

**THE RIVERWOODS COMPANY,
AT EXETER, NEW HAMPSHIRE**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

**THE RIVERWOODS COMPANY,
AT EXETER, NEW HAMPSHIRE
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The RiverWoods Company, at Exeter, New Hampshire
Exeter, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of The RiverWoods Company, at Exeter, New Hampshire, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of operations and changes in net assets (deficiency) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

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

Board of Trustees
The RiverWoods Company, at Exeter, New Hampshire

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The RiverWoods Company, at Exeter, New Hampshire as of June 30, 2016 and 2015, and the results of its operations, changes in net assets (deficiency) and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 18, 2016

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,103,324	\$ 7,017,657
Assets Limited as to Use - Other	38,687	47,608
Accounts Receivable, Net	823,428	549,429
Accounts Receivable - Entrance Fees	325,173	-
Other Receivables	5,318	15,526
Inventories	235,288	243,186
Prepaid Expenses and Other Current Assets	846,806	786,034
Accrued Interest Receivable	184,454	193,922
Total Current Assets	<u>10,562,478</u>	<u>8,853,362</u>
ASSETS LIMITED AS TO USE		
Benevolent Fund	797,437	913,356
Other Restricted Funds	927,609	890,333
Total Assets Limited as to Use, Net	<u>1,725,046</u>	<u>1,803,689</u>
PROPERTY AND EQUIPMENT		
Land and Land Improvements	7,682,712	7,292,630
Buildings	154,702,313	153,790,310
Furniture and Equipment	9,100,811	9,264,126
Projects in Process	1,046,764	896,945
Total	<u>172,532,600</u>	<u>171,244,011</u>
Less: Accumulated Depreciation	(69,974,264)	(66,379,916)
Total Property and Equipment - Net	<u>102,558,336</u>	<u>104,864,095</u>
OTHER ASSETS		
Investments	70,031,444	62,335,569
Other Assets	162,149	141,995
Unamortized Bond Issuance Costs	400,095	455,740
Deferred Marketing Costs	1,320,918	1,599,006
Total Other Assets	<u>71,914,606</u>	<u>64,532,310</u>
Total Assets	<u>\$ 186,760,466</u>	<u>\$ 180,053,456</u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIENCY)	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 1,680,000	\$ 1,595,000
Accounts Payable and Accrued Expenses	2,457,629	2,697,521
Accrued Salaries, Wages and Related Taxes	963,318	1,014,080
Accrued Interest Payable	<u>91,969</u>	<u>88,752</u>
Total Current Liabilities	5,192,916	5,395,353
LONG TERM DEBT, NET OF CURRENT PORTION	58,290,000	59,970,000
OBLIGATION UNDER INTEREST RATE SWAP AGREEMENT	1,856,305	1,124,085
FUTURE RESIDENTS' DEPOSITS	8,640,440	6,104,848
REFUNDABLE ENTRANCE FEE LIABILITY	157,874,210	150,420,969
DEFERRED REVENUE FROM ENTRANCE FEES	<u>21,092,698</u>	<u>19,995,549</u>
Total Liabilities	252,946,569	243,010,804
NET ASSETS (DEFICIENCY)		
Unrestricted	(67,150,443)	(63,528,654)
Temporarily Restricted	473,522	120,897
Permanently Restricted	<u>490,818</u>	<u>450,409</u>
Total Net Assets (Deficiency)	<u>(66,186,103)</u>	<u>(62,957,348)</u>
Total Liabilities and Net Assets (Deficiency)	<u>\$ 186,760,466</u>	<u>\$ 180,053,456</u>

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES		
Residential Service Fees	\$ 22,875,140	\$ 22,801,709
Earned Entrance Fees	2,747,651	2,890,919
Health Center Fees	7,542,984	6,874,837
Other Operating Revenue	335,938	361,219
Investment Income	1,680,699	1,689,370
Net Assets Released from Restrictions	445,595	379,073
Total Revenues	35,628,007	34,997,127
EXPENSES		
General and Administrative	8,635,640	8,119,467
Resident Services	1,593,428	1,488,747
Dining Services	4,167,796	3,986,996
Health Services	7,201,828	6,974,941
Environmental Services	4,101,857	4,042,828
Facility Costs and Utilities	3,560,056	3,751,223
Depreciation and Amortization	6,103,850	6,032,261
Interest	1,770,299	2,069,481
Total Expenses	37,134,754	36,465,944
LOSS FROM OPERATIONS	(1,506,747)	(1,468,817)
NONOPERATING GAINS AND LOSSES		
Contributions	8,116	76,958
Change in Charitable Gift Annuity Liability	(22,799)	(22,379)
Gains on Sales of Assets and Investments	282,868	295,487
Total Nonoperating Gains and Losses	268,185	350,066
DEFICIT OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES	(1,238,562)	(1,118,751)
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Change in the Fair Value of Interest Rate Swap Agreements	(732,220)	(45,272)
Changes in Net Unrealized Gains (Losses) on Investments	(1,170,138)	(1,128,421)
Net Asset Transfer	(480,869)	-
Total Other Changes in Unrestricted Net Assets	(2,383,227)	(1,173,693)
CHANGE IN UNRESTRICTED NET ASSETS	(3,621,789)	(2,292,444)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	317,351	307,229
Net Assets Released from Restrictions	(445,595)	(379,073)
Net Asset Transfer	480,869	-
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	352,625	(71,844)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	40,409	40,842
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	40,409	40,842
CHANGE IN NET ASSETS (DEFICIENCY)	(3,228,755)	(2,323,446)
NET ASSETS (DEFICIENCY) - BEGINNING OF YEAR	(62,957,348)	(60,633,902)
NET ASSETS (DEFICIENCY) - END OF YEAR	\$ (66,186,103)	\$ (62,957,348)

See accompanying Notes to Financial Statements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets (Deficiency)	\$ (3,228,755)	\$ (2,323,446)
Adjustments to Reconcile Change in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:		
Proceeds from Entrance Fees	18,570,000	14,801,000
Noncash Items Included in Change in Net Assets (Deficiency):		
Amortization of Deferred Entrance Fee Revenue	(2,747,651)	(2,890,919)
Depreciation and Amortization	6,103,850	6,032,261
Loss on Disposal of Equipment	6,042	340
Change in Interest Rate Swap Agreements	732,220	45,272
Unrealized Losses on Investments, Net	1,170,138	1,128,421
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(273,999)	102,377
Other Receivables	10,208	5,180
Inventories	7,898	(14,871)
Prepaid Expenses and Other Assets	(80,926)	16,150
Accrued Interest Receivable	9,468	(30,617)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(239,892)	1,079,364
Accrued Salaries, Wages and Related Taxes	(50,762)	(317,341)
Accrued Interest Payable and Other Liabilities	(57,192)	(76,120)
Net Cash Provided by Operating Activities	19,930,647	17,557,051
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(3,470,400)	(6,431,649)
Increase in Investments	(8,866,013)	(1,799,604)
Decrease (Increase) in Assets Limited as to Use	8,921	(21,588)
Increase in Other Restricted Funds	(37,276)	(54,545)
Decrease in Benevolent Fund	115,919	87,502
Net Cash Used by Investing Activities	(12,248,849)	(8,219,884)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	(1,595,000)	(1,585,000)
Payment of Deferred Financing Costs	-	(146,597)
Increase in Residents' Deposits	2,535,592	2,621,400
(Increase) Decrease in Accounts Receivable - Entrance Fees	(325,173)	537,600
Refunds of Entrance Fees	(7,211,550)	(11,263,750)
Net Cash Used by Financing Activities	(6,596,131)	(9,836,347)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,085,667	(499,180)
Cash and Cash Equivalents - Beginning of Year	7,017,657	7,516,837
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,103,324	\$ 7,017,657
SUPPLEMENTAL CASH DISCLOSURE		
Cash Paid for Interest	\$ 1,767,082	\$ 2,098,161

See accompanying Notes to Financial Statements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The RiverWoods Company, at Exeter, New Hampshire (“RiverWoods” or the “Company”), a non-profit charitable organization, was incorporated on June 6, 1983 as a voluntary corporation. RiverWoods operates continuing care retirement communities that provide housing, health care and other related services to residents. The original campus, known as “The Woods,” has 201 independent living units, 20 assisted living units and 39 skilled nursing beds. The second campus, known as “The Ridge,” has 81 independent living units and 11 cottages, 27 assisted living units, and 23 skilled nursing beds. The third campus, known as “The Boulders”, has 76 independent living units and 24 cottages, 24 assisted living units and 16 skilled nursing beds. The operations of The Woods, The Ridge and The Boulders began in August 1994, October 2004 and March 2010, respectively.

The parent entity (Member) of RiverWoods is The RiverWoods Group (“TRWG”), a New Hampshire non-profit voluntary corporation that was incorporated on February 17, 2011. Its purpose is to support RiverWoods and further its charitable purposes by establishing, maintaining and governing an integrated system which provides for the effective and efficient delivery of housing, food services, health services and other services in the continuum of care to elderly persons. The RiverWoods Group is not consolidated in the financial statements presented herein.

New Accounting Pronouncements

In April 2015, FASB issued amended guidance to simplify the presentation of debt issuance costs as discussed within ASU 2015-03, Interest – Imputation of Interest. Debt financing costs will be presented in the balance sheet as a direct deduction from the debt liability effective for fiscal years beginning after December 15, 2015. Management is evaluating the impact of this guidance on the entity's financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles of recognizing revenue from contracts with customers as discussed within ASU No. 2014-09 – Revenue from Contracts with Customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an account that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In January of 2016, the Financial Accounting Standards Board (FASB) Accounting Standards issued (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. Management is evaluating the impact of the amended recognition and measurement guidance on the entity's financial statements.

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.

Income Taxes

RiverWoods is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

RiverWoods follows the provisions of the income tax accounting standards regarding the recognition and measurement of uncertain tax positions. The application of these provisions has no impact on the Company's financial statements.

Operating Indicator

For purposes of display, the excess (deficit) of revenues and net gains over expenses and losses is the operating indicator for the Company. Other changes in unrestricted net assets that are excluded from the operating indicator, consistent with industry practice, include unrealized gains and losses on investments, the effective portion of the interest rate swap agreements that are designated as hedging agreements, restricted 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) and net asset transfers.

Cash Equivalents

Cash equivalents include short-term investments, excluding invested cash in investment advisory accounts, which have a maturity of three months or less when purchased and are recorded at cost, which approximates fair value.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Entrance Fees Receivable

RiverWoods provides an allowance for uncollectible accounts based on the allowance method using management's judgment considering historical information. Residents are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts are continually analyzed for collectability and management determines when accounts are written off. At June 30, 2016 and 2015 the allowance for doubtful accounts was \$46,001 and \$34,000, respectively. In certain instances, RiverWoods offers incoming residents the ability to defer payment of entrance fees in full on a short-term basis for a period not to exceed one year based upon market conditions.

Inventories

Inventories of supplies are carried at the lower of cost (determined by the first-in, first-out method) or market.

Investments and Investment Income

Investments, which are comprised of U.S. Government, Government agency and corporate obligations, equity securities, hedge fund of funds and invested cash and cash equivalents, are measured at fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends, and write down of impaired investments) is included in the excess of revenues and net gains over expenses and losses. Unrealized gains and losses on investments are excluded from the excess (deficit) of revenues and net gains over expenses and losses.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near-term and that such changes could materially affect the amounts reported in the statement of financial position.

Assets Limited as to Use

Assets Limited as to Use includes certain cash and cash equivalents, donor restricted funds, and certain employee funds. Amounts required to meet current liabilities have been classified as current in the Statement of Financial Position at June 30, 2016 and 2015.

Benevolence

RiverWoods has established a benevolence policy to provide a source for financial assistance to residents of the retirement community who are able to demonstrate financial need to the satisfaction of the board of trustees of RiverWoods. For the years ended June 30, 2016 and 2015, the amount of financial assistance provided to residents was \$172,873 and \$131,932, respectively.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Company emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company 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.

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.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and long-term debt approximate fair value at June 30, 2016.

The fair values of financial instruments are summarized further in Note 3.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. RiverWoods' policy is to capitalize expenditures for major improvements that have a per unit price of \$1,500 and an economic life of at least three years and charge maintenance and repairs currently for expenditures that do not extend the useful lives of the related assets. The provision for depreciation has been computed using the straight-line method at rates that are intended to amortize the cost of assets over their estimated useful lives. Projects in process consist of ongoing projects that will be depreciated when projects are completed and placed in service. Depreciation expense for the years ended June 30, 2016 and 2015 was \$5,770,117 and \$5,595,927, respectively.

Bond Issuance Costs

Bond issuance costs are being amortized using the straight-line method, which approximates the effective interest method, over the commitment period of the existing direct purchase lender agreements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Marketing Costs

Deferred marketing costs represent costs incurred in connection with obtaining the initial residence and care agreements of each campus and are being amortized over the estimated remaining lives of each campus' first residents. Accumulated amortization for deferred marketing costs of The Woods and of The Ridge were fully amortized in 2008 and 2015, respectively.

In 2011, RiverWoods capitalized \$2,780,880 of deferred marketing costs of The Boulders. Accumulated amortization expense for The Boulders amounted to \$1,459,962 and \$1,181,874 at June 30, 2016 and 2015, respectively. Amortization of deferred marketing costs related to The Boulders totaled \$278,088 for each of the years ended June 30, 2016 and 2015.

Deferred Revenue - Entrance Fees

As of June 30, 2016, RiverWoods had three types of entrance fee agreements: 90 percent refundable, 50 percent refundable and declining balance refund. Under the 90 percent agreement, resident entrance fees for the unit's first person are 90 percent refundable upon both the termination of residency in the retirement community of the resident, or in the case of joint residency, both residents, and upon resale of the unit.

Resident entrance fees for the unit's second person are nonrefundable. The provisions of the 50 percent refundable agreement are similar in all regards to the 90 percent agreement, except that the maximum refund upon termination of residency and resale of the unit is 50 percent of the first person entrance fee. The refundable portion of these entrance fees is recorded as a liability.

The nonrefundable portions of the entrance fees are amortized into operating revenue over the actuarially determined life expectancy of each resident. Upon termination of the contract, whether by move-out or death of the resident(s), the unamortized nonrefundable portion of the entrance fee is recorded as operating revenue.

Under the declining balance refund agreement, the resident or resident's designee is entitled to a refund equal to the first person entry fee paid less a sum equal to a four percent administrative fee and two percent per month for every month of residence. Several units were occupied and amortized under the declining refund agreement at June 30, 2016 and 2015.

Entrance fees received for the years ended June 30, 2016 and 2015 were \$18,570,000 and \$14,801,000, respectively. For the years ended June 30, 2016 and 2015, entrance fees refunded were \$7,211,550 and \$11,263,750, respectively. Total net entrance fees collected were \$11,358,450 and \$3,537,250 for the years ended June 30, 2016 and 2015, respectively.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue - Entrance Fees (Continued)

As of June 30, 2016 and 2015, approximately \$158,127,556 and \$150,765,804, respectively, of deferred resident entry fees are contractually refundable based upon the terms of RiverWoods' refund policy.

Future Residents' Deposits

Future residents' deposits are required prior to the execution of resident agreements and the acceptance of entrance fees. Upon occupancy, future resident deposits are reclassified to refundable entrance fee liability and deferred revenue from entrance fees. Future residents' deposits as of June 30, 2016 and 2015 were \$8,640,440 and \$6,104,848, respectively.

Malpractice Loss Contingencies

RiverWoods has a claims made policy for its malpractice insurance coverage. In the event a loss contingency should occur, RiverWoods would give it appropriate recognition in its financial statements.

Employee Fringe Benefits

RiverWoods has an "earned time off" plan to provide fringe benefits for its employees. Under this plan each qualifying employee "earns" hours of paid leave for each pay period worked. These hours of paid leave may be used for vacations or illness. Hours earned but not used are vested with the employee. RiverWoods accrues the cost of these benefits as they are earned.

Obligation to Provide Future Services

RiverWoods periodically engages an actuary to calculate the net present value of future revenues and the cost of providing future services and use of facilities to current residents, which is compared to the balance of deferred entrance fee revenue, allocable depreciation, and unamortized costs of acquiring initial continuing care contracts. If this calculation produces an obligation, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The Company performed this calculation for 2014. As of June 30, 2016 and 2015, management's estimate indicated no need to record an additional liability for an obligation to provide future services and use of facilities.

Charitable Gift Annuities

RiverWoods has a number of charitable gift annuities. The liability to the annuitants has been discounted to its present value, taking into consideration the life expectancy of the annuitant. The difference between the annuitant's gift and the liability to the annuitant is recorded as an unrestricted contribution in the year of the gift. These gift annuities provide for a series of quarterly payments during the annuitants' or beneficiaries' lives.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets are classified into three categories and reported as follows:

Unrestricted – Unrestricted net assets are comprised of those resources over which the board of trustees has discretionary control and include those expendable resources which have been designated for special use by the board of trustees. The RiverWoods Fund and the Charitable Gift Annuities are included in unrestricted net assets.

Temporarily Restricted – Temporarily restricted net assets are assets whose use has been limited by donors to a specific purpose. Gifts are reported as temporarily restricted if they are received with donor stipulations that limit their use. When a donor restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations in net assets released from restriction. The Peabody Scholarship Fund and the Benevolent Fund are included in temporarily restricted net assets.

Permanently Restricted – Permanently restricted net assets are those assets subject to a donor imposed restriction that will be maintained in perpetuity by the Company. The Endowment Fund and the Spencer Fund are included in permanently restricted net assets.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August 18, 2016, the date the financial statements were issued. The results of this evaluation indicated that there are no subsequent events or transactions that are required to be disclosed in these financial statements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at June 30, 2016 and 2015, which are stated at fair value, is set forth in the following table:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 3,281,966	\$ 2,386,112
U.S. Government and Government Agency Obligations	9,772,604	8,089,324
Corporate Debt Obligations	12,152,653	12,166,690
Equity Securities	37,387,765	32,473,486
REITs	3,535,630	3,046,099
Tangible Assets - Commodities	1,162,055	1,243,207
Hedge Fund of Funds	4,686,958	4,975,870
Total	<u>\$ 71,979,631</u>	<u>\$ 64,380,788</u>

	<u>2016</u>	<u>2015</u>
Current Portion of Assets Limited as to Use	\$ 38,687	\$ 47,608
Accrued Interest Receivable	184,454	193,922
Investments	70,031,444	62,335,569
Benevolent Fund and Other Restricted Funds	1,725,046	1,803,689
Total	<u>\$ 71,979,631</u>	<u>\$ 64,380,788</u>

The following tables summarize the unrealized losses on investments held at June 30, 2016 and 2015:

2016	<u>Less than Twelve Months</u>		<u>Twelve Months or Longer</u>		Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
US Government and Corporate Obligations	\$ 538,092	\$ (1,502)	\$ 8,791,005	\$ (701,380)	\$ 9,329,097	\$ (702,882)
Marketable Equity Securities	3,836,189	(405,925)	8,365,659	(2,733,303)	12,201,848	(3,139,228)
Hedge Fund	44,856	(144)	1,733,609	(121,360)	1,778,465	(121,504)
	<u>\$ 4,419,137</u>	<u>\$ (407,571)</u>	<u>\$ 18,890,273</u>	<u>\$ (3,556,043)</u>	<u>\$ 23,309,410</u>	<u>\$ (3,963,614)</u>

2015	<u>Less than Twelve Months</u>		<u>Twelve Months or Longer</u>		Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
US Government and Corporate Obligations	\$ 5,868,438	\$ (48,739)	\$ 8,917,955	\$ (619,446)	\$ 14,786,393	\$ (668,185)
Marketable Equity Securities	5,389,360	(512,481)	5,683,391	(855,127)	11,072,751	(1,367,608)
Hedge Fund	1,296,240	(13,760)	-	-	1,296,240	(13,760)
	<u>\$ 12,554,038</u>	<u>\$ (574,980)</u>	<u>\$ 14,601,346</u>	<u>\$ (1,474,573)</u>	<u>\$ 27,155,384</u>	<u>\$ (2,049,553)</u>

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
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NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Management performs due diligence on the valuation of all investments. The vast majority of the underlying manager holdings are publicly traded securities with readily available market prices. Management continually reviews its investment portfolios and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of investment advisors and the length of time and extent to which the market value has been less than cost, and the ability and intent of the Company to hold investments in the long term. During the years ended June 30, 2016 and 2015, no material declines in the market value of investments are considered to be other than temporary. Management also reports that the Company has unrealized gains on investments of \$9,075,459 and \$8,331,537 for the years ended June 30, 2016 and 2015, respectively.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Assets Limited as to Use	\$ 1,763,733	\$ -	\$ -	\$ 1,763,733
Investments	65,344,486	-	4,686,958	70,031,444
Liabilities:				
Obligation Under Interest Rate Swap Agreements	\$ -	\$ (1,856,305)	\$ -	\$ (1,856,305)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Assets Limited as to Use	\$ 1,851,297	\$ -	\$ -	\$ 1,851,297
Investments	57,359,699	-	4,975,870	62,335,569
Liabilities:				
Obligation Under Interest Rate Swap Agreements	\$ -	\$ (1,124,085)	\$ -	\$ (1,124,085)

The determination of the fair values above incorporates various factors. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of the Company's nonperformance risk on its liabilities.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of investments is determined by third party service providers utilizing various methods dependent upon the specific type of investment. When quoted prices are available in the active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include money market funds and bank deposits, U.S. government and agency securities, corporate bonds, common stocks, and mutual funds. Assets utilizing Level 3 inputs are hedge funds of funds and are considered alternative investments, since there are no observable inputs to their value. Level 3 investments are measured using a net asset value ("NAV") per share, or its equivalent, as determined by the fund's investment manager.

Liabilities utilizing Level 2 inputs are derivatives. The carrying amount represents fair market value and is based on a price estimated by a third party using the income approach, which uses valuation techniques to convert future cash flows to a discounted value, using current market expectations.

The following table presents a reconciliation of the beginning and ending balances for Level 3 assets:

Balance, July 1, 2014	\$ 2,960,590
Total Unrealized Gains Included in	
Changes in Net Unrealized Gains (Losses) on Investments	620,870
Purchases, net	<u>1,394,410</u>
Balance, June 30, 2015	4,975,870
Total Unrealized Gains Included in	
Changes in Net Unrealized Gains (Losses) on Investments	234,284
Sales, net	<u>(523,196)</u>
Balance, June 30, 2016	<u><u>\$ 4,686,958</u></u>

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and Cash Equivalents - The carrying amount approximates fair value because of the short maturity of those instruments.

Accounts Receivable - The carrying amount approximates fair value because of the short maturity of those instruments.

Long-Term Debt - The carrying amount of long-term debt approximates fair value because those financial instruments bear interest at variable rates that approximate current market rates for notes with similar maturities and credit quality.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
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NOTE 4 LONG-TERM DEBT

Following is a description of the terms of long-term debt at June 30:

	<u>2016</u>	<u>2015</u>
New Hampshire Health and Education Facilities Authority:		
Series 2012 Revenue Bonds, Series A	\$ 30,300,000	\$ 31,230,000
Series 2012 Revenue Bonds, Series B	<u>29,670,000</u>	<u>30,335,000</u>
Total Long-Term Debt	59,970,000	61,565,000
Less: Current Portion	<u>(1,680,000)</u>	<u>(1,595,000)</u>
Total Long-Term Debt, net of Current Portion	<u>\$ 58,290,000</u>	<u>\$ 59,970,000</u>

On September 28, 2012, RiverWoods entered into an agreement with the New Hampshire Health and Education Authority for \$65,605,000 Revenue Bonds, Series 2012A and Series 2012B. The proceeds were used to redeem \$64,120,000, representing the total outstanding balances of Series 1997B, Series 2003, Series 2007 and Series 2008 Bonds and to pay certain costs related to the issuance of these bonds. The Series 2012A and Series 2012B bonds are Direct Purchase Revenue Bonds and interest is payable at variable rates.

On April 1, 2015, RiverWoods entered into loan modification agreements for the Series 2012A and Series 2012B bonds. The modification reduced the variable interest rate and extended the commitment terms of the Series 2012A bonds by approximately 2.5 years to April 1, 2025 and the Series 2012B bonds by approximately 7.5 years to April 1, 2030. RiverWoods paid certain costs related to the loan modification which is included in unamortized bond issuance costs.

RiverWoods has entered into a swap agreement with Morgan Stanley to enact a fixed rate swap on variable rate debt. During the years ended June 30, 2016 and 2015, the swap was recorded as a financial instrument at fair value and met the criteria as a derivative instrument. The change in the fair value of the swap is excluded from the performance indicator for the years ended June 30, 2016 and 2015. The swap agreement expires March 1, 2023 and has a fixed interest rate of 3.499 percent.

In June 2011, RiverWoods had entered into a swap agreement with Deutsche Bank with a fixed rate of 1.624 percent and a termination date of June 1, 2016. In September 2012, RiverWoods modified this interest rate swap agreement with Deutsche Bank. Effective October 1, 2012, the interest rate of the swap is 1.69 percent and the original notional amount was \$47,000,000. The swap was recorded as a financial instrument at fair value and met the criteria as a derivative instrument. The change in the fair value of the swap is excluded from the performance indicator for the years ended June 30, 2016 and 2015. The swap agreement expires October 1, 2022.

RiverWoods has entered into an agreement with Deutsche Bank to enact a variable to fixed swap. The swap agreement was designated as a derivative and recorded at fair value as a liability in the balance sheet with the unrealized gain (loss) reported in the statement of operations below the operating indicator. The term of the swap is through March 1, 2023 and the interest rate is 4.189 percent.

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NOTE 4 LONG-TERM DEBT (CONTINUED)

Following is a summary of interest rate swaps outstanding at June 30, 2016:

	Current Notional Amount	Fixed Rate	Expiration Year
Deutsche Bank	\$ 5,230,000	4.189%	2023
Deutsche Bank	46,326,500	1.690%	2022
Morgan Stanley	5,415,000	3.499%	2023
Total Notional Amount	<u>\$ 56,971,500</u>		

RiverWoods is required by the Loan Agreements to meet certain financial ratios. As of June 30, 2016 and 2015, management is not aware of any violations with these financial covenants.

Total interest expense incurred was approximately \$1,770,000 and \$2,069,000 for the years ended June 30, 2016 and 2015, respectively. The combined aggregate amount of maturities as of June 30 for all long-term debt is as follows:

<u>Year Ending June 30,</u>	<u>2012 Series A</u>	<u>2012 Series B</u>	<u>Total</u>
2017	\$ 970,000	\$ 710,000	\$ 1,680,000
2018	1,030,000	740,000	1,770,000
2019	1,075,000	785,000	1,860,000
2020	1,120,000	785,000	1,905,000
2021	1,175,000	860,000	2,035,000
2022 and Thereafter	<u>24,930,000</u>	<u>25,790,000</u>	<u>50,720,000</u>
Total	<u>\$ 30,300,000</u>	<u>\$ 29,670,000</u>	<u>\$ 59,970,000</u>

NOTE 5 FUNCTIONAL EXPENSES

RiverWoods provides residential living services and general health care services to its residents. Expenses related to providing these services are as follows:

	<u>2016</u>	<u>2015</u>
Resident and Health Care Services	\$ 29,244,251	\$ 28,985,388
General and Administrative	7,890,503	7,480,556
Total	<u>\$ 37,134,754</u>	<u>\$ 36,465,944</u>

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NOTE 6 EMPLOYEE BENEFIT PLAN

During 2000, RiverWoods established a defined contribution plan for all eligible employees. The plan requires RiverWoods to match certain percentages of employee voluntary contributions based upon years of service. Pension expense was \$520,926 and \$396,841 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7 CONCENTRATION OF CREDIT RISK

RiverWoods maintains its cash accounts at commercial banks. The cash balances in each bank are insured by the FDIC up to certain dollar limitations. The concentration of credit risk varies with the funds held in the accounts and fluctuates based on available balances during the year.

RiverWoods grants credit without collateral to its residents. RiverWoods requires third-party insurance for those residents receiving health care services. The mix of receivables from patients and third-party payors at June 30 was as follows:

	2016	2015
Medicare and Supplemental Insurance	67%	70%
Residents and Other Accounts Receivable	33%	30%
Total	100%	100%

NOTE 8 RELATED PARTY

During fiscal year ended June 30, 2016, RiverWoods paid TRWG management fees of \$386,676 and incurred expenses that TRWG will reimburse of \$230,833. During fiscal year ended June 30, 2015, RiverWoods paid TRWG management fees of \$255,648 and incurred expenses that TRWG will reimburse of \$138,032.

NOTE 9 INSURANCE

Effective October 23, 2014, RiverWoods began participating in an insurance risk retention group, the Caring Communities, a Reciprocal Risk Retention Group ("CCrRRG"), a group insurance captive corporation licensed by the State of Illinois, to cover basic professional and general liability insurance on a claims-made basis. RiverWoods has a 0.75 percent subscriber interest in the CCrRRG Reciprocal.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
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NOTE 10 CONTINGENCIES AND COMMITMENTS

Boulders Campus

As a condition of site plan approval for its third campus, The Boulders, RiverWoods agreed to provide land and funds for the Town of Exeter, NH to put towards the construction of a future fire substation. During the fiscal year ending June 30, 2011, RiverWoods provided the funds as per the agreement. No land has been contributed at this time.

Litigation

RiverWoods occasionally finds itself as a defendant in legal suits that develop in the normal course of its activities. Although it is impossible to determine the ultimate resolution of matters that remain unresolved at this time, RiverWoods does not anticipate that there will be any material effect on these financial statements as a result of any action presently in progress.

Industry Regulation

The health care industry is subject to numerous laws and regulations of 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 patient 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 believes that the Company is in compliance with fraud and abuse statutes as well as other applicable government statutes.