

Christian Living Communities

Accountants' Report and Consolidated Financial Statements

December 31, 2008 and 2007

Christian Living Communities

December 31, 2008 and 2007

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Christian Living Communities
Greenwood Village, Colorado

We have audited the accompanying consolidated balance sheets of Christian Living Communities (the Organization) as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christian Living Communities as of December 31, 2008 and 2007, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, in 2008 the Organization changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the results of operation of the individual entities, and is not a required part of the basic financial statements. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

 **BKD, LLP**

April 16, 2009

Christian Living Communities
Consolidated Balance Sheets
December 31, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 12,209,635	\$ 4,562,736
Investments	8,677,170	15,568,039
Assets limited as to use - current	7,616,375	3,456,717
Accounts receivable, net of allowance; 2008 - \$88,743 and 2007 - \$100,690	1,396,134	1,599,656
Other receivables	86,505	62,780
Pledges receivable, net of allowance	63,494	3,001
Supplies	65,131	64,320
Prepaid expenses	418,045	476,429
	<u>30,532,489</u>	<u>25,793,678</u>
Assets Limited as to Use, Net of Amount Required for Current Liabilities	<u>11,154,787</u>	<u>35,043,399</u>
Assets Held in Charitable Remainder Annuity Trust	<u>275,164</u>	<u>432,501</u>
Investment in Affiliate	<u>215,867</u>	<u>164,733</u>
Property and Equipment, at Cost		
Land and land improvements	7,530,160	7,522,570
Buildings and leasehold improvements	103,317,090	57,138,243
Furniture, equipment and vehicles	7,559,460	5,489,390
Construction in progress	5,763,001	25,768,197
	<u>124,169,711</u>	<u>95,918,400</u>
Less accumulated depreciation	<u>17,788,474</u>	<u>14,765,080</u>
	<u>106,381,237</u>	<u>81,153,320</u>
Endowment Fund	<u>676,000</u>	<u>676,000</u>
Other Assets		
Deferred financing costs, net	3,056,779	3,247,337
Marketing costs, net	3,504,745	3,489,896
	<u>6,561,524</u>	<u>6,737,233</u>
Total assets	<u>\$ 155,797,068</u>	<u>\$ 150,000,864</u>

Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
Current Liabilities		
Current maturities of long-term debt	\$ 10,551,342	\$ 16,372
Accounts payable	4,490,810	3,668,141
Annuities payable	30,998	37,581
Accrued expenses	1,629,298	1,304,019
Accrued interest	2,401,283	2,565,276
Deposits from residents	2,271,633	3,800,840
	<u>21,375,364</u>	<u>11,392,229</u>
Annuitants Payable, Net of Current Amount	157,934	161,667
Long-term Debt, Less Current Maturities	83,992,657	100,357,649
Interest Rate Swap Agreement	162,811	207,293
Asset Retirement Obligation	245,200	522,808
Refundable Fees	45,058,994	27,886,373
Deferred Revenue from Advance Fees	<u>3,792,548</u>	<u>2,432,479</u>
	<u>154,785,508</u>	<u>142,960,498</u>
Net Assets		
Unrestricted		
Board designated	644,657	644,657
Unrestricted	<u>(810,544)</u>	<u>5,249,381</u>
	(165,887)	5,894,038
Temporarily restricted	501,447	470,328
Permanently restricted	<u>676,000</u>	<u>676,000</u>
	<u>1,011,560</u>	<u>7,040,366</u>
	<u>\$ 155,797,068</u>	<u>\$ 150,000,864</u>

Christian Living Communities
Consolidated Statements of Operations
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted Revenues and Other Support		
Resident/client services revenue, including amortization of advance fees of \$696,504 for 2008 and \$654,073 for 2007	\$ 29,871,074	\$ 29,014,436
Change in obligation to provide future services	-	1,670,061
Other	693,817	638,322
Contributions	62,920	43,118
Net assets released from restrictions used for operations	68,193	178,802
	<u>30,696,004</u>	<u>31,544,739</u>
Expenses		
Salaries and benefits	17,513,430	16,342,260
Purchased services	1,945,053	1,587,371
Medical supplies and drugs	532,050	413,717
Dietary expenses	1,991,760	1,914,967
Administrative expenses	1,364,574	952,441
Insurance	494,653	526,734
Bond fees	170,414	91,644
Utilities	1,181,032	893,485
Depreciation and amortization	3,492,260	2,873,083
Interest	3,645,642	3,085,298
Other	1,154,924	1,289,366
Provision for uncollectible accounts	139,211	68,349
	<u>33,625,003</u>	<u>30,038,715</u>
Operating Income (Loss)	<u>(2,928,999)</u>	<u>1,506,024</u>
Other Income (Expense)		
Interest income	1,059,952	1,147,758
Realized gains (losses) on securities	(3,737,298)	472,969
Rental income	12,139	28,270
Change in value of split-interest agreements	(545)	(477)
Change in investment in affiliate	51,134	52,675
Gain from insurance proceeds	-	250
	<u>(2,614,618)</u>	<u>1,701,445</u>
Excess (Deficiency) of Revenues Over Expenses Before Change in Fair Value of Interest Rate Swap Agreement	<u>(5,543,617)</u>	<u>3,207,469</u>
Change in fair value of interest rate swap agreement	44,481	(107,591)
Excess (Deficiency) of Revenues Over Expenses	<u>(5,499,136)</u>	<u>3,099,878</u>
Change in unrealized gains and (losses)	(593,214)	(64,033)
Net assets released from restriction used for purchase of property and equipment	32,425	196,197
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (6,059,925)</u>	<u>\$ 3,232,042</u>

Christian Living Communities
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ (5,499,136)	\$ 3,099,878
Change in unrealized gains and (losses)	(593,214)	(64,033)
Net assets released from restrictions used for purchase of property and equipment	<u>32,425</u>	<u>196,197</u>
Increase (decrease) in unrestricted net assets	<u>(6,059,925)</u>	<u>3,232,042</u>
Temporarily Restricted Net Assets		
Contributions	279,053	292,362
Net assets released from restrictions	(100,618)	(374,999)
Change in value of split-interest agreements	<u>(147,316)</u>	<u>(8,908)</u>
Increase (decrease) in temporarily restricted net assets	<u>31,119</u>	<u>(91,545)</u>
Permanently Restricted Net Assets		
Contributions	<u>-</u>	<u>656,000</u>
Increase in permanently restricted net assets	<u>-</u>	<u>656,000</u>
Change in Net Assets	(6,028,806)	3,796,497
Net Assets, Beginning of Year	<u>7,040,366</u>	<u>3,243,869</u>
Net Assets, End of Year	<u><u>\$ 1,011,560</u></u>	<u><u>\$ 7,040,366</u></u>

Christian Living Communities
Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Change in net assets	\$ (6,028,806)	\$ 3,796,497
Items not requiring (providing) cash		
Gain on reduction of obligation to provide future services	-	(1,670,061)
Depreciation	3,023,400	2,448,758
Amortization on loan fees and marketing costs	468,860	424,325
Amortization on bond discount (premium)	(38,760)	(38,762)
Amortization of advance fees	(696,504)	(654,073)
Provision for uncollectible accounts	139,211	68,349
Net loss on disposal of property	-	15,186
Change in asset retirement obligation	(277,608)	27,255
Change in investment in affiliate	(51,134)	(52,675)
Net realized and unrealized gains (losses) on investments	4,330,512	(408,936)
Change in value of interest rate swap agreement	(44,481)	107,591
Change in value of split-interest agreements	147,861	9,385
Changes in		
Accounts and pledges receivable, net	3,818	(161,673)
Other receivables	(23,725)	19,549
Prepaid expenses	58,384	(178,852)
Accounts payable and accrued expenses	(1,899,484)	614,315
Refundable fees	17,172,621	1,248,106
Deferred revenue from advance fees	2,056,573	478,633
Other assets and liabilities	(1,496,696)	459,596
Net cash provided by operating activities	<u>16,844,042</u>	<u>6,552,513</u>
Investing Activities		
Purchase of investments	(4,851,096)	(9,694,282)
Proceeds from sale of investments	7,281,763	3,518,093
Purchase of property and equipment	(25,367,878)	(22,514,130)
Payment of marketing costs	(297,709)	(561,198)
Net change in assets limited as to use	<u>19,858,644</u>	<u>20,146,026</u>
Net cash used in investing activities	<u>(3,376,276)</u>	<u>(9,105,491)</u>
Financing Activities		
Principal payments on long-term debt	(7,242,647)	(1,091,384)
Proceeds from issuance of long-term debt	1,451,385	-
Payment of annuities	(29,605)	(44,407)
Permanently restricted contributions	-	(676,000)
Net cash used in financing activities	<u>(5,820,867)</u>	<u>(1,811,791)</u>
Increase (Decrease) in Cash and Cash Equivalents	7,646,899	(4,364,769)
Cash and Cash Equivalents, Beginning of Year	<u>4,562,736</u>	<u>8,927,505</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,209,635</u>	<u>\$ 4,562,736</u>

Christian Living Communities
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Supplemental Disclosure of Cash Flows Information		
Interest paid (net of amount capitalized)	<u>\$ 3,809,635</u>	<u>\$ 1,649,353</u>
Property and equipment included in accounts payable	<u>\$ 2,883,439</u>	<u>\$ 2,762,365</u>

Christian Living Communities

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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

Nature of Operations

The mission of Christian Living Communities is to minister to senior adults through a continuum of services and care that reflects Christian love, respect and compassion and enriches the quality and dignity of life for each individual.

As of December 31, 2008, the consolidated financial statements include the financial statements of Christian Living Communities and The Stewardship Fund. The statements of Christian Living Communities include the following wholly-owned subsidiaries and divisions:

- Wholly-owned Subsidiaries:
 - Christian Living Communities Holly Creek, LLC (Holly Creek)
 - Christian Living Services of Senior Housing and Healthcare, LLC (Senior Housing)

- Divisions:
 - Management
 - Johnson Center
 - The Village
 - Living Center and University Hills – during 2008, these divisions were renamed Clermont Park (Clermont Park)

Previously, certain divisions were wholly-owned subsidiaries of Christian Living Communities. During 2007 and 2008, the legal entities were merged into Christian Living Communities.

The mission of the various entities and divisions are as follows:

- Holly Creek is a continuing care retirement community that provides housing, health care and other related services to residents in the Denver Metro area
- Senior Housing provides adult daycare and homecare services to seniors adults
- Management provides administrative services for the other entities
- Johnson Center, The Village and Clermont Park provide housing, health care and other related services to residents in the Denver Metro Area
- Stewardship Fund – formed for the purpose of soliciting and receiving charitable contributions for the purpose of enhancing the mission, ministry and the financial viability of Christian Living Communities

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Christian Living Communities and the Stewardship Fund. All material intercompany transactions and balances have been eliminated in the consolidated financial statements.

Christian Living Communities

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Use of Estimates

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

Cash Equivalents

The Organization considers all investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted primarily of money market accounts with brokers.

The financial institutions holding the Organization's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2009. At December 31, 2008, the Organization's interest-bearing cash accounts exceeded federally insured limits by approximately \$6,349,000. Management believes these institutions are financially stable and that the credit risk related to deposits is minimal.

Investments and Investment Return

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

Investment income is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use includes 1) assets held by trustees, 2) assets that are to be used by the residents of the Organization and 3) security and other deposits being held for residents of the Organization. Amounts required to meet current liabilities of the Organization are included in current assets.

Christian Living Communities
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Accounts Receivable

The Organization reports accounts receivable for services rendered at net realizable amounts from third-party payers, residents and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due in full when billed. Delinquent receivables are written off based on individual evaluation and specific circumstances of the account.

Supplies

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

Property and Equipment

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

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

In general, the Organization capitalizes interest costs as a component of construction in progress based on the weighted-average rates paid for long-term borrowing. For construction projects financed by specific tax-exempt borrowings, the Organization capitalizes the interest costs specific to those borrowings, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred each year was:

	2008	2007
Total interest expense incurred on borrowings for projects financed by tax-exempt debt	\$ 1,527,327	\$ 2,320,434
Interest income from investment of proceeds of borrowings for projects	(564,452)	(2,066,882)
Net interest cost capitalized	962,875	253,552
Other interest costs capitalized	118,760	-
Total net interest costs capitalized	<u>\$ 1,081,635</u>	<u>\$ 253,552</u>
Interest capitalized	\$ 1,646,087	\$ 2,320,434
Interest charged to expense	3,645,642	3,085,298
Total interest incurred	<u>\$ 5,291,729</u>	<u>\$ 5,405,732</u>

Christian Living Communities
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Deferred Financing Costs

Costs incurred in issuing the Series 2004 and 2006 Bonds are being amortized over the term of the bonds using the straight-line method.

Other Assets

Initial direct marketing costs associated with continuing care retirement communities have been capitalized. The costs for the units that have been placed in service are amortized on a straight-line method over the average life expectancy of the residents.

Deferred Revenue from Advance Fees

Fees paid by residents upon entering Holly Creek, net of the portion thereof that is refundable to residents, are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the residents.

Obligation to Provide Future Services

Holly Creek annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services and use of facilities with the corresponding charge to income). The obligation is discounted at 6%. At December 31, 2008 and 2007, there was no obligation to provide future services.

Refundable Fees

Per Section 14.04 of the AICPA Audit and Accounting Guide of Health Care Organizations, "Some states regulate continuing care retirement communities, although most states currently do not." The State of Colorado requires that the Organization refund the residents refundable fees within 180 days of termination of the agreement and not just on re-occupancy of the unit. Therefore, the refundable fees are recorded as a long-term liability in the financial statements. Management has adjusted the refundable fees to reflect the expected refunds.

Temporarily and Permanently Restricted Net Assets

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

Net Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Christian Living Communities

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair 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 expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets.

Excess (Deficiency) of Revenues Over Expenses

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

Income Taxes

Christian Living Communities and the Stewardship Fund are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, on January 1, 2008. As a result of the implementation of FIN 48, the Organization did not recognize any previously unrecognized tax benefits.

Property Taxes

During 2007, the Organization applied for and obtained a personal property exemption of assets of Holly Creek. As part of this exemption, a refund was received for property taxes paid in prior years.

Note 2: Net Service Revenue and Reimbursement

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. The Organization has been reimbursed for inpatient services rendered to patients covered by the federal Medicare program on prospectively determined rates per day. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicare beneficiaries are paid on a fee schedule basis.

Medicaid. Nursing home resident services rendered to Medicaid program beneficiaries are reimbursed under a retrospective cost-reimbursement methodology, adjusted by case mix data. The Organization is reimbursed a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary.

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Approximately 18% and 20% of net patient service revenues are from participation in the state-sponsored Medicaid programs for the year ended December 31, 2008 and 2007, respectively.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. The Organization is being paid for housing and services rendered for independent residents that qualify for HUD Section 8 rent subsidy, which is a fixed rate per resident based on the resident's income and the current HUD established rate.

Note 3: Concentration of Credit Risk

The Organization grants credit without collateral to its residents. The mix of accounts receivable from residents and third-party payers at December 31, 2008 and 2007 was:

	2008	2007
Medicare	13%	14%
Medicaid	29%	24%
Private pay	49%	47%
Other third-party payers	9%	15%
	100%	100%

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include:

	2008	2007
Cash, money market and certificates of deposit	\$ 1,102,914	\$ 4,700,475
U.S. Treasury obligations	1,821,561	1,927,886
U.S. Government securities	3,783,776	4,009,029
U.S. Government money fund	9,760,576	3,953,013
Corporate debt securities	2,233,159	23,810,383
Interest receivable	69,176	99,330
	18,771,162	38,500,116
Less current portion	7,616,375	3,456,717
	\$ 11,154,787	\$ 35,043,399

Christian Living Communities
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Other Investments

The investments, stated at fair value, are invested as follows:

	2008	2007
Certificates of deposit	\$ 82,520	\$ 79,096
Marketable equity securities	438,449	789,784
Equity funds	4,298,727	11,231,145
Real estate funds	442,001	569,854
Fixed income	3,415,473	2,898,160
	<u>\$ 8,677,170</u>	<u>\$ 15,568,039</u>

Total investment income, including interest on cash and cash equivalents is comprised of the following:

	2008	2007
Interest income	\$ 1,059,952	\$ 1,147,758
Net realized gains (losses) on sales of securities	(873,112)	472,969
Loss on impairment of investments	(2,864,186)	-
Net unrealized gains and (losses)	(593,214)	(64,033)
	<u>\$ (3,270,560)</u>	<u>\$ 1,556,694</u>

At December 31, 2008, the Organization recognized a loss on other-than-trading securities of \$2,864,186 by reducing the cost basis of all investments with a fair value less than their historical cost. All of these investments were considered other-than-temporarily impaired due to lack of ability and intent to hold these investments until recovery. At December 31, 2007, the Organization believed that the decline in investments was temporary.

Christian Living Communities
Notes to Consolidated Financial Statements
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Note 5: Functional Expenses

The Organization provides health care services to residents of its owned and operated health care facilities. Expenses related to providing these services are as follows:

	2008			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 12,091,266	\$ 2,747,643	\$ 77,481	\$ 14,916,390
Pension plan contributions	144,800	75,969	1,169	221,938
Other employee benefits	1,005,779	268,399	5,397	1,279,575
Payroll taxes	898,025	191,490	6,012	1,095,527
Professional fees	1,494,149	1,226,117	21,394	2,741,660
Supplies	1,163,579	126,535	2,976	1,293,090
Telephone	97,801	78,195	-	175,996
Postage and shipping	128	22,516	1,408	24,052
Occupancy	998,683	188,349	-	1,187,032
Equipment rental and maintenance	198,040	170,465	-	368,505
Printing and publications	5,494	31,032	5,944	42,470
Conferences, conventions and meetings	78,569	249,456	96,505	424,530
Interest	2,856,418	789,224	-	3,645,642
Depreciation and amortization	2,708,995	783,265	-	3,492,260
Insurance	428,286	66,367	-	494,653
Bond fees	128,575	41,839	-	170,414
Employee activity/recognition	27,524	29,150	-	56,674
Other	64,406	47,428	-	111,834
Food and other dietary expenses	1,980,645	-	-	1,980,645
Provision for uncollectible accounts	139,211	-	-	139,211
Grants	7,159	-	-	7,159
Accretion expense (revenue)	(277,608)	-	-	(277,608)
Loss on refinancing	1,038	-	-	1,038
Property taxes	21,321	10,995	-	32,316
	<u>\$ 26,262,283</u>	<u>\$ 7,144,434</u>	<u>\$ 218,286</u>	<u>\$ 33,625,003</u>
Total	<u>\$ 26,262,283</u>	<u>\$ 7,144,434</u>	<u>\$ 218,286</u>	<u>\$ 33,625,003</u>

Christian Living Communities
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

	2007			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 11,470,111	\$ 2,376,060	\$ 84,138	\$ 13,930,309
Pension plan contributions	135,546	80,403	998	216,947
Other employee benefits	947,874	231,510	5,143	1,184,527
Payroll taxes	842,605	161,122	6,750	1,010,477
Professional fees	1,288,110	787,307	27,213	2,102,630
Supplies	1,001,525	111,099	2,522	1,115,146
Telephone	148,055	28,053	-	176,108
Postage and shipping	314	24,823	3,759	28,896
Occupancy	764,753	136,631	-	901,384
Equipment rental and maintenance	280,987	109,834	-	390,821
Printing and publications	5,495	36,806	8,719	51,020
Conferences, conventions and meetings	78,993	172,011	79,332	330,336
Interest	2,415,292	670,006	-	3,085,298
Depreciation and amortization	2,237,166	635,917	-	2,873,083
Insurance	463,762	62,972	-	526,734
Bond fees	68,105	23,539	-	91,644
Employee activity/recognition	26,844	7,637	-	34,481
Other	18,022	35,422	-	53,444
Food and other dietary expenses	1,924,334	-	-	1,924,334
Provision for uncollectible accounts	68,349	-	-	68,349
Grants	1,873	-	-	1,873
Loss on asset disposal	15,186	-	-	15,186
Accretion expense	27,255	-	-	27,255
Property refund	(69,812)	(31,755)	-	(101,567)
	<u>\$ 24,160,744</u>	<u>\$ 5,659,397</u>	<u>\$ 218,574</u>	<u>\$ 30,038,715</u>
Total	<u>\$ 24,160,744</u>	<u>\$ 5,659,397</u>	<u>\$ 218,574</u>	<u>\$ 30,038,715</u>

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Notes to Consolidated Financial Statements
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Note 6: Board Designated Net Assets – Unrestricted

The Board has designated net assets for the following purposes:

	2008	2007
Designated endowment	\$ 575,851	\$ 575,851
Clermont Park renovation project	30,020	30,020
Holly Creek chaplain	30,000	30,000
Resident care	8,786	8,786
	<u>\$ 644,657</u>	<u>\$ 644,657</u>

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Education	\$ 5,293	\$ 5,293
Benevolent care	207,238	206,831
Staff appreciation	24,120	11,297
Clermont Park renovation project	128,183	-
Memory Support	23,938	-
Special care	9,160	810
Garden	100	50
Parish nurse	1,742	1,742
Chaplain program	2,784	1,730
Toys for God's kids	594	104
Resident Council	140	1,242
Chairs	1,110	-
Rehabilitation	1,500	-
Other	1,632	-
Remainder interest in charitable remainder annuity trust	<u>93,913</u>	<u>241,229</u>
	<u>\$ 501,447</u>	<u>\$ 470,328</u>

During 2008 and 2007, net assets were released from restrictions by incurring expenses and satisfying the restricted purpose in the amounts of \$100,618 and \$374,999, respectively.

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Note 8: Endowment

During the year ended December 31, 2008, the State of Colorado passed the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA or the Act). The Act was effective September 1, 2008 and provides statutory guidance for the management, investment and expenditures of endowment funds held by not-for-profit organizations. Amongst other provisions, the Act eliminates the “historical dollar value” rule for endowment funds, in favor of guidelines regarding what constitutes prudent spending and explicitly requirement consideration of the following factors (if relevant):

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

For the year ended December 31, 2008, the Organization has also adopted *Financial Accounting Standards Board Staff Position 117-1, Endowments of Not-For-Profit Organization* (FSP FAS 117-1). This standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the enacted version of UPMIFA.

The Organization’s endowment consists of two funds established to support the residents of the Organization. The endowments are donor-restricted. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization’s governing body has interpreted the State of Colorado’s UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent to donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment.

The composition of net assets by type of endowment fund at December 31, 2008 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (208,194)	\$ -	\$ 676,000	\$ 467,806

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Changes in endowment net assets for the year ended December 31, 2008 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 676,000	\$ 676,000
Investment return				
Interest income	-	13,391	-	13,391
Net depreciation	(208,194)	-	-	(208,194)
Total investment return	(208,194)	13,391	676,000	481,197
Appropriation of endowment assets for expenditure	-	(13,391)	-	(13,391)
Endowment net assets, end of year	<u>\$ (208,194)</u>	<u>\$ -</u>	<u>\$ 676,000</u>	<u>\$ 467,806</u>

Permanently restricted net assets at December 31 consist of the following:

	2008	2007
Investment in perpetuity, the revenue from which is expendable to support the activities of the Organization	<u>\$ 676,000</u>	<u>\$ 676,000</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$208,194 at December 31, 2008. The deficiency resulted from unfavorable market fluctuations during the year ended December 31, 2008.

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The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity. Under the Organization's policies, endowment assets are invested in a manner that is intended to maximize total returns in a long-time horizon, while preserving capital.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that balances several different investment types including domestic and foreign equities, real estate, corporate bond and government securities. This is intended to achieve its long-term return objectives within prudent risk constraints.

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

Note 9: Investment in Affiliate

CSP Holdings, LLC

The Organization accounts for its investment in Charitable Service Providers Reciprocal Retained Risk Group (CSPRRRG) under the equity method. The Organization has an 11.67% ownership interest. CSPRRRG is a captive insurance corporation organized by and for the benefit of senior living service providers. The investment balance consists of the following:

	2008	2007
Investment	\$ 184,276	\$ 133,142
Note receivable	31,591	31,591
	\$ 215,867	\$ 164,733

The Organization loaned CSPRRRG \$31,591 on December 1, 2004. The note bears interest at 6% annually. The note and accrued interest is payable in full on December 1, 2009. The borrower has the option to extend the maturity date for five years from December 1, 2009.

Note 10: Disclosures About Fair Value of Investments

Effective January 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

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FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and Endowment Funds

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include marketable equity securities, equity funds, fixed income funds, and real estate investment trusts. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include fixed income securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include a real estate fund.

Assets Limited as to Use

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. treasury obligations. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government and corporate debt securities.

Assets Held in Charitable Remainder Annuity Trust

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity funds and fixed income funds.

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Interest Rate Swap Agreement

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments and endowment funds	\$ 9,123,288	\$ 7,956,787	\$ 945,491	\$ 221,010
Assets limited as to use	7,838,497	1,821,562	6,016,935	-
Assets held in charitable remainder annuity trust	246,545	246,545	-	-
Interest rate swap agreement	(162,811)	-	(162,811)	-

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

	Real Estate Fund
Balance, January 1, 2008	\$ 221,865
Total realized and unrealized gains and losses	(855)
Balance, December 31, 2008	\$ 221,010
Total losses for the period included in change in net assets attributable to the change in realized losses on impairment related to assets and liabilities still held at the reporting date	\$ (855)

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

Cash and Cash Equivalents

The carrying amount approximates fair value.

Notes Payable and Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Organization for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Organization's financial instruments in accordance with FAS 107, *Disclosures About Fair Value of Financial Instruments* at December 31, 2008 and 2007:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$12,209,635	\$12,209,635	\$ 4,562,736	\$ 4,562,736
Investments	8,677,170	8,677,170	15,568,039	15,568,039
Assets limited as to use	18,771,162	18,771,162	38,500,116	38,500,116
Assets held in charitable remainder annuity trust	275,164	275,164	432,501	432,501
Endowment fund	676,000	676,000	676,000	676,000
Financial liabilities				
Interest rate swap agreement	\$ 162,811	\$ 162,811	\$ 207,293	\$ 207,293
Notes payable	1,052,682	1,052,682	28,944	28,944
Series 2004 Bonds	17,325,000	12,478,627	17,325,000	16,918,321
Series 2006 Bonds	75,080,000	53,386,809	81,895,000	75,604,356

Note 11: Asset Retirement Obligation

FASB Interpretation No. 47 (FIN 47) requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Organization's conditional asset retirement obligations primarily relate to asbestos contained at Clermont Park. Environmental regulations exist in Colorado that require the Organization to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. Accordingly, the Organization recorded a liability of \$245,200 and \$522,808 as of December 31, 2008 and 2007, respectively, as an estimate of the present value of the cost to remove the asbestos.

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A summary of changes in the asset retirement obligation at December 31, 2008 and 2007 is included in the table below:

	2008	2007
Liability, beginning of year	\$ 522,808	\$ 495,553
Change in value of estimate	(277,608)	-
Accretion expense	-	27,255
Liability, end of year	<u>\$ 245,200</u>	<u>\$ 522,808</u>

Note 12: Long-term Debt

	2008	2007
Bond payable, Series 2004 (A)	\$ 17,325,000	\$ 17,325,000
Bond payable, Series 2006 (B)	75,080,000	81,895,000
Cottages (C)	1,041,385	-
Capital lease obligations (D)	11,297	28,944
	<u>93,457,682</u>	<u>99,248,944</u>
Premium on Series 2006 Bonds	1,251,305	1,295,958
Discount on Series 2004 Bonds	(164,988)	(170,881)
Less current maturities	<u>(10,551,342)</u>	<u>(16,372)</u>
	<u>\$ 83,992,657</u>	<u>\$100,357,649</u>

- (A) On October 15, 2004, the Organization issued Series 2004 A, B-1, B-2 and C revenue bonds (Series 2004 Bonds) in the amounts of \$15,825,000, \$6,500,000, \$1,500,000 and \$19,750,000, respectively. The Series 2004 Bonds are tax-exempt. The net proceeds of the Series 2004 Bonds were used to pay off outstanding construction and related loans already obtained by the Organization, pay the costs of acquiring and constructing 114 independent living units, pay issuance costs and fund reserves. The Series 2004 Bonds have principal payments maturing in varying amounts through January 1, 2037. Interest is payable semi-annually at 4.75% to 6.25% for the Series A Bonds; 5.00% for the Series B-1 Bonds; 5.25% for the Series B-2 Bonds; and a variable rate based on the weekly interest rate as determined by the remarketing agent for the Series C Bonds.

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- (B) On November 16, 2006, the Organization issued Series 2006 A, B-1, C-1 and C-2 revenue bonds (Series 2006 Bonds) in the amounts of \$63,895,000, \$2,000,000, \$14,685,000 and \$1,315,000, respectively. The Series 2006 Bonds are tax-exempt. The net proceeds of the Series 2006 Bonds were used to pay off the Series 1997 Bonds, Series 2001 Bonds, Series 2002 Bonds and Series 2004 B Bonds. The net proceeds were also used to pay outstanding construction, pay the costs of constructing 84 independent living units, 28 assisted living units, 12 assisted living memory care units, 24 skilled nursing beds, pay issuance costs and fund reserves. The Series 2006 A Bonds have principal payments due in varying amounts through January 1, 2037. The Series B-1 and C-1 Bonds have principal payments due in various amounts through January 2010. The Series C-1 Bonds are due in one payment on January 1, 2009. Interest is payable semi-annually at 4.70% to 5.75% for the Series A Bonds; and a variable rate based on the weekly interest rate as determined by the remarketing agent for the Series B-1, C-1 and Series C-2 Bonds. During 2008, the Series C-2 Bonds were paid in full.

The Series 2006 C-1 Bonds are secured by a letter of credit in the amount of \$9,287,672. The letter of credit expires on November 15, 2011, and is collateralized by a deed of trust on the property. There were no amounts outstanding on the letter of credit at December 31, 2008.

- (C) Draw notes; maximum amounts of \$2,045,000; due in one lump sum on January 10, 2009; interest payable monthly at a variable rate (3.28% at December 31, 2008); secured by a deed of trust on certain properties of the Organization. Subsequent to year-end, the notes were extended to be due on May 1, 2009.
- (D) Capital lease obligations at varying rates of imputed interest from 4.8% to 10.5%, due through June 10, 2010; collateralized by property.

The bond indentures for the Series 2004 and 2006 Bonds require the Organization to maintain certain financial ratios. During 2008, the Organization met all the financial ratio requirements.

Aggregate annual maturities and sinking fund requirements of long-term debt and payments at December 31, 2008, are:

2009	\$ 10,551,342
2010	13,626,340
2011	1,270,000
2012	1,330,000
2013	1,395,000
Thereafter	<u>65,285,000</u>
	<u><u>\$ 93,457,682</u></u>

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Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Note 13: Derivative Financial Instruments

The Organization entered into two interest rate swap agreements on November 16, 2006, to fix the interest rate on its outstanding Series 2006 C-1 Bonds through December 1, 2009 and Series 2006 C-2 Bonds through December 1, 2008. The agreements provide for the Organization to receive interest from the counterparty at the bond's variable rate and to pay interest to the counterparty for the Series 2006 C-1 Bonds at a fixed rate of 3.75% on an original notional amount of \$14,685,000 and for the Series 2006 C-2 Bonds at a fixed rate of 5.26% on an original notional amount of \$1,315,000. The notional amounts will change based on principal payments. Under the agreements, the Organization pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements are recorded at fair value with subsequent changes in fair value included in revenues, gains and other support. The liability for the fair value of the swap agreement was \$162,811 and \$192,382 for the Series 2006 C-1 and \$0 and \$14,911 for the Series C-2 as of December 31, 2008 and 2007, respectively, and is reported on the balance sheets. The interest rate swap for Series C-2 was cancelled on December 1, 2008. The corresponding gain and loss related to the change in fair value reported in the statements of operations was \$44,481 and \$98,060 for the Series 2006 C-1 and \$0 and \$9,531 for the Series C-2 for the years ended December 31, 2008 and 2007, respectively.

Note 14: Pension Plan

The Organization has a 403(b) tax sheltered annuity plan covering substantially all employees. After two years of service, the employer contributes up to two-thirds of employee contributions up to a maximum of five percent. Pension expense was \$221,938 and \$216,947 for the years ended December 31, 2008 and 2007, respectively.

Note 15: Significant Estimates and Concentrations

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Professional Liability Coverage Claims

The Organization pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. There were no claims outstanding at December 31, 2008 and 2007, and the Organization is not aware of any unasserted claims or unreported incidents that are expected to exceed malpractice insurance coverage limits.

Litigation

The Organization is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Organization.

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Notes to Consolidated Financial Statements
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Current Economic Conditions

The current economic environment presents healthcare organizations with unique circumstances and challenges, which in some cases have resulted in significant declines in the fair value of investments, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Some of the Organization's patients are covered by government sponsored Medicare or Medicaid programs. The effect of the current economic conditions on government budgets may have an adverse effect on the cash flow from these programs. Further, current economic conditions have made it difficult for certain of our other patients to pay for services rendered. As employers make adjustments to health insurance plans services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization's future operating results.

Note 16: Contributed Services

The Organization receives substantial contributed services from constituents, the general public and Board members. Such services are not recorded in the accompanying financial statements. Estimated hours contributed were 33,066 and 34,711 in 2008 and 2007, respectively.

Note 17: Annuities Payable

As trustee, Johnson Center administers an irrevocable charitable remainder annuity trust. This trust provides for the payment of lifetime distributions to the beneficiaries. At the death of the beneficiaries, the trust provides for the distribution of assets to Johnson Center. The trust is adjusted annually to market value.

The Stewardship Fund has established a gift annuity where donors may contribute assets to the Stewardship Fund in exchange for the right to receive a fixed dollar annual return during their lifetimes. The assets received are held as general assets of the Stewardship Fund and the relating liability is a general obligation.

The relating liabilities for the trust and gift annuity are adjusted annually to reflect the present value based on the change in the life expectancy of the beneficiaries. The annual adjustment of the liability is recognized in the statements of operations as "change in value of split-interest agreements."

Note 18: Subsequent Event

On February 20, 2009, the Organization issued Series 2009A and B revenue bonds in the amount of \$25,755,000 and \$4,000,000, respectively. The Series 2009A Bonds have principal payments due in varying amounts through December 31, 2034. The Series 2009B Bonds are payable on December 31, 2034. Interest is payable semi-annually at 6.00% to 9.00% for the Series A Bonds and 6.50% for the Series B Bonds until January 1, 2012, in which the bonds are subject to a weekly remarketing.

Supplementary Information

Christian Living Communities
Consolidating Statement of Operations
Year Ended December 31, 2008

	Management	Adult Day and Homecare Services	Holly Creek	Johnson Center	The Village	Clermont Park Skilled Nursing and Assisted Living	Clermont Park	Stewardship Fund	Total	Eliminating Entries	Consolidated
Unrestricted Revenues and Other Support											
Resident/client services revenue, including amortization of advance fees of \$696,504	\$ -	\$ 1,083,629	\$ 5,803,921	\$ 8,907,069	\$ 4,639,032	\$ 8,303,264	\$ 1,318,044	\$ -	\$ 30,054,959	\$ (183,885)	\$ 29,871,074
Other	3,151,447	2,390	173,107	92,809	43,338	248,528	245,541	-	3,957,160	(3,263,343)	693,817
Contributions	500	-	425	(495)	2,624	(1,954)	2,860	7,122	11,082	51,838	62,920
Net assets released from restrictions used for operations	250	50	1,566	6,548	-	2,815	-	44,669	55,898	12,295	68,193
Total unrestricted revenues and other support	<u>3,152,197</u>	<u>1,086,069</u>	<u>5,979,019</u>	<u>9,005,931</u>	<u>4,684,994</u>	<u>8,552,653</u>	<u>1,566,445</u>	<u>51,791</u>	<u>34,079,099</u>	<u>(3,383,095)</u>	<u>30,696,004</u>
Expenses											
Salaries and benefits	2,117,800	973,703	1,961,304	5,173,370	1,712,606	5,216,760	356,820	-	17,512,363	1,067	17,513,430
Purchased services	250,261	24,039	464,501	510,547	185,442	521,467	57,204	3,947	2,017,408	(72,355)	1,945,053
Medical supplies and drugs	-	-	8,018	265,699	3,296	255,037	-	-	532,050	-	532,050
Dietary expenses	-	18,567	573,579	436,960	459,457	513,862	244,904	-	2,247,329	(255,569)	1,991,760
Administrative expenses	512,011	65,404	188,973	130,430	110,842	332,915	86,800	7,600	1,434,975	(70,401)	1,364,574
Management fees	-	50,304	447,446	912,024	435,192	879,444	237,672	47,460	3,009,542	(3,009,542)	-
Insurance	10,593	1,971	76,194	138,617	76,390	134,752	56,136	-	494,653	-	494,653
Bond fees	-	542	148,775	4,539	10,259	1,852	4,447	-	170,414	-	170,414
Utilities	-	-	424,740	260,296	189,365	160,585	146,046	-	1,181,032	-	1,181,032
Depreciation and amortization	108,840	28,810	1,978,619	304,984	421,113	321,811	332,680	-	3,496,857	(4,597)	3,492,260
Interest	1,481	30,228	2,301,628	314,916	712,067	516	284,806	-	3,645,642	-	3,645,642
Other	45,745	17,518	450,857	365,017	151,647	(14,150)	68,453	142,414	1,227,501	(72,577)	1,154,924
Provision for uncollectible accounts	-	783	-	64,010	291	74,127	-	-	139,211	-	139,211
Total expenses	<u>3,046,731</u>	<u>1,211,869</u>	<u>9,024,634</u>	<u>8,881,409</u>	<u>4,467,967</u>	<u>8,398,978</u>	<u>1,875,968</u>	<u>201,421</u>	<u>37,108,977</u>	<u>(3,483,974)</u>	<u>33,625,003</u>
Operating Income (Loss)	<u>105,466</u>	<u>(125,800)</u>	<u>(3,045,615)</u>	<u>124,522</u>	<u>217,027</u>	<u>153,675</u>	<u>(309,523)</u>	<u>(149,630)</u>	<u>(3,029,878)</u>	<u>100,879</u>	<u>(2,928,999)</u>
Other Income (Expense)											
Interest income	2,408	43	665,585	102,844	183,805	26,575	53,614	25,078	1,059,952	-	1,059,952
Realized losses on securities	-	-	(1,240,442)	(721,133)	(1,156,617)	(88,230)	(175,830)	(355,046)	(3,737,298)	-	(3,737,298)
Rental income	15,294	-	8,845	9,000	-	-	-	-	33,139	(21,000)	12,139
Change in value of split-interest agreements	-	-	-	-	-	-	-	(545)	(545)	-	(545)
Change in interest in net assets of Christian Living Communities in Stewardship Fund	1,054	-	-	11,428	600	20,627	(976)	-	32,733	(32,733)	-
Change in investment in affiliate	51,134	-	-	-	-	-	-	-	51,134	-	51,134
Total other income (expenses)	<u>69,890</u>	<u>43</u>	<u>(566,012)</u>	<u>(597,861)</u>	<u>(972,212)</u>	<u>(41,028)</u>	<u>(123,192)</u>	<u>(330,513)</u>	<u>(2,560,885)</u>	<u>(53,733)</u>	<u>(2,614,618)</u>
Excess (Deficiency) of Revenues Over Expenses Before Change in Fair Value of Interest Rate Swap Agreement	<u>175,356</u>	<u>(125,757)</u>	<u>(3,611,627)</u>	<u>(473,339)</u>	<u>(755,185)</u>	<u>112,647</u>	<u>(432,715)</u>	<u>(480,143)</u>	<u>(5,590,763)</u>	<u>47,146</u>	<u>(5,543,617)</u>
Change in fair value of interest rate swap agreement	-	-	44,481	-	-	-	-	-	44,481	-	44,481
Excess (Deficiency) of Revenues Over Expenses	<u>175,356</u>	<u>(125,757)</u>	<u>(3,567,146)</u>	<u>(473,339)</u>	<u>(755,185)</u>	<u>112,647</u>	<u>(432,715)</u>	<u>(480,143)</u>	<u>(5,546,282)</u>	<u>47,146</u>	<u>(5,499,136)</u>
Change in unrealized gains and (losses)	-	-	1,653	(203,379)	(307,134)	(50,201)	87,573	(121,726)	(593,214)	-	(593,214)
Transfer of net assets from (to) affiliate	160,167	1,074	(172,217)	2,219	5,393	753	2,611	-	-	-	-
Net assets released from restriction used for purchase of property and equipment	-	-	-	-	-	32,425	-	49,003	81,428	(49,003)	32,425
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 335,523</u>	<u>\$ (124,683)</u>	<u>\$ (3,737,710)</u>	<u>\$ (674,499)</u>	<u>\$ (1,056,926)</u>	<u>\$ 95,624</u>	<u>\$ (342,531)</u>	<u>\$ (552,866)</u>	<u>\$ (6,058,068)</u>	<u>\$ (1,857)</u>	<u>\$ (6,059,925)</u>

Christian Living Communities
Consolidating Statement of Changes in Net Assets
Year Ended December 31, 2008

	Management	Adult Day and Homecare Services	Holly Creek	Johnson Center	The Village	Clermont Park Skilled Nursing and Assisted Living	Clermont Park	Stewardship Fund	Total	Eliminating Entries	Consolidated
Unrestricted Net Assets											
Excess (deficiency) of revenues over expenses	\$ 175,356	\$ (125,757)	\$ (3,567,146)	\$ (473,339)	\$ (755,185)	\$ 112,647	\$ (432,715)	\$ (480,143)	\$ (5,546,282)	\$ 47,146	\$ (5,499,136)
Unrealized gains and (losses)	-	-	1,653	(203,379)	(307,134)	(50,201)	87,573	(121,726)	(593,214)	-	(593,214)
Transfer of net assets from (to) affiliate	160,167	1,074	(172,217)	2,219	5,393	753	2,611	-	-	-	-
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	32,425	-	49,003	81,428	(49,003)	32,425
Increase (decrease) in unrestricted net assets	335,523	(124,683)	(3,737,710)	(674,499)	(1,056,926)	95,624	(342,531)	(552,866)	(6,058,068)	(1,857)	(6,059,925)
Temporarily Restricted Net Assets											
Contributions	-	-	900	11,110	50	1,500	-	313,512	327,072	(48,019)	279,053
Interest income	-	-	-	-	-	-	-	13,391	13,391	(13,391)	-
Net assets released from restrictions	(250)	(50)	(1,566)	(6,548)	-	(35,240)	-	(93,672)	(137,326)	36,708	(100,618)
Change in value of split-interest agreements	-	-	-	-	(147,316)	-	-	-	(147,316)	-	(147,316)
Change in interest in net assets of Christian Living Communities Stewardship Fund	-	-	121	-	16,525	159,108	-	-	175,754	(175,754)	-
Increase (decrease) in temporarily restricted net assets	(250)	(50)	(545)	4,562	(130,741)	125,368	-	233,231	231,575	(200,456)	31,119
Change in Net Assets	335,273	(124,733)	(3,738,255)	(669,937)	(1,187,667)	220,992	(342,531)	(319,635)	(5,826,493)	(202,313)	(6,028,806)
Net Assets, Beginning of Year	(28,843,207)	137,888	(2,845,551)	9,256,217	14,720,073	4,302,454	8,830,010	1,970,888	7,528,772	(488,406)	7,040,366
Net Assets, End of Year	<u>\$ (28,507,934)</u>	<u>\$ 13,155</u>	<u>\$ (6,583,806)</u>	<u>\$ 8,586,280</u>	<u>\$ 13,532,406</u>	<u>\$ 4,523,446</u>	<u>\$ 8,487,479</u>	<u>\$ 1,651,253</u>	<u>\$ 1,702,279</u>	<u>\$ (690,719)</u>	<u>\$ 1,011,560</u>