THE RIVERWOODS GROUP

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

THE RIVERWOODS GROUP
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Riverwoods Group
Exeter, New Hampshire

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Riverwoods Group, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets (deficiency), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Riverwoods Group as of June 30, 2017 and 2016, and the results of its operations, changes in its net assets (deficiency), and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, statement of operations and changes in net assets (deficiency) and cash flows are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 21, 2017

THE RIVERWOODS GROUP
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 14,256,050	$ 8,645,942
Assets Limited as to Use – Other	55,642	38,687
Accounts Receivable, Net	1,109,952	823,428
Accounts Receivable – Entrance Fees	-	325,173
Other Receivables	3,379	4,864
Inventories	254,819	235,288
Prepaid Expenses and Other Current Assets	876,324	846,806
Accrued Interest Receivable	194,783	184,454
Total Current Assets	16,750,949	11,104,642
ASSETS LIMITED AS TO USE		
Benevolent Fund	754,949	797,437
Other Restricted Funds	557,322	457,503
Endowment Funds	4,813,986	470,106
Cash Restricted for Capital Purchases	713,287	-
Total Assets Limited as to Use, Net	6,839,544	1,725,046
PROPERTY AND EQUIPMENT		
Land and Land Improvements	14,630,107	7,682,712
Buildings and Improvements	196,779,360	154,702,313
Furniture and Equipment	13,024,063	9,100,811
Projects in Process	3,599,758	1,052,764
Total	228,033,288	172,538,600
Less: Accumulated Depreciation	(93,317,860)	(69,974,264)
Total Property and Equipment, Net	134,715,428	102,564,336
OTHER ASSETS		
Investments	84,834,151	74,773,314
Other Assets	184,778	162,149
Deferred Marketing Costs	1,042,830	1,320,918
Total Other Assets	86,061,759	76,256,381
Total Assets	$ 244,367,680	$ 191,650,405

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIENCY)	2017	2016
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 2,756,198	$ 1,680,000
Accounts Payable and Accrued Expenses	1,817,625	2,460,129
Accrued Salaries, Wages, and Related Taxes	1,454,058	963,318
Accrued Interest Payable	130,124	91,969
Total Current Liabilities	6,158,005	5,195,416
LONG TERM DEBT, NET OF CURRENT PORTION AND DEFERRED FINANCING COSTS	67,845,350	57,889,905
OBLIGATION UNDER INTEREST RATE SWAP AGREEMENT, NET	353,909	1,856,305
FUTURE RESIDENTS' DEPOSITS	12,106,099	8,640,440
DEFERRED RENT	86,208	-
REFUNDABLE ENTRANCE FEE LIABILITY	169,451,704	157,874,210
DEFERRED REVENUE FROM ENTRANCE FEES	26,419,756	21,092,698
Total Liabilities	282,421,031	252,548,974
NET ASSETS (DEFICIENCY)		
Unrestricted	(43,030,937)	(61,862,909)
Temporarily Restricted	1,022,232	473,522
Permanently Restricted	3,955,354	490,818
Total Net Assets (Deficiency)	(38,053,351)	(60,898,569)
Total Liabilities and Net Assets (Deficiency)	$ 244,367,680	$ 191,650,405

THE RIVERWOODS GROUP
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
REVENUES		
Residential Service Fees	$ 28,848,124	$ 22,875,140
Earned Entrance Fees	4,118,272	2,747,651
Health Center Fees	12,496,600	7,542,984
Other Operating Revenue	393,875	335,938
Investment Income	1,746,791	1,786,863
Net Assets Released from Restrictions	639,049	445,595
Total Revenues	48,242,711	35,734,171
EXPENSES		
General and Administrative	12,488,605	8,633,708
Resident Services	1,923,397	1,593,428
Dining Services	5,892,834	4,167,796
Nursing Services	10,243,445	7,201,828
Environmental Services	5,329,639	4,101,857
Facility Costs and Utilities	4,350,544	3,567,662
Depreciation and Amortization	8,244,196	6,048,205
Interest	2,191,534	1,825,944
Total Expenses	50,664,194	37,140,428
LOSS FROM OPERATIONS	(2,421,483)	(1,406,257)
NONOPERATING GAINS AND LOSSES		
Contributions	72,767	8,116
Inherent Contributions	13,788,789	-
Change in Charitable Gift Annuity Liability	11,513	(22,799)
Gain on Extinguishment of Debt	632,367	-
Gains on Sales of Assets and Investments	172,420	327,186
Total Nonoperating Gains and Losses	14,677,856	312,503
EXCESS (DEFICIT) OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES	12,256,373	(1,093,754)
(balance carried forward)		

See accompanying Notes to Consolidated Financial Statements.

THE RIVERWOODS GROUP
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY) (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
EXCESS (DEFICIT) OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES		
(balance brought forward)	$ 12,256,373	$ (1,093,754)
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Change in the Fair Value of Interest Rate Swap Agreements	1,502,396	(732,220)
Changes in Net Unrealized Gains (Losses) on Investments	5,073,203	(1,264,892)
Net Asset Transfer	-	(480,869)
Total Other Changes in Unrestricted Net Assets	6,575,599	(2,477,981)
CHANGE IN UNRESTRICTED NET ASSETS	18,831,972	(3,571,735)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	328,364	317,351
Inherent Contributions	425,690	-
Changes in Net Unrealized Gains (Losses) on Investments	433,705	-
Net Assets Released from Restrictions	(639,049)	(445,595)
Net Asset Transfer	-	480,869
Changes in Temporarily Restricted Net Assets	548,710	352,625
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	54,874	40,409
Inherent Contributions	3,409,662	-
Changes in Permanently Restricted Net Assets	3,464,536	40,409
CHANGE IN NET ASSETS (DEFICIENCY)	22,845,218	(3,178,701)
Net Assets (Deficiency) – Beginning of Year	(60,898,569)	(57,719,868)
NET ASSETS (DEFICIENCY) – END OF YEAR	$ (38,053,351)	$ (60,898,569)

See accompanying Notes to Consolidated Financial Statements.

THE RIVERWOODS GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets (Deficiency)	$ 22,845,218	$ (3,178,701)
Adjustments to Reconcile Change in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:		
Proceeds from Entrance Fees	18,911,946	18,570,000
Noncash Items Included in Change in Net Assets (Deficiency):		
Amortization of Deferred Entrance Fee Revenue	(4,118,272)	(2,747,651)
Depreciation	8,244,196	6,048,205
Amortization of Bond Issuance Costs	168,728	55,645
Loss on Disposal of Equipment	44,958	6,042
Change in Interest Rate Swap Agreements	(1,502,396)	732,220
Unrealized (Gains) Losses on Investments, Net	(4,917,390)	1,254,892
Inherent Contribution	(13,788,789)	-
Inherent Contribution Restricted Assets	(3,835,352)	-
Gain on Extinguishment of Debt	(632,367)	-
(Increase) Decrease in Assets (Net of Affiliation):		
Accounts Receivable	(131,291)	(273,999)
Other Receivables	(2,368,251)	10,208
Inventories	2,211	7,898
Prepaid Expenses and Other Assets	21,669	(80,926)
Accrued Interest Receivable	(9,454)	9,468
Increase (Decrease) in Liabilities (Net of Affiliation):		
Accounts Payable and Accrued Expenses	(1,721,109)	(242,884)
Accrued Salaries, Wages, and Related Taxes	490,740	(50,762)
Accrued Interest Payable and Other Liabilities	2,434,557	(59,238)
Net Cash Provided by Operating Activities	20,139,552	20,060,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(8,662,158)	(3,476,400)
Increase in Investments	(4,342,352)	(9,009,503)
(Increase) Decrease in Assets Limited as to Use	(16,955)	8,921
Increase in Other Restricted Funds	1,281,872	(37,276)
Decrease in Benevolent Fund	42,488	115,919
Cash Received Upon Affiliation	383,731	-
Net Cash Used by Investing Activities	(11,313,374)	(12,398,339)

See accompanying Notes to Consolidated Financial Statements.

THE RIVERWOODS GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	$ (2,468,991)	$ (1,595,000)
Redemption of Long-Term Debt	(11,406,510)	-
Proceeds from Long-Term Debt	13,500,000	-
Payment of Deferred Financing Costs	(269,546)	-
Increase in Residents' Deposits	3,275,844	2,535,592
(Increase) Decrease in Accounts Receivable – Entrance Fees	325,173	(325,173)
Refunds of Entrance Fees	(6,172,040)	(7,211,550)
Net Cash Used by Financing Activities	(3,216,070)	(6,596,131)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,610,108	1,065,947
Cash and Cash Equivalents – Beginning of Year	8,645,942	7,579,995
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 14,256,050	$ 8,645,942
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 2,061,463	$ 1,767,082

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The RiverWoods Group (TRWG or The Company), a New Hampshire nonprofit voluntary corporation, was incorporated on February 17, 2011. Its purpose is to support other nonprofit continuing care retirement communities 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 Company, Exeter, New Hampshire (RiverWoods Exeter), a nonprofit charitable organization, was incorporated on June 6, 1983 as a voluntary corporation. RiverWoods Exeter operates a three campus continuing care retirement community which provides 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.

RiverWoods Durham, a nonprofit charitable organization, was incorporated on March 7, 2017. It is anticipated that this organization, currently in the development stage, will be comprised of a mixture of independent living units, assisted living units, memory care units and skilled nursing beds.

Birch Hill Terrace (Birch Hill) a nonprofit charitable organization, is the parent company of Women's Aid Home d/b/a Pearl Manor at Hillcrest Terrace (Pearl Manor). During the fiscal year ending June 30, 2017, Birch Hill merged with its previous sole member, Hillcrest Manor, Inc. (Hillcrest). Birch Hill has 134 independent living units and 4 cottages, 41 assisted living units, 12 memory care units and 9 intermediate nursing care suites. The facility is located in Manchester, New Hampshire. Pearl Manor holds the endowments of Birch Hill and, as a supporting entity, transfers most net investment income earned to Birch Hill. In July 2016, Hillcrest and The RiverWoods Group (TRWG) received regulatory approval from the Director of Charitable Trusts and the New Hampshire Insurance Department for the affiliation between the two organizations. Under the affiliation agreement, TRWG became the sole corporate member of Hillcrest Manor.

Principles of Consolidation

The consolidated financial statements include the accounts of TRWG, RiverWoods, Durham and Birch Hill. All significant intercompany balances have been eliminated in consolidation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Company has adopted the accounting standard guidance in FASB Accounting Standards Update ASU 2015-03, *Interest – Imputation of Interest (Subtopic 853-30) – Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs to zero and decreased the debt liability by $455,740 as of July 1, 2016. The adoption of this standard had no effect on previously reported net assets (deficiency). The ASU is effective for fiscal years beginning after December 31, 2015. The ASU is retrospectively applied. The Company has adopted the new guidance for the year ended June 30, 2017.

During the year ended June 30, 2017, the Company early adopted a provision of 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. As such, the Company has omitted this disclosure for years ended June 30, 2017 and 2016. The early adoption of this provision did not have an impact on the entity's financial position or results of operations.

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.

Use of Estimates

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

TRWG, RiverWoods, Durham and Birch Hill are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.

The Company 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 consolidated 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.

Accounts Receivable and Entrance Fees Receivable

The Company 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, 2017 and 2016 the allowance for doubtful accounts was $80,524 and $46,001, respectively. In certain instances, RiverWoods Exeter 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016.

Benevolence

RiverWoods Exeter 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 Exeter. For the years ended June 30, 2017 and 2016, the amount of financial assistance provided to residents was $157,110 and $172,873, respectively.

Community Benefit

Birch Hill Community Benefits initiative encourages and fosters the value of giving back to the community, both internally and externally. Charity care and services are provided to qualified residents through the subsidized rental program. The goal of this program is to assist residents to live at their highest functional level by providing partial or fully-subsidized care when the residents no longer can fulfill their financial obligations. The cost of this program varies based on the number of participants. The resident subsidies were approximately $361,000 for the year ended June 30, 2017. Birch Hill also made payments to the City of Manchester in lieu of property taxes of $171,980 in 2017.

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:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

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, 2017.

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. The Company's 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, 2017 and 2016 was $7,966,108 and $5,770,117, 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.

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 Exeter capitalized $2,780,880 of deferred marketing costs of The Boulders. Accumulated amortization expense for The Boulders amounted to $1,738,050 and $1,459,962 at June 30, 2017 and 2016, respectively. Amortization of deferred marketing costs related to The Boulders totaled $278,088 for each of the years ended June 30, 2017 and 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue – Entrance Fees

As of June 30, 2017, RiverWoods Exeter had three types of entrance fee agreements: 90% refundable, 50% refundable, and declining balance refund. Under the 90% agreement, resident entrance fees for the unit's first person are 90% 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% refundable agreement are similar in all regards to the 90% agreement, except that the maximum refund upon termination of residency and resale of the unit is 50% 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 4% administrative fee and 2% per month for every month of residence. Several units were occupied and amortized under the declining refund agreement at June 30, 2017 and 2016.

RiverWoods Exeter entrance fees received for the years ended June 30, 2017 and 2016 were $10,551,900 and $18,570,000, respectively. For the years ended June 30, 2017 and 2016, entrance fees refunded were $5,892,390 and $7,211,550, respectively. Total net entrance fees collected were $4,659,510 and $11,358,450 for the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, RiverWoods Exeter had approximately $160,800,650 and $158,127,556, respectively, of deferred resident entry fees are contractually refundable based upon the terms of RiverWoods Exeter refund policy.

As of June 30, 2017, Birch Hill had three types of entrance fee agreements: 50% refundable, 0% refundable, and declining balance refund. Under the 50% agreement, resident entry fees for the unit's first person are 50% refundable upon the termination of residency at Birch Hill. Resident entry fees for unit's second person are nonrefundable. The refundable portion of these entry fees is recorded as a liability.

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

Birch Hill entrance fees received for the year ended June 30, 2017 were $8,360,046. For the year ended June 30, 2017, entrance fees refunded was $279,650. Total net entrance fees collected were $8,080,396 the year ended June 30, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue – Entrance Fees (Continued)

As of June 30, 2017, Birch Hill had approximately $9,099,405 of deferred resident entry fees contractually refundable based upon the terms of Birch Hill's refund policy. As of June 30, 2017, nonrefundable deferred resident entry fees were $6,039,464.

Charges for services rendered to residents are recorded when the services are provided at the estimated net amounts realizable from residents.

Obligation to Provide Future Services

The Company 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. RiverWoods Exeter and Birch Hill performed these calculations for 2016 and 2014, respectively. As of June 30, 2017 and 2016, management's estimate indicated no need to record an additional liability for an obligation to provide future services and use of facilities.

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, 2017 and 2016 were $12,106,099 and $8,640,440, respectively.

Malpractice Loss Contingencies

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

Employee Fringe Benefits

The Company 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. The Company accrues the cost of these benefits as they are earned.

Charitable Gift Annuities

RiverWoods Exeter 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' lives.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inherent Contribution

The Company recognized an inherent contribution related to the July 1, 2016 affiliation with Hillcrest Manor Inc., and Subsidiaries. The Company did not pay any consideration as part of the affiliation. The following amounts were recorded as a result of the affiliation:

ASSETS	
Cash	$ 383,731
Debt Service Fund – Principal and Interest	1,295,665
Accounts Receivable	155,233
Inventory	21,742
Prepaid Expenses and Other Current Assets	73,816
Accrued Interest Receivable	875
Investments – Unrestricted	801,095
Endowment	3,835,352
Debt Service Reserve and Replacement Fund	1,307,841
Property and Equipment	31,500,000
Deferred Costs	62,626
Total Assets	39,437,976
LIABILITIES	
Accounts Payable and Accrued Expenses	1,195,168
Wait List Deposits	189,815
Long-Term Debt	12,202,955
Deferred Revenue from Entrance Fees	8,225,897
Total Liabilities	21,813,835
INHERENT CONTRIBUTIONS – NET ASSETS AFFILIATED	
Temporarily Restricted Net Assets	425,690
Permanently Restricted Net Assets	3,409,662
Unrestricted Net Assets	13,788,789
Total Net Assets Affiliated	$ 17,624,141

There were no significant adjustments to the amounts recorded to conform to accounting policies.

The purpose of the affiliation was to deal with current and future marketplaces that are changing. Customers require a contemporary feel to the physical plant, a simple and understandable contract that provides value, choice at all levels, and, increasingly, a larger voice in the decisions about their community. With these and other challenges, nonprofit senior living providers will need to operate in ways that maximize the nonprofit advantage while using robust business management skills. The Company believes this is best done, and better served, by having access to a larger and broader network of resources. There were no material acquisition costs associated with the affiliation.

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, Dodge Fund, Abbie Woodman Fund, Fuller Fund, Lawrence Fund and the Spencer Fund are included in permanently restricted net assets.

Subsequent Events

In preparing these consolidated financial statements, the Company's policy is to evaluate events and transactions for potential recognition or disclosure through September 21, 2017, the date the consolidated financial statements were issued. The results of this evaluation indicated that there are subsequent events or transactions that are required to be disclosed in these consolidated financial statements (see Note 13).

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE

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

	2017	2016
Cash and Cash Equivalents	$ 10,824,222	$ 3,316,758
U.S. Government and Government Agency Obligations	10,121,492	9,772,604
Corporate Debt Obligations	15,530,305	12,152,653
Equity Securities	53,324,398	42,094,844
REITs	-	3,535,630
Tangible Assets – Commodities	-	1,162,055
Hedge Fund of Funds	2,123,703	4,686,957
Total	$ 91,924,120	$ 76,721,501

	2017	2016
Current Portion of Assets Limited as to Use	$ 55,642	$ 38,687
Accrued Interest Receivable	194,783	184,454
Investments	84,834,151	74,773,314
Benevolent Fund and Other Restricted Funds	6,839,544	1,725,046
Total	$ 91,924,120	$ 76,721,501

The following tables summarize the unrealized losses on investments held at June 30:

2017	Less than Twelve Months		Twelve Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
U.S. Government and Corporate Obligations	$ 10,892,849	$ (163,388)	$ 7,418,785	$ (513,371)	$ 18,311,634	$ (676,759)
Marketable Equity Securities	2,797,915	(203,345)	6,296,478	(1,220,944)	9,094,393	(1,424,289)
Hedge Fund	224,073	(927)	536,280	(28,690)	760,353	(29,617)
Total	$ 13,914,837	$ (367,660)	$ 14,251,543	$ (1,763,005)	$ 28,166,380	$ (2,130,665)

2016	Less than Twelve Months		Twelve Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
U.S. 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)
Total	$ 4,419,137	$ (407,571)	$ 18,890,273	$ (3,556,043)	$ 23,309,410	$ (3,963,614)

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, 2017 and 2016, 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 tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	$ 6,895,186	$ -	$ -	$ 6,895,186
Investments	84,665,074	-	169,077	84,834,151
Liabilities:				
Obligation Under Interest Rate Swap Agreements, Net	$ -	$ (353,909)	$ -	$ (353,909)

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	$ 1,763,733	$ -	$ -	$ 1,763,733
Investments	71,415,531	-	3,357,783	74,773,314
Liabilities:				
Obligation Under Interest Rate Swap Agreements, Net	$ -	$ (1,856,305)	$ -	$ (1,856,305)

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.

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 stock, 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 – June 30, 2015	$ 4,892,411
Total Unrealized Gains Included in Changes in Net Unrealized Gains (Losses) on Investments	312,783
Sales, Net	(1,847,411)
Balance – June 30, 2016	3,357,783
Total Unrealized Gains Included in Changes in Net Unrealized Gains (Losses) on Investments	-
Sales, Net	(3,188,706)
Balance – June 30, 2017	$ 169,077

NOTE 4 LONG-TERM DEBT

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

Description	2017	2016
New Hampshire Health and Education Facilities Authority:		
RWE Series 2012 Revenue Bonds, Series A	$ 29,330,000	$ 30,300,000
RWE Series 2012 Revenue Bonds, Series B	28,960,000	29,670,000
BH Series 2016 Revenue Bonds	12,680,000	-
Total Long-Term Debt, New Hampshire Health and Education Facilities Authority	70,970,000	59,970,000
BH Term Loan Payable, People's United Bank	70,574	-
BH HEFA Loan	124,513	-
Total Long-Term Debt	71,165,087	59,970,000
Less: Unamortized Debt Issuance Cost	(563,539)	(400,095)
Total Long-Term Debt, less Unamortized Debt Issuance Costs	70,601,548	59,569,905
Less: Current Portion	(2,756,198)	(1,680,000)
Total Long-Term Debt, Net of Current Portion, less Unamortized Debt Issuance Costs	$ 67,845,350	$ 57,889,905

On September 28, 2012, RiverWoods Exeter 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 Exeter 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.

In July 2016, Birch Hill entered into an agreement with the New Hampshire Health and Education Facility for $12,680,000 Revenue Bonds, Series 2016. The proceeds were used to redeem $9,650,000 of outstanding Series 1994 Bonds and to pay certain costs related to the issuance of these bonds. An additional $4,020,000 was acquired through the Series 2016 Revenue Bonds for planned capital projects.

Unamortized original issue discount on the previous bond issue was being amortized over the term of the 1994 Revenue Bonds using the effective interest method.

NOTE 4 LONG-TERM DEBT (CONTINUED)

As a result of the Series 1994 bond refinancing, the unamortized balance was recognized in fiscal year 2017, net of unamortized bond issuance costs, and is included in gain on extinguishment of debt in the consolidated statement of operations and changes in net assets (deficiency).

On July 1, 2016, Birch Hill entered into an agreement with People's United Bank, National Association, for an $820,000 taxable loan. The proceeds were used to redeem $793,885 of an outstanding subordinated loan to Catholic Medical Center and to pay certain costs related to the issuance of this taxable loan. Payment of principal and interest is to be made monthly through July 2017.

RiverWoods Exeter 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, 2017 and 2016, 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, 2017 and 2016. The swap agreement expires March 1, 2023 and has a fixed interest rate of 3.499%.

In June 2011, RiverWoods Exeter had entered into a swap agreement with Deutsche Bank with a fixed rate of 1.624% and a termination date of June 1, 2016. In September 2012, RiverWoods Exeter modified this interest rate swap agreement with Deutsche Bank. Effective October 1, 2012, the interest rate of the swap is 1.69% 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, 2017 and 2016. The swap agreement expires October 1, 2022.

RiverWoods Exeter 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%.

Birch Hill has entered into an interest rate swap agreement that effectively converts the variable interest rate on the Series 2016 Bond to a fixed interest rate of 0.8525%. The original notional amount was $12,680,000. 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 July 1, 2026.

NOTE 4 LONG-TERM DEBT (CONTINUED)

Following is a summary of interest rate swaps outstanding at June 30, 2017:

	Current Notional Amount	Fixed Rate	Expiration Year
RWE – Deutsche Bank	$ 4,855,000	4.189%	2023
RWE – Deutsche Bank	45,940,500	1.690%	2022
RWE – Morgan Stanley	4,580,000	3.499%	2023
BH – People's United Bank	12,680,000	0.8525%	2026
Total Notional Amount	$ 68,055,500		

RiverWoods Exeter and Birch Hill are required by the Loan Agreements to meet certain financial ratios. As of June 30, 2017 and 2016, management is not aware of any violations with these financial covenants.

Total interest expense incurred was approximately $2,060,000 and $1,770,000 for the years ended June 30, 2017 and 2016, respectively.

The combined aggregate amount of maturities as of June 30 for all long-term debt is as follows:

Year Ending June 30,	2012 Series A	2012 Series B	2016 Series	People's United Bank	HEFA Loan	Total
2018	$ 1,030,000	$ 740,000	$ 875,661	$ 70,574	$ 39,963	$ 2,756,198
2019	1,075,000	785,000	978,222	-	40,364	2,878,586
2020	1,120,000	815,000	1,002,727	-	40,770	2,978,497
2021	1,175,000	860,000	1,066,991	-	3,416	3,105,407
2022	1,220,000	910,000	1,097,340	-	-	3,227,340
2023 and Thereafter	23,710,000	24,850,000	7,659,059	-	-	56,219,059
Total	$ 29,330,000	$ 28,960,000	$ 12,680,000	$ 70,574	$ 124,513	$ 71,165,087

NOTE 5 RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of the following at June 30:

	2017	2016
Unappropriated Income on Permanently Restricted Endowments	$ 657,789	$ -
Benevolent Fund	179,206	306,877
Peabody Scholarship Fund	182,566	166,645
Other	2,671	-
Total	$ 1,022,232	$ 473,522

NOTE 5 RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets are comprised of the following at June 30:

	2017	2016
Dodge Fund, Income Unrestricted	$ 73,733	$ -
Abbie Woodman Fund, Income Unrestricted	155,692	-
Fuller Fund, Income Unrestricted	3,169,205	-
Spencer Fund	288,077	272,736
Endowment Fund	257,615	218,082
Lawrence Fund, Income Restricted for Pin Money to the Residents of Pearl Manor	11,032	-
Total	$ 3,955,354	$ 490,818

NOTE 6 ENDOWMENT

Birch Hill's endowment primarily consists of funds established to support operations. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Birch Hill has interpreted the state of New Hampshire Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the contributed value of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Hillcrest classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Accordingly, unless explicitly stated otherwise by the donor, realized and unrealized net appreciation in investments in permanent donor-restricted endowment funds is classified as temporarily restricted net assets until appropriated by the board of trustees for expenditure. Funds designated by the board of trustees to function as endowments are classified as unrestricted net assets.

In accordance with the Act, Birch Hill considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

NOTE 6 ENDOWMENT (CONTINUED)

Endowment Composition and Changes in Endowment

The endowment asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Funds	$ -	$ 657,789	$ 3,409,662	$ 4,067,451

The endowment asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, June 30, 2016	$ -	$ -	$ -	$ -
Inherent Contribution	-	425,690	3,409,662	3,835,352
Investment Return:				
Investment Income	-	94,700	-	94,700
Net Appreciation	-	339,005	-	339,005
Total Investment Return	-	433,705	-	433,705
Amounts Appropriated for Expenditure	-	(139,592)	-	(139,592)
Distribution of Pearl Manor's Income	-	(62,014)	-	(62,014)
Endowment Assets, June 30, 2017	$ -	$ 657,789	$ 3,409,662	$ 4,067,451

Return Objectives and Risk Parameters

Birch Hill has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Birch Hill must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate market indices while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Birch Hill relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Birch Hill targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 6 ENDOWMENT (CONTINUED)

Policy

In accordance with the Act, the board of trustees is allowed to appropriate for expenditure for the uses and purposes for which the endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of the endowment fund over the historic dollar value of the fund as is prudent. In so doing, the board must consider long- and short-term needs of the institution in carrying out its purpose, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The board has established a spending policy providing for quarterly distributions of a minimum of 85% of the interest and dividends and realized gains, less all fees and realized losses, from Pearl Manor's investment portfolio to Birch Hill Terrace, unless additional amounts are appropriated to support operations. Under this policy, total distributions are not to exceed 5% of the trailing three year average market value of endowed funds, unless approved by the board. Distributions of $201,606 were made pursuant to this policy, during the year ended June 30, 2017.

NOTE 7 FUNCTIONAL EXPENSES

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

	2017	2016
Resident and Health Care Services	$ 39,245,944	$ 29,244,251
General and Administrative	11,418,250	7,896,177
Total	$ 50,664,194	$ 37,140,428

NOTE 8 EMPLOYEE BENEFIT PLAN

During 2000, RiverWoods Exeter established a defined contribution plan for all eligible employees. The plan requires RiverWoods Exeter to match certain percentages of employee voluntary contributions based upon years of service. Pension expense was $320,279 and $520,926 for the years ended June 30, 2017 and 2016, respectively.

Birch Hill offers a 401(k) plan to eligible employees. The plan establishes individual employee accounts and covers all qualified employees. Birch Hill will match one-half of employee contributions to the plan, up to 4% if their annual salary. For the year ended June 30, 2017, Birch Hill incurred matching contributions of $27,812 charged to operations.

NOTE 9 CONCENTRATION OF CREDIT RISK

The Company 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.

The Company grants credit without collateral to its residents. The Company 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:

	2017	2016
Medicare and Supplemental Insurance	63%	67%
Residents and Other Accounts Receivable	37%	33%
Total	100%	100%

NOTE 10 RELATED PARTY

During fiscal year ended June 30, 2017, RiverWoods Exeter paid TRWG management fees of $1,015,000 and incurred expenses that TRWG will reimburse of $444,000 which were eliminated in consolidation. 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 which were eliminated in consolidation.

Birch Hill entered into an affiliation agreement with TRWG in July 2016. Under the agreement, TRWG became the sole corporate member of Birch Hill and Birch Hill's operations, financial management and administrative functions, and those of Birch Hill's subsidiaries will be directed by TRWG. TRWG occupies five of fifteen board positions and is responsible for final approval on all new board member nominees. Additionally, under the agreement, the Birch Hill Chief Executive Officer (CEO) reports directly to TRWG's CEO and TRWG's Board will determine compensation for the Birch Hill CEO.

Birch Hill and TRWG have also entered into a management agreement. TRWG provides management services in exchange for a fee. The fee is based on the approved budget and is not to exceed 3% of budgeted revenues, for the first five years after the affiliation date. For fiscal years 2017 and 2018, the fee will be assessed at 2.5% and for fiscal years 2019 and 2020 at 3%. Thereafter, the fee will be subject to adjustment consistent with industry standards. During fiscal year ended June 30, 2017, Birch Hill paid TRWG management fees of $182,505, which was eliminated in consolidation.

During fiscal year ended June 30, 2017, RiverWoods Exeter transferred $8,000,000 to TRWG as a net asset transfer, which was eliminated in consolidation.

NOTE 10 RELATED PARTY (CONTINUED)

On July 8, 2016, Birch Hill entered into an equity support agreement with TRWG, for a $2,000,000 subordinated loan, with the availability of an additional $3,000,000, if needed. This agreement provides liquidity support as required under the People's United Muni Finance Corp and People's United Bank, National Association lending agreement. Principal may be repaid upon the latter of i) July 8, 2021, or ii) satisfaction of certain financial benchmarks as defined in the Financial Support Agreement. Interest at 3% is paid in monthly installments. All unpaid principal and accrued interest must be repaid by July 8, 2026. The amount outstanding on the loan at June 30, 2017 is $2,000,000. Birch Hill paid TRWG $55,000 in interest on the loan during fiscal year 2017. These amounts are eliminated in consolidation.

TRWG paid for costs associated with the beginning stages of RiverWoods Durham. The amount that RiverWoods Durham has as a payable to TRWG at June 30, 2017 is $366,344. This amount is eliminated in consolidation.

NOTE 11 INSURANCE

Effective October 23, 2014, RiverWoods Exeter 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 Exeter has a 0.75% subscriber interest in the CCrRRG Reciprocal.

NOTE 12 CONTINGENCIES AND COMMITMENTS

Boulders Campus

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

Litigation

The Company 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, The Company does not anticipate that there will be any material effect on these consolidated financial statements as a result of any action presently in progress.

NOTE 12 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 13 SUBSEQUENT EVENTS

On August 1, 2017, TRWG closed on a three year revolving credit loan with TD Bank, NA. The loan provides for up to $7,000,000 of credit and is collateralized by certain cash and investments of TRWG. It carries an interest rate of 1 Month LIBOR plus 1.02%. The loan is intended to finance costs associated with the development of a continuing care retirement community in Durham, NH (RiverWoods Durham) as well as to provide working capital for TRWG.

THE RIVERWOODS GROUP
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

	The RiverWoods Group	The RiverWoods Company Exeter, NH	Birch Hill Terrace & Subsidiary	RiverWoods Durham	Combined	Eliminations	Consolidated
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	$ 417,507	$ 6,512,426	$ 7,260,508	$ 65,609	$ 14,256,050	$ -	$ 14,256,050
Assets Limited as to Use – Other	-	55,642	-	-	55,642	-	55,642
Accounts Receivable, Net	-	1,064,135	45,817	-	1,109,952	-	1,109,952
Other Receivables	-	3,259	120	-	3,379	-	3,379
Inventories	-	233,736	21,083	-	254,819	-	254,819
Prepaid Expenses and Other Current Assets	967	698,311	177,046	-	876,324	-	876,324
Intercompany	2,366,344	3,846	-	-	2,370,190	(2,370,190)	-
Accrued Interest Receivable	-	190,296	4,487	-	194,783	-	194,783
Total Current Assets	2,784,818	8,761,651	7,509,061	65,609	19,121,139	(2,370,190)	16,750,949
ASSETS LIMITED AS TO USE							
Benevolent Fund	-	754,949	-	-	754,949	-	754,949
Other Restricted Funds	-	557,322	-	-	557,322	-	557,322
Endowment Funds	-	544,928	4,269,058	-	4,813,986	-	4,813,986
Cash Restricted for Capital Purchases	-	-	713,287	-	713,287	-	713,287
Total Assets Limited as to Use	-	1,857,199	4,982,345	-	6,839,544	-	6,839,544
PROPERTY, PLANT, AND EQUIPMENT							
Land and Land Improvements	-	8,822,635	5,807,472	-	14,630,107	-	14,630,107
Building and Improvements	-	156,703,378	40,075,982	-	196,779,360	-	196,779,360
Furniture and Equipment	-	9,762,648	3,261,415	-	13,024,063	-	13,024,063
Projects in Process	474,959	1,253,527	1,515,296	355,976	3,599,758	-	3,599,758
Total	474,959	176,542,188	50,660,165	355,976	228,033,288	-	228,033,288
Less: Accumulated Depreciation	-	(75,851,643)	(17,466,217)	-	(93,317,860)	-	(93,317,860)
Total Property, Plant, and Equipment	474,959	100,690,545	33,193,948	355,976	134,715,428	-	134,715,428
OTHER ASSETS							
Investments	10,603,783	71,341,948	2,888,420	-	84,834,151	-	84,834,151
Other Assets	-	184,778	-	-	184,778	-	184,778
Deferred Marketing Costs	-	1,042,830	-	-	1,042,830	-	1,042,830
Total Other Assets	10,603,783	72,569,556	2,888,420	-	86,061,759	-	86,061,759
Total Assets	$ 13,863,560	$ 183,878,951	$ 48,573,774	$ 421,585	$ 246,737,870	$ (2,370,190)	$ 244,367,680

THE RIVERWOODS GROUP
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2017

	The RiverWoods Group	The RiverWoods Company Exeter, NH	Birch Hill Terrace & Subsidiary	RiverWoods Durham	Combined	Eliminations	Consolidated
LIABILITIES AND NET ASSETS (DEFICIENCY)							
CURRENT LIABILITIES							
Current Portion of Long Term Debt	$ -	$ 1,770,000	$ 986,198	$ -	$ 2,756,198	$ -	$ 2,756,198
Accounts Payable and Accrued Expenses	21,383	1,052,197	744,045	-	1,817,625	-	1,817,625
Accrued Salaries, Wages, and Related Taxes	125,056	1,001,846	327,156	-	1,454,058	-	1,454,058
Accrued Interest Payable	-	104,295	25,829	-	130,124	-	130,124
Intercompany	705	-	2,000,000	369,485	2,370,190	(2,370,190)	-
Total Current Liabilities	147,144	3,928,338	4,083,228	369,485	8,528,195	(2,370,190)	6,158,005
LONG-TERM DEBT, NET OF CURRENT PORTION AND DEFERRED FINANCING COSTS	-	56,175,549	11,669,801	-	67,845,350	-	67,845,350
OBLIGATION UNDER INTEREST RATE SWAP AGREEMENT, NET	-	699,619	(345,710)	-	353,909	-	353,909
FUTURE RESIDENTS' DEPOSITS	-	11,902,545	151,454	52,100	12,106,099	-	12,106,099
DEFERRED RENT	-	-	86,208	-	86,208	-	86,208
REFUNDABLE ENTRANCE FEE LIABILITY	-	160,352,299	9,099,405	-	169,451,704	-	169,451,704
DEFERRED REVENUE FROM ENTRANCE FEES	-	20,380,292	6,039,464	-	26,419,756	-	26,419,756
Total Liabilities	147,144	253,438,642	30,783,850	421,585	284,791,221	(2,370,190)	282,421,031
NET ASSETS (DEFICIT)							
Unrestricted	13,716,416	(70,469,826)	13,722,473	-	(43,030,937)	-	(43,030,937)
Temporarily Restricted	-	364,443	657,789	-	1,022,232	-	1,022,232
Permanently Restricted	-	545,692	3,409,662	-	3,955,354	-	3,955,354
Total Net Assets (Deficit)	13,716,416	(69,559,691)	17,789,924	-	(38,053,351)	-	(38,053,351)
Total Liabilities and Net Assets (Deficit)	$ 13,863,560	$ 183,878,951	$ 48,573,774	$ 421,585	$ 246,737,870	$ (2,370,190)	$ 244,367,680

THE RIVERWOODS GROUP
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEAR ENDED JUNE 30, 2017

	The RiverWoods Group	The RiverWoods Company Exeter, NH	Birch Hill Terrace & Subsidiary	RiverWoods Durham	Combined	Eliminations	Consolidated
REVENUE							
Residential Service Fees	$ -	$ 24,149,037	$ 4,699,087	$ -	28,848,124	$ -	$ 28,848,124
Earned Entrance Fees	-	2,834,285	1,283,987	-	4,118,272	-	4,118,272
Health Center Fees	-	7,973,828	4,522,772	-	12,496,600	-	12,496,600
Management and Development Fees	1,197,505	-	-	-	1,197,505	(1,197,505)	-
Other Operating Revenue	-	317,049	76,826	-	393,875	-	393,875
Investment Income	138,170	1,634,222	29,399	-	1,801,791	(55,000)	1,746,791
Net Assets Released from Restrictions	-	437,443	201,606	-	639,049	-	639,049
Total Revenue	1,335,675	37,345,864	10,813,677	-	49,495,216	(1,252,505)	48,242,711
EXPENSES							
General and Administrative	1,126,535	9,337,860	3,221,715	-	13,686,110	(1,197,505)	12,488,605
Resident Services	-	1,677,939	245,458	-	1,923,397	-	1,923,397
Dining Services	-	4,339,745	1,553,089	-	5,892,834	-	5,892,834
Nursing Services	-	7,779,026	2,464,419	-	10,243,445	-	10,243,445
Environmental Services	-	4,198,701	1,130,938	-	5,329,639	-	5,329,639
Facility Costs and Utilities	9,000	3,562,268	779,276	-	4,350,544	-	4,350,544
Depreciation and Amortization	-	6,194,655	2,049,541	-	8,244,196	-	8,244,196
Interest	-	1,746,834	499,700	-	2,246,534	(55,000)	2,191,534
Total Expenses	1,135,535	38,837,028	11,944,136	-	51,916,699	(1,252,505)	50,664,194
INCOME (LOSS) FROM OPERATIONS	200,140	(1,491,164)	(1,130,459)	-	(2,421,483)	-	(2,421,483)
NONOPERATING GAINS AND LOSSES							
Contributions	-	6,097	66,670	-	72,767	-	72,767
Inherent Contributions	-	-	13,788,789	-	13,788,789	-	13,788,789
Change in Charitable Gift Annuity Liability	-	11,513	-	-	11,513	-	11,513
Gain on Extinguishment of Debt	-	-	632,367	-	632,367	-	632,367
Gains (Losses) on Sales of Assets and Investments	(96,765)	310,847	(41,662)	-	172,420	-	172,420
Total Nonoperating Gains and Losses	(96,765)	328,457	14,446,164	-	14,677,856	-	14,677,856
EXCESS (DEFICIT) OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES	103,375	(1,162,707)	13,315,705	-	12,256,373	-	12,256,373

THE RIVERWOODS GROUP
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY) (CONTINUED)
YEAR ENDED JUNE 30, 2017

	The RiverWoods Group	The RiverWoods Company Exeter, NH	Birch Hill Terrace & Subsidiary	RiverWoods Durham	Combined	Eliminations	Consolidated
SURPLUS (DEFICIT) OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES	$ 103,375	$ (1,162,707)	$ 13,315,705	$ -	$ 12,256,373	$ -	$ 12,256,373
OTHER CHANGES IN UNRESTRICTED NET ASSETS							
Change in the Fair Value of Interest Rate Swap Agreements	-	1,156,686	345,710	-	1,502,396	-	1,502,396
Changes in Net Unrealized Gains (Losses) on Investments	325,507	4,686,638	61,058	-	5,073,203	-	5,073,203
Net Asset Transfer	8,000,000	(8,000,000)	-	-	-	-	-
Total Other Changes in Unrestricted Net Assets	8,325,507	(2,156,676)	406,768	-	6,575,599	-	6,575,599
CHANGE IN UNRESTRICTED NET ASSETS	8,428,882	(3,319,383)	13,722,473	-	18,831,972	-	18,831,972
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS							
Contributions	-	328,364	-	-	328,364	-	328,364
Inherent Contributions	-	-	425,690	-	425,690	-	425,690
Changes in Net Realized and Unrealized Gains (Losses) on Investments	-	-	433,705	-	433,705	-	433,705
Net Assets Released from Restrictions	-	(437,443)	(201,606)	-	(639,049)	-	(639,049)
Net Asset Transfer	-	-	-	-	-	-	-
Changes in Temporarily Restricted Net Assets	-	(109,079)	657,789	-	548,710	-	548,710
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS							
Contributions	-	54,874	-	-	54,874	-	54,874
Inherent Contributions	-	-	3,409,662	-	3,409,662	-	3,409,662
Changes in Permanently Restricted Net Assets	-	54,874	3,409,662	-	3,464,536	-	3,464,536
CHANGE IN NET ASSETS (DEFICIENCY)	8,428,882	(3,373,588)	17,789,924	-	22,845,218	-	22,845,218
Net Assets (Deficiency) – Beginning of Year	5,287,534	(66,186,103)	-	-	(60,898,569)	-	(60,898,569)
NET ASSETS (DEFICIT) – END OF YEAR	$ 13,716,416	$ (69,559,691)	$ 17,789,924	$ -	$ (38,053,351)	$ -	$ (38,053,351)

THE RIVERWOODS GROUP
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT CASH FLOWS
YEAR ENDED JUNE 30, 2017

	The RiverWoods Group	The RiverWoods Company Exeter, NH	Birch Hill Terrace & Subsidiary	RiverWoods Durham	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in Net Assets (Deficiency)	$ 8,428,882	$ (3,373,588)	$ 17,789,924	$ -	$ 22,845,218
Adjustments to Reconcile Change in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:					
Proceeds from Entrance Fees	-	10,551,900	8,360,046	-	18,911,946
Noncash Items Included in Change in Net Assets (Deficiency):					
Amortization of Deferred Entrance Fee Revenue	-	(2,834,285)	(1,283,987)	-	(4,118,272)
Depreciation	-	6,194,655	2,049,541	-	8,244,196
Amortization of Bond Issuance Costs	-	55,644	113,084	-	168,728
(Gain) Loss on Disposal of Equipment	-	(3,428)	48,386	-	44,958
Change in Interest Rate Swap Agreements	-	(1,156,686)	(345,710)	-	(1,502,396)
Unrealized Gains on Investments, Net	(230,752)	(4,686,638)	-	-	(4,917,390)
Inherent Contribution	-	-	(13,788,789)	-	(13,788,789)
Inherent Contribution Restricted Assets	-	-	(3,835,352)	-	(3,835,352)
Gain on Extinguishment of Debt	-	-	(632,367)	-	(632,367)
(Increase) Decrease in Assets (Net of Affiliation):					
Accounts Receivable	-	(240,707)	109,416	-	(131,291)
Other Receivables	(2,366,344)	(1,787)	(120)	-	(2,368,251)
Inventories	-	1,552	659	-	2,211
Prepaid Expenses and Other Assets	(967)	125,866	(103,230)	-	21,669
Accrued Interest Receivable	-	(5,842)	(3,612)	-	(9,454)
Increase (Decrease) in Liabilities (Net of Affiliation):					
Accounts Payable and Accrued Expenses	18,883	(1,405,432)	(334,560)	-	(1,721,109)
Accrued Salaries, Wages, and Related Taxes	125,056	38,528	327,156	-	490,740
Accrued Interest Payable and Other Liabilities	251	(47,216)	2,112,037	369,485	2,434,557
Net Cash Provided by Operating Activities	5,975,009	3,212,536	10,582,522	369,485	20,139,552
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Property and Equipment	(468,959)	(4,045,348)	(3,791,875)	(355,976)	(8,662,158)
(Increase) Decrease in Investments	(5,631,161)	3,376,134	(2,087,325)	-	(4,342,352)
Decrease in Assets Limited as to Use	-	(16,955)	-	-	(16,955)
Increase in Other Restricted Funds	-	(174,641)	1,456,513	-	1,281,872
Decrease in Benevolent Fund	-	42,488	-	-	42,488
Cash Received Upon Affiliation	-	-	383,731	-	383,731
Net Cash Used by Investing Activities	(6,100,120)	(818,322)	(4,038,956)	(355,976)	(11,313,374)

THE RIVERWOODS GROUP
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2017

	The RiverWoods Group	The RiverWoods Company Exeter, NH	Birch Hill Terrace & Subsidiary	RiverWoods Durham	Consolidated
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of Long-Term Debt	-	(1,680,000)	(788,991)	-	(2,468,991)
Redemption of Long-Term Debt	-	-	(11,406,510)	-	(11,406,510)
Proceeds from Long-Term Debt	-	-	13,500,000	-	13,500,000
Payment of Deferred Financing Costs	-	-	(269,546)	-	(269,546)
Increase (Decrease) in Residents' Deposits	-	3,262,105	(38,361)	52,100	3,275,844
Decrease in Accounts Receivable – Entrance Fees	-	325,173	-	-	325,173
Refunds of Entrance Fees	-	(5,892,390)	(279,650)	-	(6,172,040)
Net Cash Provided (Used) by Financing Activities	-	(3,985,112)	716,942	52,100	(3,216,070)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(125,111)	(1,590,898)	7,260,508	65,609	5,610,108
Cash and Cash Equivalents – Beginning of Year	542,618	8,103,324	-	-	8,645,942
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 417,507	$ 6,512,426	$ 7,260,508	$ 65,609	$ 14,256,050
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	$ -	$ 1,678,863	$ 382,600	$ -	$ 2,061,463

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