected in the consolidated financial statements for those services.

Advertising Expenses

Advertising expenses approximated \$1.3 million and \$1.2 million for the years ended December 31, 2016 and 2015, respectively. Advertising costs are expensed when incurred.

New Accounting Pronouncements

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

During the year ended December 31, 2016, the Organization has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by \$6,225,345 and \$6,229,997 as of December 31, 2016 and 2015, respectively. The ASU is retrospectively applied. The adoption of the standard had no effect on previously reported net assets.

Subsequent Events

In preparing these financial statements, the Organization has considered events and transactions that have occurred through April 3, 2017, the date the financial statements were available to be issued.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 ASSETS LIMITED AS TO USE

The Organization is required to hold funds in various accounts based upon terms in the indenture of trust of the various bond issuances. In addition, the organizations operated under HUD are required to deposit funds into the required escrow, reserve for replacement and residual receipt accounts. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets. The Organization was required to maintain the following accounts:

Funds Held Under Bond and Mortgage Indenture Agreements

Bond Service Funds

Bond service funds have been established for the Organization to deposit monthly amounts necessary to pay semi-annual principal and interest on the bonds.

Bond Reserve Funds

Bond reserve funds have been established to provide a reserve for payment of principal and interest on the bonds in the event the Organization's principal and interest payments are insufficient to meet debt service requirements.

Bond Repair and Replacement Funds

Bond repair and replacement funds have been established to provide for repair and replacement of property funded by revenue bonds.

Bond Construction Funds

Bond construction funds have been established to hold bond proceeds temporarily for capital project expenditures.

Capital Interest Funds

Capital interest funds have been established to provide funds for interest costs during the construction and startup operations financed through a bond issuance.

Working Capital Funds

Working capital funds have been established to provide funds for operations during the startup operations financed through a bond issuance.

Funds Held Under Subsidized Housing Mortgage

Various escrow and reserve funds have been established under subsidized housing mortgage loan agreements. The funds accumulate in accordance with regulatory and loan agreements for payment of real estate taxes, insurance, building and equipment repairs and replacements, and surplus cash of the HUD projects. Withdrawals from the HUD mortgage escrow, reserve for replacement and residual receipts require HUD approval.

**ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 ASSETS LIMITED AS TO USE (CONTINUED)

Worker's Compensation Reserve Funds

The provider of the Organization's worker's compensation policy requires funds to be held in escrow as collateral for future worker's compensation claims.

Letter of Credit Collateral

The Organization is required to maintain collateral related to a letter of credit held for the benefit of a component of the variable rate long-term debt.

Funds held Under Sale of Property Agreement

The Organization sold a skilled nursing site and four market rate housing sites in 2016. The Organization is required to maintain a Post-Closing Escrow fund under the sale of property agreement. The funds are available to address any misrepresentation, breach, indemnity and hold harmless from Seller to Buyer. The Organization anticipates the funds to be released in July, 2017.

Resident Funds and Deposits

The Organization holds, in trust, funds advanced by residents to be used at each resident's direction. The funds held in trust are maintained in separate interest bearing accounts. The Organization also collects, as a condition of occupancy at its various senior housing communities, security deposits that are refundable upon leaving the community.

Assets limited as to use are invested in the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 15,380,098	\$ 40,802,544
Fixed Income	5,061,730	7,211,802
Certificates of Deposit	850,281	401,705
Total Assets Limited as to Use	<u>\$ 21,292,109</u>	<u>\$ 48,416,051</u>

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 ASSETS LIMITED AS TO USE (CONTINUED)

Resident Funds and Deposits (Continued)

The assets limited as to use are included as follows on the consolidated balance sheets at December 31, 2016 and 2015:

	2016	2015
Residents' Funds and Deposits	\$ 3,432,008	\$ 2,404,825
Funds Held Under Bond and Mortgage		
Indentures Agreements:		
Bond Service Funds	2,061,196	1,466,556
Bond Reserve Funds	3,259,728	5,164,323
Bond Repair and Replacement Funds	3,044,826	2,956,343
Bond Construction Funds	2,719,893	27,063,660
Capital Interest Fund	276,950	1,480,442
Working Capital Funds	2,329,881	2,888,493
Subtotal	13,692,474	41,019,817
Funds Held Under Subsidized Housing Mortgage:		
Mortgage Escrow Funds	51,009	50,960
Reserve for Replacement Funds	1,149,586	1,147,900
Residual Receipts Funds	464,526	802,249
Tax and Insurance Escrows	153,692	190,409
Subtotal	1,818,813	2,191,518
Worker's Compensation Reserve Funds	1,800,000	2,550,000
Letter of Credit Collateral - Investments	248,814	249,891
Escrow Held for Sale of Property	300,000	-
Total Assets Limited as to Use	<u>\$ 21,292,109</u>	<u>\$ 48,416,051</u>

NOTE 3 INVESTMENTS

The fair value of investments is estimated based upon quoted market prices for those or similar investments. Investment portfolios consisted of the following at December 31, 2016 and 2015:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	\$ 1,254,755	\$ 1,254,755	\$ 1,351,971	\$ 1,351,971
Fixed Income	8,947,807	8,388,965	8,507,177	8,882,335
Equity Securities	19,146,363	19,272,812	17,663,353	18,722,996
Mutual Funds	1,278,270	1,419,333	1,207,556	1,386,831
Investment in Joint Venture	213,815	261,484	238,954	240,341
Total	<u>\$ 30,841,010</u>	<u>\$ 30,597,349</u>	<u>\$ 28,969,011</u>	<u>\$ 30,584,474</u>

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 INVESTMENTS (CONTINUED)

The Organization records other investments at the lower of cost or market under accounting principles generally accepted in the United States of America.

The total unrealized gain on trading securities held at December 31, 2016 was \$0.2 million, compared to an unrealized loss of \$1.6 million at December 31, 2015.

Investment income earned during the years ended December 31, 2016 and 2015 was from the following:

	2016	2015
Interest and Dividend Income	\$ 782,242	\$ 738,897
Net Realized Gain on Investments	122,185	3,295,829
Unrealized Gain (Loss) on Investments	1,199,666	(4,692,410)
Total Investment Income	\$ 2,104,093	\$ (657,684)

NOTE 4 PROPERTY AND EQUIPMENT

Property and eEquipment on the consolidated balance sheets consisted of the following at December 31, 2016 and 2015:

	2016	2015
Land and Improvements	\$ 19,433,543	\$ 17,331,341
Buildings and Improvements	331,273,104	304,224,659
Furniture and Equipment	30,911,753	29,857,542
Construction in Progress	10,954,925	7,748,560
Total	392,573,325	359,162,102
Less: Accumulated Depreciation	(134,179,776)	(128,660,914)
Total Property and Equipment	\$ 258,393,549	\$ 230,501,188

Depreciation expense for both of the years ended December 31, 2016 and 2015 was \$12.5 million.

Construction in progress consisted of the following significant on-going projects:

Minneapolis

In 2016, the Organization completed a construction project for a 134 unit market rate housing building in Minneapolis, Minnesota called Abiitan Mill City. The site opened December 15, 2016. As of December 31, 2016, approximately \$34.6 million has been spent on property and equipment. The project was capitalized in December 2016. The majority of the project was financed with external debt.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 PROPERTY AND EQUIPMENT (CONTINUED)

Glen Lake Cooperative

The Organization began pre-sales for its cooperative project located in Glen Lake, Minnesota in early 2015. The cost of this 54-unit project is expected to be \$18.8 million and is financed with external debt and member share payments. The project will ultimately be owned by its members once construction is complete and substantially all membership units are sold. As of December 31, 2016, 47 members have secured their unit pricing through payment of a 15% subscription share payments totaling \$2.6 million. The share payments and reservations deposits are reported in resident funds and deposits as an asset limited in use. Construction is expected to be completed by April 2017 at which time financing will be finalized and ownership will pass to members. At December 31, 2016, approximately \$9.5 million is included in construction in progress related to this project.

St. Paul Cooperative

The Organization began pre-sales for its cooperative project located in St Paul, Minnesota in early 2016. The cost of this 49-unit project is expected to be \$14.5 million and will be financed with external debt and member share payments. The land was purchased in late 2016 and will be financed as part of the initial endorsement of the project in second quarter 2017. The project will ultimately be owned by its members once substantially all membership units are sold. As of December 31, 2016, 60 priority reservation deposits have been received and are expected to be converted to subscription agreements by summer of 2017. The reservations deposits are reported in resident funds and deposits as an asset limited in use. Construction will begin upon initial endorsement of the financing and is expected to be completed in the summer of 2018, at which time financing will be finalized and ownership will pass to members. At December 31, 2016, approximately \$0.4 million is included in construction in progress related to this project.

Apple Valley Cooperative

The Organization began pre-sales for its cooperative project located in Apple Valley, Minnesota in early 2016. The cost of this 58-unit project is expected to be \$18.8 million and will be financed with external debt and member share payments. The project will ultimately be owned by its members once substantially all membership units are sold. As of December 31, 2016, 25 priority reservation deposits have been received. The conversion from priority reservation deposits to subscription agreements is expected to occur in third quarter 2017. The reservations deposits are reported in resident funds and deposits as an asset limited in use. Construction will begin upon initial endorsement of the financing and is expected to be completed in the fall of 2018, at which time financing will be finalized and ownership will pass to members. At December 31, 2016, approximately \$0.2 million is included in construction in progress related to this project.

Other

The Organization has also incurred construction costs related to the planned development of new building projects, as well as planned renovations and remodeling of existing nursing facilities and senior housing projects.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 LONG-TERM DEBT

The Organization's long-term debt at December 31, 2016 and 2015 is summarized below:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Fixed Rate Debt ⁽¹⁾	\$ 114,162,498	\$ 124,774,331
Fixed Rate HUD Debt ⁽²⁾	73,163,101	74,298,358
Private Placement Reset Debt ⁽³⁾	50,653,461	49,074,879
Variable Rate Debt ⁽⁴⁾	17,675,000	18,035,000
Subsidized HUD Debt ⁽⁵⁾	6,281,480	6,443,900
Flexible Subsidy Assistance Loan ⁽⁶⁾	862,825	862,825
HUD Capital Advances ⁽⁷⁾	9,931,202	9,931,202
Subtotal	<u>272,729,567</u>	<u>283,420,495</u>
Cooperative HUD Debt ⁽⁸⁾	<u>7,826,772</u>	<u>-</u>
Total Long-Term Debt	280,556,339	283,420,495
Less: Current Maturities	9,395,302	6,937,731
Less: Unamortized Bond (Premium) Discount	(8,641)	132,121
Less: Unamortized Financing Costs	6,225,345	6,229,997
Long-Term Portion	<u>\$ 264,944,333</u>	<u>\$ 270,120,646</u>

- (1) Fixed rate debt has interest rates ranging from 1.25% - 6.75%, with monthly and semi-annual principal and interest payments due through maturity from 2017 through 2050. During 2016, the Organization refinanced \$10.0 million of loans on CDL Homes, LLC Series 2007 and Series 2006, lowering the interest rates from 5.87% and 5.32%, respectively, to a combined 4.07%. During 2016, the Organization refinanced \$5.9 million of fixed rate debt on Meadows of Worthington to private placement reset debt, lowering the interest rate from 5.32% to 3.04%. The reduced interest rates will result in annual cash flow savings of approximately \$0.3 million. During 2016, the Organization paid off a \$1.5 million term bond on Second Century Housing as a part of the sale of our market rate housing properties. For additional information on the sale refer to Note 9 Disposition of Assets.
- (2) Fixed Rate HUD Debt has fixed interest rates that range from 2.94% - 3.54%, with monthly and semi-annual principal and interest payments due through maturity from 2047 through 2053.
- (3) Private placement reset debt has interest rates ranging from 1.0% - 8.13%, with monthly principal and interest due through maturity from 2032 through 2038. These debt obligation interest rates typically reset every five years based upon the terms of the loan agreements. During 2016, the Organization paid off \$2.5 million in private placement reset debt on Ecumen Properties, Inc., as a part of the sale of a nursing home located in Litchfield, Minnesota. For additional information on the sale refer to Note 9 Disposition of Assets.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 LONG-TERM DEBT (CONTINUED)

- (4) Variable rate debt has a variable interest rate that is determined by the issuer on a weekly or monthly basis, and is indexed to a current short-term market rate. Monthly principal and interest payments are due through maturity from 2020 through 2036. The interest rate for the year ended December 31, 2016 ranged from 0.02% - 3.37%. Included in the variable rate debt is an \$8.5 million taxable revenue note entered into in 2015 that matures in 2020. Also included in the variable rate debt is \$6.8 million and \$7.0 million of bonds at December 31, 2016 and 2015, respectively, for which the Organization has entered into a reimbursement agreement with Fannie Mae, which has a direct pay irrevocable transferable credit enhancement instrument ("credit enhancement") for the face amount of the bonds. This credit enhancement term extends until 2036. Also included in variable rate debt is \$2.4 million and \$2.5 million of variable rate demand bonds at December 31, 2016 and 2015, respectively. By definition, a variable rate demand bond is a long-term tax-exempt bond, the interest of which is indexed to a current short-term market. There is an irrevocable letter of credit for the face amount of the bonds that is renewed annually in June, and currently expires in June 2017. Based upon the terms of the reimbursement agreement for the letter of credit, 25% of a draw upon the letter of credit will need to be repaid within two days of the draw, with the remaining balance due in monthly installments based on a 20-year amortization.
- (5) Subsidized HUD Debt has fixed interest rates ranging from 3.0% - 3.67%, with monthly principal and interest payments due through maturity from 2018 through 2044. In 2015, the Organization modified the mortgage notes payable for Parmly Lakeview Apartments and Bethel Manor II, Inc. to reduce the interest rates from 6.45% and 6.60%, respectively, to 3.67% on both of the notes. The reduced interest rates will result in annual cash flow savings of approximately \$0.1 million.
- (6) The Flexible Subsidy Assistance loan is an agreement with HUD for funds for repairs, replacements and improvements of a HUD senior apartment facility. The loan agreement calls for a loan of up to \$862,825. The loan carries an annual interest rate of 1%. Principal and interest payments are not due until, or if, the current mortgages mature or are paid off or the facility is sold, foreclosed upon or disposed of.
- (7) Four of the HUD senior apartments were participants in a capital advance program with the Department of Housing and Urban Development. Under this program, the capital advances bear no interest and repayment is not required so long as the housing remains available for very low-income, elderly persons, for a period of at least 40 years. Noncompliance would result in HUD billing the facilities for the entire capital advances plus interest at rates varying from 5.375% to 7.0%.
- (8) Cooperative HUD Debt consists of one HUD subsidized multifamily loan for the Zvago Cooperative at Glen Lake. The interest rate is 3.93% and the loan matures in 2057. During 2016, \$7.8 million was drawn for construction out of a \$14.8 million mortgage. In 2017, the ownership interest in the Cooperative and all corresponding assets, liabilities and equity will transfer to the Cooperative shareholders. For additional information on the Glen Lake Cooperative project refer to Note 4 Property and Equipment.

**ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 LONG-TERM DEBT (CONTINUED)

Substantially all of the Organization's property, equipment, and assets, plus the assignment of rents and income contracts, is pledged as collateral for the above. The Organization is also subject to various covenants under many of the bond, loan, and mortgage agreements.

Interest expense during the years ended December 31, 2016 and 2015 was \$10.0 million and \$10.4 million, respectively.

Scheduled principal payments on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 9,395,302
2018	8,293,852
2019	8,887,544
2020	6,992,554
2021	6,665,009
Later Years	232,495,306
Total	<u>\$ 272,729,567</u>

Under the terms of the bond indentures, the Organization is required to maintain certain deposits with respective trustees that are recorded as Assets Limited as to Use on the consolidated balance sheets.

Unamortized Financing Costs

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized over the term of the related indebtedness. Unamortized financing costs at both December 31, 2016 and 2015 were \$6.2 million. Amortization expense for the years ended December 31, 2016 and 2015 was \$0.4 million.

NOTE 6 LEASES

Capital Leases

The Organization entered into a capital lease agreement with the Litchfield Economic Authority for a building and equipment which houses the Emmaus Place Community. The building and equipment and the capital lease obligation are recorded on the consolidated financial statements. The term of the lease is from October 31, 1997 to February 1, 2022, bears interest at 5.5% with monthly payments from \$16,000 to \$19,000.

**ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 LEASES (CONTINUED)

Capital Leases (Continued)

In February 2011, the Organization entered into an agreement with the City of Litchfield to issue new City of Litchfield General Obligation (GO) bonds and amend the existing capital lease agreement with the Litchfield Economic Authority for the purpose of refinancing the existing GO bonds, providing funds for converting 14 assisted living units into 11 memory care units at Bethany Assisted Living and funding improvements at Emmaus Place. The new capital lease agreement includes both Emmaus Place and Bethany Assisted Living. The final maturity on the bonds and capital lease agreements will remain February 1, 2022, when ownership reverts back to the Organization. The new lease agreement bears interest between 2.0% and 3.4% with monthly payments from \$26,000 to \$28,000.

In addition, the Organization has other minor capital leases for copiers and other equipment.

The estimated future minimum lease payments on all capital leases are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 265,000	\$ 50,278	\$ 315,278
2018	280,000	44,315	324,315
2019	290,000	37,315	327,315
2020	290,000	29,340	319,340
2021	305,000	20,640	325,640
Later Years	320,000	10,880	330,880
Total	<u>\$ 1,750,000</u>	<u>\$ 192,768</u>	<u>\$ 1,942,768</u>

Depreciation expense on capital leases amounted to \$0.2 million in both of the years ended December 31, 2016 and 2015. At December 31, 2016, the cost of equipment and accumulated depreciation was \$4.4 million and \$2.5 million, respectively, relating to leased assets. At December 31, 2015, the cost of equipment and accumulated depreciation was \$4.4 million and \$2.4 million, respectively, relating to leased assets.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	Level 1	Level 2	Level 3	2016 Total
<u>Assets:</u>				
Investments:				
Fixed Income	\$ -	\$ 8,947,807	\$ -	\$ 8,947,807
Equity Securities	19,146,363	-	-	19,146,363
Mutual Funds	-	1,278,269	-	1,278,269
Assets Limited as to Use:				
Fixed Income	-	5,061,730	-	5,061,730
Beneficial Interest in Perpetual Trusts	-	-	2,450,462	2,450,462
Total Assets	<u>\$ 19,146,363</u>	<u>\$ 15,287,806</u>	<u>\$ 2,450,462</u>	<u>\$ 36,884,631</u>
	Level 1	Level 2	Level 3	2015 Total
<u>Assets:</u>				
Investments:				
Fixed Income	\$ -	\$ 8,507,177	\$ -	\$ 8,507,177
Equity Securities	17,663,353	-	-	17,663,353
Mutual Funds	-	1,207,556	-	1,207,556
Assets Limited as to Use:				
Fixed Income	-	7,211,802	-	7,211,802
Beneficial Interest in Perpetual Trusts	-	-	2,422,748	2,422,748
Total Assets	<u>\$ 17,663,353</u>	<u>\$ 16,926,535</u>	<u>\$ 2,422,748</u>	<u>\$ 37,012,636</u>

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31, 2016 and 2015:

	<u>Beneficial Interest - Perpetual Trusts</u>
Balance at January 1, 2016	\$ 2,422,748
Total Gains (Realized or Unrealized) for the Year Included in:	
Interest and Dividend Income	196,376
Unrealized Gains	107,346
Purchases, Sales, Issuances and Settlements, Net	<u>(276,008)</u>
Balance at December 31, 2016	<u>\$ 2,450,462</u>
	<u>Beneficial Interest - Perpetual Trusts</u>
Balance at January 1, 2015	\$ 2,681,623
Total Gains (Realized or Unrealized) for the Year Included in:	
Interest and Dividend Income	100,313
Unrealized Loss	(153,266)
Purchases, Sales, Issuances and Settlements, Net	<u>(205,922)</u>
Balance at December 31, 2015	<u>\$ 2,422,748</u>

Trading Securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, mutual funds, and corporate debt securities.

Securities valued using Level 3 inputs include the Organization's beneficial interest in perpetual trusts which is valued based on the present value of future cash flows from the underlying investments. Gains and losses on the beneficial interest in perpetual trusts are shown as permanently restricted change in investments in perpetual trusts on the consolidated statement of changes in net assets. The significant unobservable input used in the fair value measurement of the beneficial interest in perpetual trust is their allocated portion of the underlying trust assets. Significant changes in this input could result in a significant change in the fair value measurement.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 CLASSIFICATION OF NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	2016	2015
HUD Capital Grants	\$ 1,655,888	\$ 1,785,351
Capital Projects and Renovations	1,864,262	1,882,534
Residence Care and Other Services	340,440	274,192
Total	\$ 3,860,590	\$ 3,942,077

Net assets are released from donor restrictions by expending funds for the intended purpose, the passage of time, or by occurrence of other events as specified by donors. Net assets of \$1.5 million and \$0.7 million were released from restrictions for operating purposes for the years ended December 31, 2016 and 2015, respectively. Net assets of \$0.4 million were released for the purchase of property and equipment for both years ended December 31, 2016 and 2015.

Permanently restricted net assets are comprised of the following at December 31, 2016 and 2015:

	2016	2015
Perpetual Trusts	\$ 2,450,462	\$ 2,422,748
Perpetual Endowment Funds Required to be Retained	1,037,594	988,795
Total	\$ 3,488,056	\$ 3,411,543

Perpetual Trusts

The Organization is the beneficiary of trust funds for which the assets are to be held in perpetuity per donor restriction. The current market value of the original trusts are shown as permanently restricted as they are not available for distribution. Investment income earned on the trust funds is recorded as unrestricted. The Organization is not the trustee for these perpetual trusts.

Permanent Endowments

The Organization's endowments, other than perpetual trusts, were established by donors for which income is expendable to pay for general operating expenses, special community programs, provide scholarships and continuing support of the Organization's ministry and vision, and is included in the investment accounts of the Organization. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including designated by the board of directors as to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 CLASSIFICATION OF NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The State of Minnesota's State Prudent Management of Institutional Funds Act (the Act) was effective August 1, 2008. The board of directors of the Organization has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Organization's perpetual trusts are not covered by the Act as the Organization is not the trustee of these trusts.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

Changes in endowment net assets for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Endowment Net Assets, January 1, 2016	\$ 237,110	\$ -	\$ 988,795	\$ 1,225,905
Investment Return:				
Investment Income	-	13,568	-	13,568
Net Appreciation (Realized and Unrealized)	73,354	59,786	-	133,140
Total Investment Return	<u>73,354</u>	<u>73,354</u>	-	<u>146,708</u>
Contributions	-	-	48,799	48,799
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(73,354)</u>	<u>-</u>	<u>(73,354)</u>
Endowment Net Assets, December 31, 2016	<u>\$ 310,464</u>	<u>\$ -</u>	<u>\$ 1,037,594</u>	<u>\$ 1,348,058</u>

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 CLASSIFICATION OF NET ASSETS (CONTINUED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Endowment Net Assets, January 1, 2015	\$ 283,438	\$ -	\$ 968,795	\$ 1,252,233
Investment Return:				
Investment Income	-	12,764	-	12,764
Net Appreciation (Realized and Unrealized)	(46,328)	(12,764)	-	(59,092)
Total Investment Return	(46,328)	-	-	(46,328)
Contributions	-	-	20,000	20,000
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets, December 31, 2015	<u>\$ 237,110</u>	<u>\$ -</u>	<u>\$ 988,795</u>	<u>\$ 1,225,905</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. No such deficiencies existed at December 31, 2016 or 2015.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for their investment funds, including the permanent endowments that attempt to provide a total return (yield plus capital appreciation) necessary at least to preserve, and enhance the principal of the assets, and at the same time, provide a dependable and growing source of income for current requirements of any designated funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that provide a predictive and dependable source of income.

Strategies Employed for Achieving Results

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

Spending Policy

The Organization has a policy, based upon the intent of the donor-restricted endowed assets, to spend the earnings from the endowment fund for general operating expenses, special community programs, provide scholarships and continuing support of the Organization's ministry and vision.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 9 DISPOSITION OF PROPERTY

The Organization sold five properties, a skilled nursing home located in Litchfield, Minnesota and four market rate housing properties located in rural Southern Minnesota, on July 14, 2016 for \$5.3 million, net of selling costs. Current and Long-term Debt at December 31, 2015 included \$4.0 million in debt obligations related to the sold operations that were repaid from sale proceeds. A Post-Closing Escrow account was established in the amount of \$0.3 million to address any misrepresentation, breach, indemnity from the Organization to the buyer. This escrow is included in Assets Limited as to Use and is expected to be released from escrow in July 2017.

On July 31, 2016, the Organization completed the transfer of its Meeker Public Transit operations and net assets from the Organization to Central Community Transit. The operation, located in Litchfield, Minnesota, was comprised primarily of nine buses and a bus barn with assets totaling \$1.0 million. The funding for these assets was provided by federal, state, and local grant funding. There were no proceeds received from this transfer of operations.

Accounts receivable at December 31, 2015 includes \$0.8 million related to the operations that were sold and transferred in July 2017. At December 31, 2016, the remaining accounts receivable balance is fully reserved for.

The following table presents the operating activity related to the disposed operations that is included in the consolidated statements of unrestricted activities for the years ended December 31, 2016 and 2015:

	2016	2015
Total Operating Revenues	\$ 5,757,185	\$ 9,655,238
Total Operating Expenses	(5,954,334)	(10,643,231)
Other Income	(8,434)	(42,594)
Gain on Sale of Assets	784,800	-
Excess (Deficit) of Revenue Over Expense	<u>\$ 579,217</u>	<u>\$ (1,030,587)</u>

In addition, the Organization has incurred other minor disposals of property and equipment.

NOTE 10 RETIREMENT PLAN

The Organization provides defined contribution pension plans for its employees. Participation in the plans is available to employees upon meeting certain eligibility requirements. Contributions are based on defined or discretionary formulas. Contributions to the plans by the Organization were \$2.1 million and \$2.0 million ended December 31, 2016 and 2015, respectively. Benefits payable upon retirement are determined by the amount contributed by the employee and by the Organization on the employee's behalf.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 11 MANAGEMENT FEES FROM UNRELATED PARTIES

The Organization manages a number of unrelated third party owned projects that are not included in the accompanying consolidated financial statements. The Organization has entered into management agreements with the owners of these projects and has recognized management fee revenue of \$2.6 million and \$2.4 million for the years ended December 31, 2016 and 2015, respectively, from these agreements.

Under certain limited circumstances, the Organization has agreed to advance funds or provide guarantees to cover operating shortfalls. Advances take the form of revolving lines of credit. As of December 31, 2016 and 2015, the Organization had advances or guarantees outstanding of \$0.2 million and \$0.6 million, respectively, of which \$0.2 million is unsecured.

The staffing at certain of these managed projects are employees of the Organization. For the years ended December 31, 2016 and 2015, the Organization incurred payroll costs of approximately \$2.1 million and \$2.5 million, respectively, that was reimbursed by the managed project.

NOTE 12 FUNCTIONAL CLASSIFICATION OF EXPENSES

Functional classification of expenses for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Program	\$ 143,947,677	\$ 137,174,449
Management and General Support	<u>21,796,136</u>	<u>17,129,917</u>
Total Expenses	<u>\$ 165,743,813</u>	<u>\$ 154,304,366</u>

Fundraising expenses of \$0.6 million for both years ended December 31, 2016 and 2015 are included with net fundraising income on the consolidated statements of unrestricted activities. Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service are allocated based on the best estimates of management.

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 13 INSURANCE AND EMPLOYEE BENEFITS

Workers' Compensation Insurance

The Organization purchases a Large Deductible Workers' Compensation policy. A \$1.8 million escrow account provides collateral funding for the workers' compensation program. The Organization has estimated reserves and recorded liabilities for outstanding claims of approximately \$1.5 million and \$1.2 million as of December 31, 2016 and 2015, respectively, which is included in Other Current Liabilities and Other Liabilities on the consolidated balance sheets.

The Organization's provision for outstanding losses, although supported by actuarial projections and other data, is ultimately based on management's expectations of future events. It is possible that these estimates could change as more detailed information concerning the losses is received and the effect of such changes could be material to the financial statements.

Employee Health and Dental Insurance

The Organization has a self-insured health and dental insurance plan and has contracted with an administrative service company to supervise and administer the programs. The Organization contracts separately to insure for excessive or unexpected claims through a stop-loss agreement. The stop-loss agreement covers medical claims in excess of \$0.2 million per individual and \$10.5 million in aggregate. Claims in excess of these amounts will be funded by the stop loss carrier. A liability of approximately \$0.7 million and \$0.8 million was recorded in other current liabilities at December 31, 2016 and 2015, respectively, related to claims incurred but not reported.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Government Regulations – Medicaid

The Minnesota Department of Human services reserves the right to perform audit examinations of the records of the long-term health care facilities. Any adjustments resulting from such an examination could retroactively adjust Medicaid revenue.

Government Regulations – Medicare

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

ECUMEN AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

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

Health Care

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



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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

Board of Trustees
Ecumen and Subsidiaries
Shoreview, Minnesota

We have audited the consolidated financial statements of Ecumen and Subsidiaries as of and for the years ended December 31, 2016 and 2015, and our report thereon dated April 3, 2017, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are 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 December 31, 2016 and 2015 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the years ended December 31, 2016 and 2015, as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Ecumen and Subsidiaries as of December 31, 2014, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the year ended December 31, 2014 (none of which is presented herein), and we expressed unmodified opinions on those consolidated financial statements. That audit was conducted for purposes of forming an opinion on the consolidated financial statements as a whole. The supplementary information for the year ended December 31, 2014 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2014 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 supplementary information for the year ended December 31, 2014 is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 3, 2017



ECUMEN AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITIES – BY SEGMENT
YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING REVENUES BY SEGMENT			
Nursing Homes	\$ 68,293,692	\$ 62,482,478	\$ 61,502,637
Market Rate Housing	74,843,344	73,278,404	69,957,023
Subsidized Housing	4,178,742	4,044,804	3,940,756
Community Based Services	9,954,821	8,261,038	7,524,315
Management and Consulting	<u>6,188,801</u>	<u>4,142,971</u>	<u>3,052,982</u>
 Total Revenue	 <u>\$ 163,459,400</u>	 <u>\$ 152,209,695</u>	 <u>\$ 145,977,713</u>
OPERATING INCOME (LOSS) BY SEGMENT			
Nursing Homes	\$ 1,815,648	\$ (2,463,864)	\$ (749,077)
Market Rate Housing	3,416,269	4,784,696	4,527,947
Subsidized Housing	(880,501)	(416,875)	(541,922)
Community Based Services	(870,186)	(410,619)	(47,608)
Corporate Services (Net of Management and Consulting Revenue)	<u>(5,765,643)</u>	<u>(3,588,009)</u>	<u>(3,164,830)</u>
Income (Loss) from Operations	<u>(2,284,413)</u>	<u>(2,094,671)</u>	<u>24,510</u>
OTHER INCOME AND EXPENSE			
Net Fundraising Income (Expense)	609,795	(175,480)	231,721
Investment Income (Expense)	2,104,093	(657,684)	1,527,015
Loss on Debt Refinancing	(498,840)	(156,196)	(1,521,974)
Other Expense	<u>558,863</u>	<u>(106,813)</u>	<u>(157,450)</u>
Total Other Income and Expense	<u>2,773,911</u>	<u>(1,096,173)</u>	<u>79,312</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	489,498	(3,190,844)	103,822
Net Assets Released from Restriction - Purchase of Property and Equipment	<u>367,906</u>	<u>389,155</u>	<u>3,504,520</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FROM CONTINUING OPERATIONS	857,404	(2,801,689)	3,608,342
Loss from Discontinued Operations	<u>-</u>	<u>(204,099)</u>	<u>(139,213)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 857,404</u>	<u>\$ (3,005,788)</u>	<u>\$ 3,469,129</u>

ECUMEN AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Combined Ecumen Operations Before Subsidized Housing	Ecumen Services	Ecumen Foundation	Eliminations
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 14,061,259	\$ (5,553,411)	\$ 424,671	\$ -
Current Portion of Assets Limited as to Use	6,608,098	350,878	-	-
Accounts Receivable, Net	11,734,339	2,559,847	-	-
Other Current Assets	1,508,301	64,797	20,662	-
Total Current Assets	<u>33,911,997</u>	<u>(2,577,889)</u>	<u>445,333</u>	<u>-</u>
ASSETS LIMITED AS TO USE	18,700,636	350,878	-	-
Less: Current Portion of Assets Limited as to Use	<u>(6,608,098)</u>	<u>(350,878)</u>	<u>-</u>	<u>-</u>
Noncurrent Assets Limited as to Use	12,092,538	-	-	-
PROPERTY AND EQUIPMENT, NET	230,826,094	13,975,453	-	(40,432)
OTHER ASSETS				
Intercompany Receivables	19,457,900	216,614	-	(19,250,406)
Receivable from Foundation	4,911,881	-	-	-
Investments	26,295,850	-	4,545,160	-
Investment in Perpetual Trusts	2,450,462	-	-	-
Investment in Minority Interest	649,095	-	-	-
Notes Receivable, Net	174,522	-	-	-
Pledges Receivable, Net of Current Portion	-	-	-	-
Total Other Assets	<u>53,939,710</u>	<u>216,614</u>	<u>4,545,160</u>	<u>(19,250,406)</u>
Total Assets	<u>\$ 330,770,339</u>	<u>\$ 11,614,178</u>	<u>\$ 4,990,493</u>	<u>\$ (19,290,838)</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt and Capital Leases	\$ 9,464,281	\$ -	\$ -	\$ -
Accrued Interest	2,035,737	-	-	-
Other Current Liabilities	18,116,495	5,816,592	11,140	-
Total Current Liabilities	<u>29,616,513</u>	<u>5,816,592</u>	<u>11,140</u>	<u>-</u>
OTHER LIABILITIES				
Long-Term Debt, Less Current Maturities	239,947,046	7,421,406	-	-
Capital Leases, Less Current Maturities	1,485,000	-	-	-
Intercompany Payables	17,544,969	1,705,437	-	(19,250,406)
Funds Held for Others	-	-	4,913,081	-
Other Liabilities	1,130,618	-	66,272	-
Total Other Liabilities	<u>260,107,633</u>	<u>9,126,843</u>	<u>4,979,353</u>	<u>(19,250,406)</u>
Total Liabilities	289,724,146	14,943,435	4,990,493	(19,250,406)
NET ASSETS				
Unrestricted:				
Unrestricted	35,354,634	(3,329,257)	-	(40,432)
Noncontrolling Interest	-	-	-	-
Total Unrestricted	<u>35,354,634</u>	<u>(3,329,257)</u>	<u>-</u>	<u>(40,432)</u>
Temporarily Restricted	2,203,503	-	-	-
Permanently Restricted	3,488,056	-	-	-
Total Net Assets	<u>41,046,193</u>	<u>(3,329,257)</u>	<u>-</u>	<u>(40,432)</u>
Total Liabilities and Net Assets	<u>\$ 330,770,339</u>	<u>\$ 11,614,178</u>	<u>\$ 4,990,493</u>	<u>\$ (19,290,838)</u>

<u>Ecumen Before Subsidized Housing</u>	<u>Subsidized Housing Combined</u>	<u>Eliminations</u>	<u>Total</u>
\$ 8,932,519	\$ 280,891	\$ -	\$ 9,213,410
6,958,976	205,739	-	7,164,715
14,294,186	56,241	-	14,350,427
1,593,760	(326,944)	-	1,266,816
<u>31,779,441</u>	<u>215,927</u>	<u>-</u>	<u>31,995,368</u>
19,051,514	2,240,595	-	21,292,109
(6,958,976)	(205,739)	-	(7,164,715)
<u>12,092,538</u>	<u>2,034,856</u>	<u>-</u>	<u>14,127,394</u>
244,761,115	13,632,434	-	258,393,549
424,108	424	(424,532)	-
4,911,881	1,200	(4,913,081)	-
30,841,010	-	-	30,841,010
2,450,462	-	-	2,450,462
649,095	-	(649,095)	-
174,522	-	-	174,522
-	-	-	-
<u>39,451,078</u>	<u>1,624</u>	<u>(5,986,708)</u>	<u>33,465,994</u>
<u>\$ 328,084,172</u>	<u>\$ 15,884,841</u>	<u>\$ (5,986,708)</u>	<u>\$ 337,982,305</u>
\$ 9,464,281	\$ 196,021	\$ -	\$ 9,660,302
2,035,737	299,899	-	2,335,636
23,944,227	423,428	-	24,367,655
<u>35,444,245</u>	<u>919,348</u>	<u>-</u>	<u>36,363,593</u>
247,368,452	17,575,881	-	264,944,333
1,485,000	-	-	1,485,000
-	424,532	(424,532)	-
4,913,081	-	(4,913,081)	-
1,196,890	151,399	-	1,348,289
<u>254,963,423</u>	<u>18,151,812</u>	<u>(5,337,613)</u>	<u>267,777,622</u>
290,407,668	19,071,160	(5,337,613)	304,141,215
31,984,945	(4,782,701)	(649,095)	26,553,149
-	(60,705)	-	(60,705)
<u>31,984,945</u>	<u>(4,843,406)</u>	<u>(649,095)</u>	<u>26,492,444</u>
2,203,503	1,657,087	-	3,860,590
3,488,056	-	-	3,488,056
<u>37,676,504</u>	<u>(3,186,319)</u>	<u>(649,095)</u>	<u>33,841,090</u>
<u>\$ 328,084,172</u>	<u>\$ 15,884,841</u>	<u>\$ (5,986,708)</u>	<u>\$ 337,982,305</u>

ECUMEN AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF UNRESTRICTED NET ASSETS
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Combined Ecumen Operations Before Subsidized Housing	Ecumen Services	Eliminations
REVENUE			
Resident Service Revenue	\$ 149,785,049	\$ -	\$ -
Other Operating Revenue	12,684,484	6,068,644	(9,257,519)
Total Revenue	<u>162,469,533</u>	<u>6,068,644</u>	<u>(9,257,519)</u>
OPERATING EXPENSE			
Operating Expense	143,138,725	5,684,439	(9,257,519)
Depreciation	11,424,232	-	(7,377)
Interest and Amortization	9,702,070	-	-
Total Operating Expense	<u>164,265,027</u>	<u>5,684,439</u>	<u>(9,264,896)</u>
OPERATING INCOME (LOSS)	(1,795,494)	384,205	7,377
OTHER INCOME AND EXPENSE			
Net Fundraising Income	479,401	-	-
Investment Income	2,079,331	19,414	-
Loss on Debt Refinancing	(498,840)	-	-
Other Income (Expense)	578,053	-	-
Total Other Income and Expense	<u>2,637,945</u>	<u>19,414</u>	<u>-</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	842,451	403,619	7,377
Net Assets Released from Restrictions - Purchase of Property and Equipment	364,181	-	-
Transfer of Net Assets	<u>(257,952)</u>	<u>257,952</u>	<u>-</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FROM CONTINUING OPERATIONS	948,680	661,571	7,377
Loss from Discontinued Operations	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 948,680</u>	<u>\$ 661,571</u>	<u>\$ 7,377</u>

Ecumen Before Subsidized Housing	Subsidized Housing	Eliminations	Total Consolidated
\$ 149,785,049	\$ 3,858,877	\$ -	\$ 153,643,926
9,495,609	342,845	(22,980)	9,815,474
<u>159,280,658</u>	<u>4,201,722</u>	<u>(22,980)</u>	<u>163,459,400</u>
139,565,645	3,642,933	(22,980)	143,185,598
11,416,855	1,105,158	-	12,522,013
9,702,070	334,132	-	10,036,202
<u>160,684,570</u>	<u>5,082,223</u>	<u>(22,980)</u>	<u>165,743,813</u>
(1,403,912)	(880,501)	-	(2,284,413)
479,401	130,394	-	609,795
2,098,745	5,348	-	2,104,093
(498,840)	-	-	(498,840)
578,053	(19,205)	15	558,863
<u>2,657,359</u>	<u>116,537</u>	<u>15</u>	<u>2,773,911</u>
1,253,447	(763,964)	15	489,498
364,181	3,725	-	367,906
-	-	-	-
1,617,628	(760,239)	15	857,404
-	-	-	-
<u>\$ 1,617,628</u>	<u>\$ (760,239)</u>	<u>\$ 15</u>	<u>\$ 857,404</u>

ECUMEN AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET –
NURSING HOMES AND HOUSING AND ALTERNATIVE CARE
DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	<u>CDL Homes, LLC</u>	<u>Lakeshore, Inc.</u>	<u>Crest at Lakeshore, LLC</u>	<u>Ecumen Properties</u>	<u>Mankato Lutheran Homes, Inc.</u>	<u>North Branch Senior Living, LLC</u>
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 14,192,981	\$ 14,671,072	\$ 1,058,647	\$ 10,778,355	\$ 12,219,202	\$ 725,866
Current Portion of Assets Limited as to Use	920,566	13,500	190,281	265,443	21,070	210,259
Accounts Receivable, Net	2,384,655	1,638,990	19,764	1,286,940	880,769	962,254
Other Current Assets	78,179	16,145	7,140	10,099	45,373	77,433
Total Current Assets	<u>17,576,381</u>	<u>16,339,707</u>	<u>1,275,832</u>	<u>12,340,837</u>	<u>13,166,414</u>	<u>1,975,812</u>
ASSETS LIMITED AS TO USE	920,566	226,548	391,842	265,443	147,043	1,221,908
Less: Current Portion of Assets Limited as to Use	(920,566)	(13,500)	(190,281)	(265,443)	(21,070)	(210,259)
Noncurrent Assets Limited as to Use	-	213,048	201,561	-	125,973	1,011,649
PROPERTY AND EQUIPMENT, NET	35,830,602	12,252,939	13,834,603	6,713,820	8,991,531	13,142,198
OTHER ASSETS						
Intercompany Receivables	1,717	-	-	17,948	-	-
Receivable from Foundation	976,063	8,734	-	4,455	1,087,149	-
Investments	-	-	-	-	-	-
Investments in Perpetual Trusts	336,146	1,816,470	-	-	-	-
Investment in Minority Interest	-	-	-	-	-	-
Notes Receivable, Net	-	-	-	-	-	-
Total Other Assets	<u>1,313,926</u>	<u>1,825,204</u>	<u>-</u>	<u>22,403</u>	<u>1,087,149</u>	<u>-</u>
Total Assets	<u>\$ 54,720,909</u>	<u>\$ 30,630,898</u>	<u>\$ 15,311,996</u>	<u>\$ 19,077,060</u>	<u>\$ 23,371,067</u>	<u>\$ 16,129,659</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Current Maturities of Long-Term Debt and Capital Leases	\$ 668,033	\$ 592,297	\$ 303,146	\$ 185,596	\$ 351,949	\$ 526,288
Accrued Interest	543,452	46,875	47,129	10,772	26,287	44,744
Other Current Liabilities	1,620,280	942,069	104,453	920,742	777,044	683,655
Total Current Liabilities	<u>2,831,765</u>	<u>1,581,241</u>	<u>454,728</u>	<u>1,117,110</u>	<u>1,155,280</u>	<u>1,254,687</u>
OTHER LIABILITIES						
Long-Term Debt, Less Current Maturities	28,565,469	15,737,099	15,340,229	5,459,285	7,560,891	16,110,676
Capital Leases, Less Current Maturities	-	-	-	-	-	-
Intercompany Payables	-	-	61,926	-	-	333,752
Other Liabilities	100,742	-	-	59,631	13,040	-
Total Other Liabilities	<u>28,666,211</u>	<u>15,737,099</u>	<u>15,402,155</u>	<u>5,518,916</u>	<u>7,573,931</u>	<u>16,444,428</u>
Total Liabilities	31,497,976	17,318,340	15,856,883	6,636,026	8,729,211	17,699,115
NET ASSETS						
Unrestricted	22,294,962	11,487,354	(544,887)	12,436,579	14,374,080	(1,569,456)
Temporarily Restricted	214,493	-	-	3,400	93,939	-
Permanently Restricted	713,478	1,825,204	-	1,055	173,837	-
Total Net Assets	<u>23,222,933</u>	<u>13,312,558</u>	<u>(544,887)</u>	<u>12,441,034</u>	<u>14,641,856</u>	<u>(1,569,456)</u>
Total Liabilities and Net Assets	<u>\$ 54,720,909</u>	<u>\$ 30,630,898</u>	<u>\$ 15,311,996</u>	<u>\$ 19,077,060</u>	<u>\$ 23,371,067</u>	<u>\$ 16,129,659</u>

Ecumen Sunrise, LLC	EverCare Senior Living, LLC	Second Century Housing	Lakeview Commons Senior Living, LLC	Meadows of Worthington, LLC	Owatonna Senior Living, LLC	Pines of Hutchinson, LLC	Regent at Maplewood, LLC
\$ 847,884	\$ 5,632,429	\$ 3,978,754	\$ 5,032,005	\$ 3,995,338	\$ 1,805,954	\$ 1,585,951	\$ 442,057
19,222	484,958	76,365	123,767	93,064	5,998	8,498	258,752
555,565	805,747	250,001	108,888	69,913	55,786	22,470	77,700
21,014	5,393	31,202	4,685	203	-	1,748	64,171
<u>1,443,685</u>	<u>6,928,527</u>	<u>4,336,322</u>	<u>5,269,345</u>	<u>4,158,518</u>	<u>1,867,738</u>	<u>1,618,667</u>	<u>842,680</u>
64,039	484,958	614,122	451,181	93,064	5,998	8,498	943,071
(19,222)	(484,958)	(76,365)	(123,767)	(93,064)	(5,998)	(8,498)	(258,752)
44,817	-	537,757	327,414	-	-	-	684,319
3,971,117	17,306,095	10,933,170	6,322,939	9,130,552	4,190,320	3,221,446	23,068,833
-	-	-	-	-	-	-	-
5,979	8,910	5,952	-	5,135	-	-	510
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>5,979</u>	<u>8,910</u>	<u>5,952</u>	<u>-</u>	<u>5,135</u>	<u>-</u>	<u>-</u>	<u>510</u>
<u>\$ 5,465,598</u>	<u>\$ 24,243,532</u>	<u>\$ 15,813,201</u>	<u>\$ 11,919,698</u>	<u>\$ 13,294,205</u>	<u>\$ 6,058,058</u>	<u>\$ 4,840,113</u>	<u>\$ 24,596,342</u>
\$ 124,596	\$ 545,000	\$ 967,903	\$ 200,000	\$ 381,917	\$ 130,000	\$ 132,384	\$ 714,562
9,875	283,725	219,280	-	63,387	92,188	-	122,988
313,500	627,651	397,681	316,029	187,111	85,103	49,242	414,404
447,971	1,456,376	1,584,864	516,029	632,415	307,291	181,626	1,251,954
3,310,467	17,103,280	13,764,282	6,292,688	10,993,029	6,179,899	3,718,037	25,648,055
-	-	-	-	-	-	-	-
-	5,917,082	-	-	-	-	-	405,354
-	-	327,408	-	-	-	-	-
<u>3,310,467</u>	<u>23,020,362</u>	<u>14,091,690</u>	<u>6,292,688</u>	<u>10,993,029</u>	<u>6,179,899</u>	<u>3,718,037</u>	<u>26,053,409</u>
3,758,438	24,476,738	15,676,554	6,808,717	11,625,444	6,487,190	3,899,663	27,305,363
1,701,181	(242,116)	130,695	5,110,981	1,663,626	(429,132)	940,450	(2,709,531)
5,979	8,910	5,952	-	5,135	-	-	510
-	-	-	-	-	-	-	-
<u>1,707,160</u>	<u>(233,206)</u>	<u>136,647</u>	<u>5,110,981</u>	<u>1,668,761</u>	<u>(429,132)</u>	<u>940,450</u>	<u>(2,709,021)</u>
<u>\$ 5,465,598</u>	<u>\$ 24,243,532</u>	<u>\$ 15,813,201</u>	<u>\$ 11,919,698</u>	<u>\$ 13,294,205</u>	<u>\$ 6,058,058</u>	<u>\$ 4,840,113</u>	<u>\$ 24,596,342</u>

ECUMEN AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET –
NURSING HOMES AND HOUSING AND ALTERNATIVE CARE (CONTINUED)
DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	<u>Regent at Apple Valley, LLC</u>	<u>Ecumen Mill City Quarter, LLC</u>	<u>Ecumen Home Health Care</u>	<u>Ecumen Parent</u>	<u>Combined Ecumen Operations Before Subsidized Housing</u>
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 574,180	\$ (556,014)	\$ 1,161,249	\$ (64,084,651)	\$ 14,061,259
Current Portion of Assets Limited as to Use	222,594	2,837,850	-	855,911	6,608,098
Accounts Receivable, Net	103,854	197,982	1,425,916	887,145	11,734,339
Other Current Assets	68,866	1,823	137,591	937,236	1,508,301
Total Current Assets	<u>969,494</u>	<u>2,481,641</u>	<u>2,724,756</u>	<u>(61,404,359)</u>	<u>33,911,997</u>
ASSETS LIMITED AS TO USE	1,192,088	8,952,018	-	2,718,249	18,700,636
Less: Current Portion of Assets Limited as to Use	<u>(222,594)</u>	<u>(2,837,850)</u>	<u>-</u>	<u>(855,911)</u>	<u>(6,608,098)</u>
Noncurrent Assets Limited as to Use	969,494	6,114,168	-	1,862,338	12,092,538
PROPERTY AND EQUIPMENT, NET	20,550,122	34,568,018	379,612	6,418,177	230,826,094
OTHER ASSETS					
Intercompany Receivables	-	-	570	19,437,665	19,457,900
Receivable from Foundation	920	-	467,174	2,340,900	4,911,881
Investments	-	-	-	26,295,850	26,295,850
Investments in Perpetual Trusts	-	-	-	297,846	2,450,462
Investment in Minority Interest	-	-	-	649,095	649,095
Notes Receivable, Net	-	-	-	174,522	174,522
Total Other Assets	<u>920</u>	<u>-</u>	<u>467,744</u>	<u>49,195,878</u>	<u>53,939,710</u>
Total Assets	<u>\$ 22,490,030</u>	<u>\$ 43,163,827</u>	<u>\$ 3,572,112</u>	<u>\$ (3,927,966)</u>	<u>\$ 330,770,339</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt and Capital Leases	\$ 682,610	\$ -	\$ -	\$ 2,958,000	\$ 9,464,281
Accrued Interest	163,745	293,267	-	68,023	2,035,737
Other Current Liabilities	314,328	4,545,117	432,340	5,385,746	18,116,495
Total Current Liabilities	<u>1,160,683</u>	<u>4,838,384</u>	<u>432,340</u>	<u>8,411,769</u>	<u>29,616,513</u>
OTHER LIABILITIES					
Long-Term Debt, Less Current Maturities	25,087,164	31,115,713	-	7,960,783	239,947,046
Capital Leases, Less Current Maturities	-	-	-	1,485,000	1,485,000
Intercompany Payables	2,326,855	8,500,000	-	-	17,544,969
Other Liabilities	-	-	-	629,797	1,130,618
Total Other Liabilities	<u>27,414,019</u>	<u>39,615,713</u>	<u>-</u>	<u>10,075,580</u>	<u>260,107,633</u>
Total Liabilities	28,574,702	44,454,097	432,340	18,487,349	289,724,146
NET ASSETS					
Unrestricted	(6,085,592)	(1,290,270)	3,139,772	(25,054,062)	35,354,634
Temporarily Restricted	920	-	-	1,864,265	2,203,503
Permanently Restricted	-	-	-	774,482	3,488,056
Total Net Assets	<u>(6,084,672)</u>	<u>(1,290,270)</u>	<u>3,139,772</u>	<u>(22,415,315)</u>	<u>41,046,193</u>
Total Liabilities and Net Assets	<u>\$ 22,490,030</u>	<u>\$ 43,163,827</u>	<u>\$ 3,572,112</u>	<u>\$ (3,927,966)</u>	<u>\$ 330,770,339</u>

ECUMEN AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF UNRESTRICTED ACTIVITIES –
NURSING HOMES AND HOUSING AND ALTERNATIVE CARE
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	CDL Homes, LLC	Lakeshore, Inc.	Crest at Lakeshore, LLC	Ecumen Properties	Mankato Lutheran Homes, Inc.	North Branch Senior Living, LLC
REVENUE						
Resident Service Revenue	\$ 28,004,570	\$ 14,799,806	\$ 2,729,470	\$ 14,699,643	\$ 13,120,732	\$ 11,048,814
Other Operating Revenue	1,434,994	286,219	382,072	200,299	207,566	114,741
Total Revenue	<u>29,439,564</u>	<u>15,086,025</u>	<u>3,111,542</u>	<u>14,899,942</u>	<u>13,328,298</u>	<u>11,163,555</u>
OPERATING EXPENSE						
Operating Expenses	25,507,770	12,888,794	1,251,991	12,798,107	10,436,095	9,494,183
Depreciation and Amortization	2,301,694	651,851	649,219	742,266	690,480	771,382
Interest	1,630,686	591,163	653,965	297,535	324,927	641,446
Total Operating Expense	<u>29,440,150</u>	<u>14,131,808</u>	<u>2,555,175</u>	<u>13,837,908</u>	<u>11,451,502</u>	<u>10,907,011</u>
OPERATING INCOME (LOSS)	(586)	954,217	556,367	1,062,034	1,876,796	256,544
OTHER INCOME AND EXPENSE						
Net Fundraising Income (Expense)	74,401	25,670	143	26,790	86,016	17,759
Investment Income	82,964	86,200	612	407	67,098	2,282
Loss on Debt Refinancing	(330,145)	-	-	-	-	-
Other Income (Expense)	4,898	1,000	-	2,516,758	(4,955)	1,167
Total Other Income and Expense	<u>(167,882)</u>	<u>112,870</u>	<u>755</u>	<u>2,543,955</u>	<u>148,159</u>	<u>21,208</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	(168,468)	1,067,087	557,122	3,605,989	2,024,955	277,752
Transfer of Net Assets	-	-	(901,973)	-	(257,952)	-
Net Assets Released from Restrictions - Purchase of Property and Equipment	275,356	23,350	-	34,314	11,620	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FROM CONTINUING OPERATIONS	106,888	1,090,437	(344,851)	3,640,303	1,778,623	277,752
Loss from Discontinued Operations	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 106,888</u>	<u>\$ 1,090,437</u>	<u>\$ (344,851)</u>	<u>\$ 3,640,303</u>	<u>\$ 1,778,623</u>	<u>\$ 277,752</u>

Ecumen Sunrise, LLC	EverCare Senior Living, LLC	Second Century Housing	Lakeview Commons Senior Living, LLC	Meadows of Worthington, LLC	Owatonna Senior Living, LLC	Pines of Hutchinson, LLC	Regent at Maplewood, LLC	Regent at Apple Valley, LLC
\$ 4,734,585	\$ 12,471,565	\$ 8,551,880	\$ 4,842,185	\$ 4,769,554	\$ 2,074,856	\$ 1,684,144	\$ 7,163,417	\$ 6,611,519
38,760	11,259	61,456	71,609	41,370	42,427	15,509	78,811	107,690
4,773,345	12,482,824	8,613,336	4,913,794	4,810,924	2,117,283	1,699,653	7,242,228	6,719,209
4,158,881	10,876,287	7,413,392	4,191,023	2,852,529	1,436,474	1,098,139	5,189,029	5,165,848
329,336	858,361	639,816	399,166	560,707	225,446	135,763	858,267	717,102
124,396	901,999	812,036	157,804	516,188	289,446	131,714	1,089,192	1,109,697
4,612,613	12,636,647	8,865,244	4,747,993	3,929,424	1,951,366	1,365,616	7,136,488	6,992,647
160,732	(153,823)	(251,908)	165,801	881,500	165,917	334,037	105,740	(273,438)
44,260	110,604	30,817	8,606	47,500	1,079	23,650	(6,863)	3,305
667	1,809	11,547	223	7,220	1	-	7,295	13,545
-	-	-	-	(168,695)	-	-	-	-
-	-	(864,027)	(5,000)	(3,281)	-	-	(3,478)	(24,502)
44,927	112,413	(821,663)	3,829	(117,256)	1,080	23,650	(3,046)	(7,652)
205,659	(41,410)	(1,073,571)	169,630	764,244	166,997	357,687	102,694	(281,090)
-	175,000	-	-	-	-	-	(30,627)	-
-	5,262	-	-	980	-	-	10,696	-
205,659	138,852	(1,073,571)	169,630	765,224	166,997	357,687	82,763	(281,090)
-	-	-	-	-	-	-	-	-
\$ 205,659	\$ 138,852	\$ (1,073,571)	\$ 169,630	\$ 765,224	\$ 166,997	\$ 357,687	\$ 82,763	\$ (281,090)

ECUMEN AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF UNRESTRICTED ACTIVITIES -
NURSING HOMES AND HOUSING AND ALTERNATIVE CARE (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Zvago Cooperative at Glen Lake	Ecumen Mill City Quarter, LLC	Ecumen Home Health Care	Ecumen Parent	Combined Ecumen Operations Before Subsidized Housing
REVENUE					
Resident Service Revenue	\$ -	\$ 19,225	\$ 9,410,989	\$ 3,048,095	\$ 149,785,049
Other Operating Revenue	-	38,414	10,475	9,540,813	12,684,484
Total Revenue	-	57,639	9,421,464	12,588,908	162,469,533
OPERATING EXPENSE					
Operating Expenses	-	759,746	10,088,917	17,531,520	143,138,725
Depreciation and Amortization	-	-	59,144	834,232	11,424,232
Interest	-	147,657	73,522	208,697	9,702,070
Total Operating Expense	-	907,403	10,221,583	18,574,449	164,265,027
OPERATING INCOME (LOSS)	-	(849,764)	(800,119)	(5,985,541)	(1,795,494)
OTHER INCOME AND EXPENSE					
Net Fundraising Income (Expense)	-	-	60,751	(75,087)	479,401
Investment Income	-	54,494	34,990	1,707,977	2,079,331
Loss on Debt Refinancing	-	-	-	-	(498,840)
Other Income (Expense)	-	-	-	(1,040,527)	578,053
Total Other Income and Expense	-	54,494	95,741	592,363	2,637,945
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	-	(795,270)	(704,378)	(5,393,178)	842,451
Transfer of Net Assets	-	-	-	757,600	(257,952)
Net Assets Released from Restrictions - Purchase of Property and Equipment	-	-	-	2,603	364,181
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FROM CONTINUING OPERATIONS	-	(795,270)	(704,378)	(4,632,975)	948,680
Loss from Discontinued Operations	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ -	\$ (795,270)	\$ (704,378)	\$ (4,632,975)	\$ 948,680