THE RIVERWOODS COMPANY,
AT EXETER, NEW HAMPSHIRE

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

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AT EXETER, NEW HAMPSHIRE
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of The RiverWoods Company, at Exeter, New Hampshire as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 The RiverWoods Company, at Exeter, New Hampshire as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 28, 2012

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,930,863	$ 11,882,072
Assets Limited as to Use - Trustee Held Funds	1,368,261	3,385,303
Assets Limited as to Use - Other	58,881	377,944
Accounts Receivable, Net	735,832	549,091
Accounts Receivable - Entrance Fees	460,816	927,954
Other Receivables	129,539	3,781
Inventories	179,551	157,231
Prepaid Expenses and Other Current Assets	818,727	729,317
Accrued Interest Receivable	180,591	91,269
Total Current Assets	8,863,061	18,103,962
ASSETS LIMITED AS TO USE		
Benevolent Fund	692,958	208,585
Other Restricted Funds	531,305	501,436
Total Assets Limited as to Use, Net	1,224,263	710,021
PROPERTY AND EQUIPMENT		
Land and Land Improvements	6,914,443	6,603,209
Buildings	145,368,124	141,295,416
Furniture and Equipment	8,384,280	8,006,032
Projects in Process - Expansion Project	18,129	271,247
Projects in Process - Other	128,322	265,099
Total	160,813,298	156,441,003
Less: Accumulated Depreciation	(51,977,237)	(46,725,230)
Total Property and Equipment - Net	108,836,061	109,715,773
OTHER ASSETS		
Investments	51,482,467	41,768,547
Unamortized Bond Issuance Costs	3,544,360	3,671,953
Deferred Marketing Costs	2,798,937	3,203,844
Total Other Assets	57,825,764	48,644,344
Total Assets	$ 176,749,149	$ 177,174,100

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIENCY)	2012	2011
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 1,435,000	$ 1,370,000
Accounts Payable and Accrued Expenses	2,125,709	1,567,919
Accrued Salaries, Wages and Related Taxes	1,166,865	1,049,838
Accrued Interest Payable	135,340	113,271
Total Current Liabilities	4,862,914	4,101,028
LONG TERM DEBT, NET OF CURRENT PORTION	63,285,000	64,720,000
OBLIGATION UNDER INTEREST RATE SWAP AGREEMENT	4,990,872	3,449,470
RESIDENTS' DEPOSITS	2,579,784	1,730,049
DEFERRED REVENUE FROM ENTRANCE FEES	114,010,969	119,391,771
Total Liabilities	189,729,539	193,392,318
NET ASSETS (DEFICIENCY)		
Unrestricted	(13,306,180)	(16,897,267)
Temporarily Restricted	22,985	402,078
Permanently Restricted	302,805	276,971
Total Net Assets (Deficiency)	(12,980,390)	(16,218,218)
Total Liabilities and Net Assets (Deficiency)	$ 176,749,149	$ 177,174,100

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES		
Residential Service Fees	$ 20,485,583	$ 19,530,963
Earned Entrance Fees	9,080,402	8,084,336
Health Center Fees	4,767,013	4,289,881
Other Operating Revenue	1,150,639	838,762
Investment Income	1,957,853	1,006,218
Net Assets Released from Restrictions	455,402	91,416
Total Revenues	37,896,892	33,841,576
EXPENSES		
General and Administrative	7,556,942	7,032,903
Dining Services	3,937,318	3,701,876
Health Services	6,572,327	6,412,089
Environmental Services	3,420,585	3,238,023
Facility Costs and Utilities	2,216,738	3,055,434
Depreciation and Amortization	5,956,473	5,574,901
Interest	2,601,726	2,647,723
Total Expenses	32,262,109	31,662,949
INCOME FROM OPERATIONS	5,634,783	2,178,627
NONOPERATING GAINS AND LOSSES		
Contributions	41,556	106,123
Change in Charitable Gift Annuity Liability	(102,930)	(37,896)
Gains on Sales of Assets and Investments	192,686	394,575
Total Nonoperating Gains	131,312	462,802
EXCESS OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES	5,766,095	2,641,429
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Change in the Fair Value of Interest Rate Swap Agreements	(1,541,402)	490,958
Changes in Net Unrealized Losses on Investments	(633,606)	3,002,999
Total Other Changes in Unrestricted Net Assets	(2,175,008)	3,493,957
CHANGE IN UNRESTRICTED NET ASSETS	3,591,087	6,135,386
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	76,309	145,120
Net Assets Released from Restrictions	(455,402)	(91,416)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	(379,093)	53,704
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	25,834	10,585
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	25,834	10,585
CHANGE IN NET ASSETS (DEFICIENCY)	3,237,828	6,199,675
NET ASSETS (DEFICIENCY) - BEGINNING OF YEAR	(16,218,218)	(22,417,893)
NET ASSETS (DEFICIENCY) - END OF YEAR	$ (12,980,390)	$ (16,218,218)

See accompanying Notes to Financial Statements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets (Deficiency)	$ 3,237,828	$ 6,199,675
Adjustments to Reconcile Change in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:		
Proceeds from Entrance Fees	11,086,400	13,330,700
Noncash Items Included in Change in Net Assets (Deficiency):		
Amortization of Deferred Entrance Fee Revenue	(9,080,402)	(8,084,336)
Depreciation and Amortization	5,956,473	5,574,901
Loss on Disposal of Property and Equipment	35,368	-
Change in Interest Rate Swap Agreements	1,541,402	(490,958)
Unrealized (Gains) Losses on Investments, Net	633,606	(3,002,999)
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(186,741)	34,725
Other Receivables	(125,758)	-
Inventories	(22,320)	(5,383)
Prepaid Expenses and Other Assets	(89,410)	(11,957)
Accrued Interest Receivable	(89,322)	(2,618)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	557,790	(2,567,702)
Accrued Salaries, Wages and Related Taxes	117,027	243,381
Accrued Interest Payable and Other Liabilities	(27,766)	(26,751)
Net Cash Provided by Operating Activities	13,544,175	11,190,678
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(4,489,547)	(3,384,777)
Increase in Investments	(10,347,526)	(12,616,917)
Decrease in Assets Limited as to Use	2,336,105	13,251,151
Increase in Other Restricted Funds	(29,869)	(109,171)
(Increase) Decrease in Benevolent Fund	(484,373)	25,534
Net Cash Used by Investing Activities	(13,015,210)	(2,834,180)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	(1,370,000)	(10,355,000)
Proceeds from Entrance Fees	3,495,400	9,064,500
Letter of Credit Extension Costs	(90,082)	-
Deferred Marketing Costs - Expansion Project	-	(393,655)
Increase (Decrease) in Residents' Deposits	849,735	(320,813)
Decrease in Accounts Receivable - Entrance Fees	467,138	56,227
Refunds of Entrance Fees	(10,832,365)	(7,784,025)
Net Cash Used by Financing Activities	(7,480,174)	(9,732,766)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,951,209)	(1,376,268)
Cash and Cash Equivalents - Beginning of Year	11,882,072	13,258,340
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,930,863	$ 11,882,072
SUPPLEMENTAL CASH DISCLOSURE		
Cash Paid for Interest, Net of Capitalized Interest	$ 2,579,657	$ 2,683,691

See accompanying Notes to Financial Statements.

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 through the operation of retirement facilities. The original campus, known as "The Woods," has 199 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, 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. At this time there is no financial activity in this entity.

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 Company's financial statements.

The Company's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years 2009 to 2011 are open to examination by federal and state authorities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Indicator

For purposes of display, the excess 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, and 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).

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.

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 collectibility and management determines when accounts are written off. At June 30, 2012 and 2011 the allowance for doubtful accounts was $42,000 and $19,000, 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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use

Funds held by trustee under the revenue bond agreements are invested in U.S. Government and corporate obligations, investments guaranteed by the U.S. Government and money market accounts and are recorded at fair value at June 30, 2012 and 2011. In addition, Assets Limited as to Use includes certain cash and cash equivalents designated by the board for debt retirement, donor restricted funds to be used for capital projects, and certain employee funds. Amounts required to meet current liabilities have been classified as current in the Statement of Financial Position at June 30, 2012 and 2011.

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, 2012 and 2011, the amount of financial assistance provided to residents was $105,544 and $105,730, respectively.

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, 2012.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. RiverWoods' policy is to capitalize expenditures for major improvements 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, 2012 and 2011 was $5,333,891 and $5,175,770, respectively.

Bond Issuance Costs/Original Issue Discount/Premium

Bond issuance costs are being amortized using the straight-line method, which approximates the effective interest method, over the lives of the revenue bonds.

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 was fully amortized in 2008. Accumulated amortization of deferred marketing costs for The Ridge amounted to $972,279 and $845,460 at June 30, 2012 and 2011, respectively. Amortization of marketing costs for The Ridge was $126,819 for each of the years ended June 30, 2012 and 2011.

At June 30, 2011, deferred marketing costs of $2,780,880 were capitalized in association with the Expansion Project and were included in Projects in Process – Expansion Project. During the year ended June 30, 2012, no additional deferred marketing costs were capitalized. Accumulated amortization expense for The Boulders amounted to $347,610 and $69,522 at June 30, 2012 and 2011, respectively. Amortization of costs related to The Boulders began in 2011 and totaled $278,088 and $69,522 for the years ended June 30, 2012 and 2011, respectively.

Deferred Revenue - Entrance Fees

As of June 30, 2012, 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. These entrance fees are recorded as deferred revenue from entrance fees. Entrance fee amortization begins in the month of residency. The refundable portions of the entrance fees are amortized into operating revenue, using the straight-line method, over the estimated useful life of the facility.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue - Entrance Fees (Continued)

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, 2012 and 2011.

Entrance fees received for the years ended June 30, 2012 and 2011 were $14,581,800 and $22,395,200, respectively. For the years ended June 30, 2012 and 2011, entrance fees refunded were $10,832,365 and $7,784,025, respectively. Total net entrance fees collected were $3,749,435 and $14,611,175 for the years ended June 30, 2012 and 2011, respectively.

As of June 30, 2012 and 2011, approximately $142,663,330 and $142,193,245, respectively, of deferred resident entry fees are contractually refundable based upon the terms of RiverWoods' refund policy.

Residents' Deposits

Residents' deposits are required prior to the execution of resident agreements and the acceptance of entrance fees. Upon occupancy, resident deposits are reclassified to deferred revenue from entrance fees. Residents' deposits as of June 30, 2012 and 2011 were $2,579,784 and $1,730,049, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. As of June 30, 2012 and 2011, 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.

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.

Reclassifications

Certain items in the 2011 consolidated financial statements have been reclassified for comparability purposes with the 2012 consolidated financial statements. The reclassifications had no change on the overall net assets of the Company.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August 28, 2012, the date the financial statements were issued.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events (Continued)

The results of this evaluation indicated that there are subsequent events or transactions that are required to be disclosed in these financial statements (see Note 10).

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at June 30, 2012 and 2011, which are stated at fair value, is set forth in the following table:

	2012	2011
Cash and Cash Equivalents	$ 3,093,594	$ 13,614,336
U.S. Government and Government Agency Obligations	13,067,289	11,102,961
Corporate Debt Obligations	13,250,686	4,744,505
Equity Securities	18,195,464	15,300,776
REITs	1,925,228	-
Tangible Assets - Commodities	2,256,571	-
Hedge Fund of Funds	2,525,631	1,570,506
Total	$ 54,314,463	$ 46,333,084

	2012	2011
Current Portion of Assets Limited as to Use	$ 1,427,142	$ 3,763,247
Accrued Interest Receivable	180,591	91,269
Investments	51,482,467	41,768,547
Benevolent Fund and Other Restricted Funds	1,224,263	710,021
Total	$ 54,314,463	$ 46,333,084

The following tables summarize the unrealized losses on investments held at June 30, 2012 and 2011:

2012	Less than Twelve Months		Twelve Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
US Government and Corporate Obligations	$ 3,884,429	$ 25,357	$ 1,301,455	$ 49,660	$ 5,185,884	$ 75,017
Marketable Equity Securities	14,078,536	2,338,098	107,012	21,039	14,185,548	2,359,137
	$ 17,962,965	$ 2,363,455	$ 1,408,467	$ 70,699	$19,371,432	$ 2,434,154

2011	Less than Twelve Months		Twelve Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
US Government and Corporate Obligations	$ 2,741,812	$ 42,079	$ 1,001,151	$ 51,041	$ 3,742,963	$ 93,120
Marketable Equity Securities	131,228	11,764	7,368,581	1,023,179	7,499,809	1,034,943
	$ 2,873,040	$ 53,843	$ 8,369,732	$ 1,074,220	$11,242,772	$ 1,128,063

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, 2012 and 2011, no material declines in the market value of investments are considered to be other than temporary.

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, 2012:

	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	$ 2,651,405	$ -	$ -	$ 2,651,405
Investments	48,956,836	-	2,525,631	51,482,467
Liabilities:				
Obligation Under Interest Rate Swap Agreements	$ -	$ (4,990,872)	$ -	$ (4,990,872)

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, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	$ 4,473,268	$ -	$ -	$ 4,473,268
Investments	40,198,041	-	1,570,506	41,768,547
Liabilities:				
Obligation Under Interest Rate Swap Agreements	$ -	$ (3,449,470)	$ -	$ (3,449,470)

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 non performance risk on its liabilities.

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.

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 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.

NOTE 4 LONG-TERM DEBT

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

	2012	2011
New Hampshire Health and Education Facilities Authority:		
Series 1997 Revenue Bonds, Series B	$ 7,400,000	$ 7,835,000
Series 2003 Revenue Bonds	14,665,000	15,055,000
Series 2007 Revenue Bonds	6,930,000	7,475,000
Series 2008 Revenue Bonds	35,725,000	35,725,000
Total Long-Term Debt	64,720,000	66,090,000
Less: Current Portion	(1,435,000)	(1,370,000)
Total Long-Term Debt, net of Current Portion	$ 63,285,000	$ 64,720,000

NOTE 4 LONG-TERM DEBT (CONTINUED)

The Series 1997B Revenue Bonds mature on March 1, 2023. The Series 1997B Revenue Bonds require annual sinking fund installments of amounts ranging from $140,000 to $1,600,000 through 2023.

In October 2001, RiverWoods entered into an agreement, which was subsequently amended in 2007, with Lehman Brothers to enact a variable to fixed rate swap for all of the Series 1997B bonds effective March 1, 2003. The swap agreement hedged the Series 1997B Bonds by effectively converting interest payments from variable rates to a fixed rate. 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 was through 2023 and the interest rate was fixed at 4.267 percent. On September 15, 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection. RiverWoods continued to pay required monthly payments on the swap agreement and all terms of the swap continued to remain effective. On June 21, 2011, RiverWoods signed a termination agreement with Lehman Brothers and paid a final settlement amount to terminate the swap. On the same day, RiverWoods entered into an agreement with Deutsche Bank to enact a variable to fixed swap for all of the Series 1997B Bonds effective June 21, 2011. 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.

In September 2003, RiverWoods entered into a Loan Agreement and Mortgage with the New Hampshire Health and Education Facilities Authority (the “Authority”) pursuant to which the Authority sold $15,790,000 of long-term and $28,500,000 of short-term tax-exempt revenue bonds (“Series 2003 Bonds”) and lent the proceeds to RiverWoods. The proceeds of these bonds were used to repay promissory notes, pay project costs related to The Ridge at RiverWoods, fund the interest and related costs, provide working capital, and pay financing and legal costs. Substantially all of RiverWoods’ property and equipment and gross receipts are pledged as collateral under RiverWoods’ agreement with the Authority.

The Series 2003 Revenue Bonds, totaling $14,665,000 at June 30, 2012, represent term bonds, which are subject to an optional redemption schedule, with annual installments of amounts ranging from $360,000 to $1,010,000 through 2034. Interest is payable monthly based on variable rates.

On March 28, 2008, RiverWoods entered into a swap agreement with Lehman Brothers to enact a fixed rate swap on variable rate debt with a fixed interest rate of 2.0649 percent. At June 30, 2010, the swap was recorded as a financial instrument at fair value and met the criteria as a derivative instrument. The swap agreement expired April 1, 2011, at which time the market value was $0. On June 6, 2011, RiverWoods entered into a swap with Deutsche Bank with a fixed rate of 1.624 percent and a termination date of June 1, 2016. On June 6, 2011, the swap was recorded as a financial instrument at fair value and met the criteria as a derivative instrument and the change in the fair value of the swap was excluded from the performance indicator for the years ended June 30, 2012 and 2011.

NOTE 4 LONG-TERM DEBT (CONTINUED)

In March 2007, RiverWoods entered into a Loan Agreement and Mortgage with the Authority pursuant to which the Authority sold $8,820,000 of long-term tax-exempt revenue bonds ("Series 2007 Bonds") and lent the proceeds to RiverWoods. The proceeds of these bonds were used to refund the Series 1997A bonds, fund the interest and related costs, and pay financing and legal costs. Substantially all of RiverWoods' property and equipment and gross receipts are pledged as collateral under RiverWoods' agreement with the Authority.

The Series 2007 Revenue Bonds, totaling $6,930,000 at June 30, 2012, represent term bonds, which are subject to an optional redemption schedule, with annual installments of amounts ranging from $525,000 to $820,000 through 2022. Interest is payable monthly at variable rates.

On October 20, 2005, RiverWoods entered into a swap agreement with Morgan Stanley to enact a fixed rate swap on variable rate debt. During the years ended June 30, 2012 and 2011, 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, 2012 and 2011. The swap agreement expires March 1, 2023 and has a fixed interest rate of 3.499 percent.

In conjunction with the execution of the Series 2007 Revenue Bonds, RiverWoods obtained a release from the requirement to maintain trustee held funds in conjunction with the 1997B Series debt. In addition, trustee held funds related to the 1997B Bonds were utilized to prepay sinking fund requirements for bond years 2008, 2009, and a portion of 2010.

In November 2008, RiverWoods entered into a Loan Agreement and Mortgage with the Authority pursuant to which the Authority sold $73,665,000 of long-term tax-exempt revenue bonds ("Series 2008 Bonds") and lent the proceeds to RiverWoods. The proceeds of these bonds were used to fund the cost of construction of The Boulders Project, fund the interest and related costs, and pay financing and legal costs. Substantially all of RiverWoods' property and equipment and gross receipts are pledged as collateral under RiverWoods' agreement with the Authority.

The $73,665,000 of Series 2008 Revenue Bonds represents term bonds, which are subject to an optional redemption schedule, with annual installments of amounts ranging from $805,000 to $4,115,000 through 2038. During the years ended June 30, 2011 and 2010, RiverWoods made $9,040,000 and $28,900,000 in payments, respectively, on the Series 2008 Bonds. Interest is payable monthly at variable rates.

In December 2008, RiverWoods entered into two swap agreements with Bank of America to enact fixed rate swaps on variable rate debt. During the year ended June 30, 2010, one of the swaps expired. The remaining 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 remaining swap is excluded from the performance indicator for the year ended June 30, 2012. The total notional amount of the swap, $35,725,000, was applied to the Series 2008 Bonds. The swap agreement expires on November 1, 2013 and has a fixed interest rate of 2.23 percent.

NOTE 4 LONG-TERM DEBT (CONTINUED)

In September 2011, RiverWoods entered into a forward starting swap agreement with Bank of America to enact a fixed rate swap on variable rate debt. The total notional amount of the swap, $35,000,000, will be applied to the Series 2008 Bonds starting on November 1, 2013. The swap agreement expires on July 1, 2016 and will have a fixed interest rate of 1.53 percent.

The outstanding Series 1997 Bonds, Series 2003 Bonds, Series 2007 Bonds, and Series 2008 Bonds are secured by Letters of Credit which expire on July 15, 2016. All Letters of Credit were amended with the issuance of the Series 2008 Bonds and subsequently amended and restated during the year ending June 30, 2012. Under the terms specified in the Amended and Restated Reimbursement Agreement, in the event that the bonds could not be remarketed, amounts advanced under the letters of credit could be converted into term loans payable, with the first installment required to be paid thirteen months subsequent to the date advanced. As a result of these terms, no amounts have been reclassified as current liabilities in the accompanying statement of financial position.

RiverWoods is required by the Loan Agreements, Mortgages, and the Letter of Credit Agreements, to meet certain financial ratios. In March 2011, and September 2011, RiverWoods executed the First and Second Amendments to the Amended and Restated Reimbursement Agreement. These amendments modified certain definitions for required ratios at specified measurement dates. As of June 30, 2012 and 2011, management is not aware of any violations with these financial covenants.

Total interest expense incurred was approximately $2,602,000 and $2,648,000 for the years ended June 30, 2012 and 2011, respectively. Upon completion of The Boulders in March 2010, no additional interest was capitalized. The combined aggregate amount of maturities and sinking fund requirements as of June 30 for all long-term debt is as follows:

Year Ending June 30,	1997, 2003 and 2007 Series	2008 Series	Total
2013	$ 1,435,000	$ -	$ 1,435,000
2014	1,535,000	-	1,535,000
2015	1,600,000	-	1,600,000
2016	1,660,000	-	1,660,000
2017	1,735,000	-	1,735,000
2018 and Thereafter	21,030,000	35,725,000	56,755,000
Total	$ 28,995,000	$ 35,725,000	$ 64,720,000

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:

	2012	2011
Resident and Health Care Services	$ 26,422,398	$ 25,886,746
General and Administrative	5,839,711	5,796,203
Total	$ 32,262,109	$ 31,662,949

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 $152,380 and $105,478 for the years ended June 30, 2012 and 2011, respectively.

NOTE 7 REFUND OF ELECTRICITY OVERCHARGES

In August 2011, RiverWoods received a refund from its electric utility of $1,459,721 for overcharges, including interest of approximately $270,000. Of the total proceeds received, $490,560 was designated for benevolent fund purposes and the remaining amount was credited to residents of RiverWoods. The amounts credited to residents are included in “Facility Costs and Utilities” in the accompanying statements of operations and changes in net assets (deficiency).

NOTE 8 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:

	2012	2011
Medicare and Supplemental Insurance	46%	53%
Residents and Other Accounts Receivable	54%	47%
Total	100%	100%

NOTE 9 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.

NOTE 10 SUBSEQUENT EVENTS

Long-Term Debt

In August 2012, RiverWoods entered into agreements with two financial institutions to issue a direct placement series of bonds (the “Series 2012 Bonds”) through the New Hampshire Health and Education Facilities Authority (the “Authority”), in an aggregate principal amount of approximately $67,000,000 and an initial average interest cost for the bonds of approximately 4.0 percent, to refinance the Authority’s Series 1997B, 2003, 2007 and 2008 Bonds.

Future Accounting and Reporting Requirements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-01 “Health Care Entities: Continuing Care Retirement Communities – Refundable Advance Fees”.

NOTE 10 SUBSEQUENT EVENTS (CONTINUED)

Future Accounting and Reporting Requirements (Continued)

The amendments in this ASU clarify that an entity should classify an advance fee as deferred revenue when a CCRC has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy by a subsequent resident. The amendments also clarify that refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability.

The amendments in the ASU are effective for fiscal periods beginning after December 15, 2012 for public entities, as defined, with early adoption permitted. Therefore the amendments will be effective for our financial statements for the year ending June 30, 2014. Management has not completed its evaluation of the impact of the adoption of this standard, but believes that it will have a material impact on the Organization's financial position and results of operations.