THE RIVERWOODS COMPANY,
AT EXETER, NEW HAMPSHIRE

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

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AT EXETER, NEW HAMPSHIRE
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CliftonLarsonAllen LLP
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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 financial statements of The RiverWoods Company, at Exeter, New Hampshire, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of operations and changes in net assets (deficiency) and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The RiverWoods Company, at Exeter, New Hampshire as of June 30, 2013 and 2012, and the results of its operations, changes in net assets (deficiency) and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 28, 2013

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,388,287	$ 4,930,863
Assets Limited as to Use - Trustee Held Funds	-	1,368,261
Assets Limited as to Use - Other	33,952	58,881
Accounts Receivable, Net	754,559	735,832
Accounts Receivable - Entrance Fees	349,064	460,816
Other Receivables	60,378	129,539
Inventories	196,879	179,551
Prepaid Expenses and Other Current Assets	868,089	818,727
Accrued Interest Receivable	194,357	180,591
Total Current Assets	6,845,565	8,863,061
ASSETS LIMITED AS TO USE		
Benevolent Fund	813,265	692,958
Other Restricted Funds	653,159	531,305
Total Assets Limited as to Use, Net	1,466,424	1,224,263
PROPERTY AND EQUIPMENT		
Land and Land Improvements	7,012,031	6,914,443
Buildings	147,344,537	145,368,124
Furniture and Equipment	9,058,147	8,384,280
Projects in Process	460,848	146,451
Total	163,875,563	160,813,298
Less: Accumulated Depreciation	(57,199,989)	(51,977,237)
Total Property and Equipment - Net	106,675,574	108,836,061
OTHER ASSETS		
Investments	55,030,287	51,482,467
Unamortized Bond Issuance Costs	398,434	3,544,360
Deferred Marketing Costs	2,392,187	2,798,937
Total Other Assets	57,820,908	57,825,764
Total Assets	$ 172,808,471	$ 176,749,149

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIENCY)	2013	2012
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 1,495,000	$ 1,435,000
Accounts Payable and Accrued Expenses	1,754,019	2,125,709
Accrued Salaries, Wages and Related Taxes	1,247,491	1,166,865
Accrued Interest Payable	123,260	135,340
Total Current Liabilities	4,619,770	4,862,914
LONG TERM DEBT, NET OF CURRENT PORTION	63,165,000	63,285,000
OBLIGATION UNDER INTEREST RATE SWAP AGREEMENT	946,467	4,990,872
RESIDENTS' DEPOSITS	2,524,627	2,579,784
DEFERRED REVENUE FROM ENTRANCE FEES	109,419,570	114,010,969
Total Liabilities	180,675,434	189,729,539
NET ASSETS (DEFICIENCY)		
Unrestricted	(8,485,182)	(13,306,180)
Temporarily Restricted	251,172	22,985
Permanently Restricted	367,047	302,805
Total Net Assets (Deficiency)	(7,866,963)	(12,980,390)
Total Liabilities and Net Assets (Deficiency)	$ 172,808,471	$ 176,749,149

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
REVENUES		
Residential Service Fees	$ 21,825,678	$ 20,485,583
Earned Entrance Fees	8,454,810	9,080,402
Health Center Fees	6,119,635	5,329,318
Other Operating Revenue	280,027	588,334
Investment Income	1,651,327	1,957,853
Net Assets Released from Restrictions	150,601	455,402
Total Revenues	38,482,078	37,896,892
EXPENSES		
General and Administrative	8,483,568	7,705,350
Dining Services	4,006,118	3,937,318
Health Services	6,573,431	6,423,919
Environmental Services	3,603,797	3,420,585
Facility Costs and Utilities	3,600,375	2,216,738
Depreciation and Amortization	5,821,155	5,956,473
Interest	2,328,620	2,601,726
Total Expenses	34,417,064	32,262,109
INCOME FROM OPERATIONS	4,065,014	5,634,783
NONOPERATING GAINS AND LOSSES		
Contributions	44,835	41,556
Change in Charitable Gift Annuity Liability	(48,278)	(102,930)
Gains on Sales of Assets and Investments	359,872	192,686
Early Termination of Interest Rate Swap	(1,751,000)	-
Loss on Early Extinguishment of Debt	(3,489,362)	-
Total Nonoperating Gains and Losses	(4,883,933)	131,312
EXCESS (DEFICIT) OF REVENUES AND NET GAINS OVER EXPENSES AND LOSSES	(818,919)	5,766,095
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Change in the Fair Value of Interest Rate Swap Agreements	4,044,405	(1,541,402)
Changes in Net Unrealized Gains (Losses) on Investments	1,886,394	(633,606)
Net Asset Transfer	(290,882)	-
Total Other Changes in Unrestricted Net Assets	5,639,917	(2,175,008)
CHANGE IN UNRESTRICTED NET ASSETS	4,820,998	3,591,087
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	87,906	76,309
Net Assets Released from Restrictions	(150,601)	(455,402)
Net Asset Transfer	290,882	-
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	228,187	(379,093)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	64,242	25,834
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	64,242	25,834
CHANGE IN NET ASSETS (DEFICIENCY)	5,113,427	3,237,828
NET ASSETS (DEFICIENCY) - BEGINNING OF YEAR	(12,980,390)	(16,218,218)
NET ASSETS (DEFICIENCY) - END OF YEAR	$ (7,866,963)	$ (12,980,390)

See accompanying Notes to Financial Statements.

THE RIVERWOODS COMPANY, AT EXETER, NEW HAMPSHIRE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets (Deficiency)	$ 5,113,427	$ 3,237,828
Adjustments to Reconcile Change in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:		
Proceeds from Entrance Fees	14,564,600	11,086,400
Noncash Items Included in Change in Net Assets (Deficiency):		
Amortization of Deferred Entrance Fee Revenue	(8,454,810)	(9,080,402)
Depreciation and Amortization	5,821,155	5,956,473
Loss on Early Extinguishment of Debt	3,489,362	-
Loss on Disposal of Property and Equipment	-	35,368
Change in Interest Rate Swap Agreements	(4,044,405)	1,541,402
Unrealized (Gains) Losses on Investments, Net	(1,886,394)	633,606
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(18,727)	(186,741)
Other Receivables	69,161	(125,758)
Inventories	(17,328)	(22,320)
Prepaid Expenses and Other Assets	(49,362)	(89,410)
Accrued Interest Receivable	(13,766)	(89,322)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(371,690)	557,790
Accrued Salaries, Wages and Related Taxes	80,626	117,027
Accrued Interest Payable and Other Liabilities	30,201	(27,766)
Net Cash Provided by Operating Activities	14,312,050	13,544,175
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(3,166,651)	(4,489,547)
Increase in Investments	(1,661,426)	(10,347,526)
Decrease in Assets Limited as to Use	1,393,190	2,336,105
Increase in Other Restricted Funds	(121,854)	(29,869)
Increase in Benevolent Fund	(120,307)	(484,373)
Net Cash Used by Investing Activities	(3,677,048)	(13,015,210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	(1,423,333)	(1,370,000)
Redemption of Long-Term Debt	(64,241,667)	-
Proceeds of Long-Term Debt	65,605,000	-
Payment of Deferred Financing Costs	(430,703)	-
Proceeds from Entrance Fees	655,000	3,495,400
Letter of Credit Extension Costs	-	(90,082)
Increase (Decrease) in Residents' Deposits	(55,157)	849,735
Decrease in Accounts Receivable - Entrance Fees	111,752	467,138
Refunds of Entrance Fees	(11,398,470)	(10,832,365)
Net Cash Used by Financing Activities	(11,177,578)	(7,480,174)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(542,576)	(6,951,209)
Cash and Cash Equivalents - Beginning of Year	4,930,863	11,882,072
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,388,287	$ 4,930,863
SUPPLEMENTAL CASH DISCLOSURE		
Cash Paid for Interest, Net of Capitalized Interest	$ 2,340,700	$ 2,579,657

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 201 independent living units, 20 assisted living units and 39 skilled nursing beds. The second campus, known as "The Ridge," has 81 independent living units and 11 cottages, 27 assisted living units, and 23 skilled nursing beds. The third campus, known as "The Boulders", has 76 independent living units and 24 cottages, 24 assisted living units and 16 skilled nursing beds. The operations of The Woods, The Ridge and The Boulders began in August 1994, October 2004 and March 2010, respectively.

The parent entity (Member) of RiverWoods is The RiverWoods Group ("TRG"), 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 June 30, 2013 there is no financial activity in this entity.

On June 6, 2013, the RiverWoods board of trustees approved a $5,000,000 capital contribution to TRG to be used by TRG in furtherance of its corporate purposes and the charitable mission and vision of RiverWoods. Prior to its implementation, this capital contribution will be subject to review by the New Hampshire Insurance Department. This review is currently in process.

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 2010 to 2012 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, 2013 and 2012 the allowance for doubtful accounts was $30,000 and $42,000, respectively. In certain instances, RiverWoods offers incoming residents the ability to defer payment of entrance fees in full on a short-term basis for a period not to exceed one year based upon market conditions.

Inventories

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

Investments and Investment Income

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

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

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, 2013 and 2012. In addition, Assets Limited as to Use includes certain cash and cash equivalents designated by the board for debt retirement, 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, 2013 and 2012.

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, 2013 and 2012, the amount of financial assistance provided to residents was $139,454 and $105,544, 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, 2013.

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

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, 2013 and 2012 was $5,327,138 and $5,333,891, 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.

In 2005, RiverWoods capitalized $1,337,946 of deferred marketing costs of The Ridge. Accumulated amortization of deferred marketing costs for The Ridge amounted to $1,100,941 and $972,279 at June 30, 2013 and 2012, respectively. Amortization of deferred marketing costs for The Ridge was $128,662 and $126,819 for the years ended June 30, 2013 and 2012, respectively.

In 2011, RiverWoods capitalized $2,780,880 of deferred marketing costs of The Boulders. Accumulated amortization expense for The Boulders amounted to $625,698 and $347,610 at June 30, 2013 and 2012, respectively. Amortization of deferred marketing costs related to The Boulders totaled $278,088 for each of the years ended June 30, 2013 and 2012.

Deferred Revenue - Entrance Fees

As of June 30, 2013, 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, 2013 and 2012.

Entrance fees received for the years ended June 30, 2013 and 2012 were $15,219,600 and $14,581,800, respectively. For the years ended June 30, 2013 and 2012, entrance fees refunded were $11,398,470 and $10,832,365, respectively. Total net entrance fees collected were $3,821,130 and $3,749,435 for the years ended June 30, 2013 and 2012, respectively.

As of June 30, 2013 and 2012, approximately $144,140,020 and $142,663,330, 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, 2013 and 2012 were $2,524,627 and $2,579,784, 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, 2013 and 2012, 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 2012 financial statements have been reclassified for comparability purposes with the 2013 financial statements. The reclassifications had no change on the overall net assets of the Company.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August 28, 2013, the date the financial statements were issued. The results of this evaluation indicated that there are no subsequent events or transactions that are required to be disclosed in these financial statements.

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at June 30, 2013 and 2012, which are stated at fair value, is set forth in the following table:

	2013	2012
Cash and Cash Equivalents	$ 1,584,468	$ 3,093,594
U.S. Government and Government Agency Obligations	11,315,238	13,067,289
Corporate Debt Obligations	12,147,159	13,250,686
Equity Securities	22,683,490	18,195,464
REITs	3,377,870	1,925,228
Tangible Assets - Commodities	2,905,691	2,256,571
Hedge Fund of Funds	2,711,104	2,525,631
Total	$ 56,725,020	$ 54,314,463

	2013	2012
Current Portion of Assets Limited as to Use	$ 33,952	$ 1,427,142
Accrued Interest Receivable	194,357	180,591
Investments	55,030,287	51,482,467
Benevolent Fund and Other Restricted Funds	1,466,424	1,224,263
Total	$ 56,725,020	$ 54,314,463

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

The following tables summarize the unrealized losses on investments held at June 30, 2013 and 2012:

2013	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	$ 7,912,421	$ (217,236)	$ 4,151,449	$ (195,957)	$ 12,063,870	$ (413,193)
Marketable Equity Securities	4,834,581	(650,461)	9,606,889	(1,794,165)	14,441,470	(2,444,626)
	$ 12,747,002	$ (867,697)	$ 13,758,338	$ (1,990,122)	$ 26,505,340	$ (2,857,819)

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)

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, 2013 and 2012, 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, 2013:

	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	$ 1,500,376	$ -	$ -	$ 1,500,376
Investments	52,319,183	-	2,711,104	55,030,287
Liabilities:				
Obligation Under Interest Rate Swap Agreements	$ -	$ (946,467)	$ -	$ (946,467)

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 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.

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

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

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Balance, July 1, 2011	$	1,570,506
Total unrealized losses included in		
Changes in Net Unrealized Gains (Losses) on Investments		(44,875)
Total realized gains included in		
Gains on Sales of Assets and Investments		58,773
Sales		(1,558,773)
Purchases		2,500,000
Balance, June 30, 2012	$	2,525,631
Total unrealized gains included in		
Changes in Net Unrealized Gains (Losses) on Investments		185,473
Balance, June 30, 2013	$	2,711,104

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:

	2013	2012
New Hampshire Health and Education Facilities Authority:		
Series 1997 Revenue Bonds, Series B	$ -	$ 7,400,000
Series 2003 Revenue Bonds	-	14,665,000
Series 2007 Revenue Bonds	-	6,930,000
Series 2008 Revenue Bonds	-	35,725,000
Series 2012 Revenue Bonds, Series A	33,055,000	-
Series 2012 Revenue Bonds, Series B	31,605,000	-
Total Long-Term Debt	64,660,000	64,720,000
Less: Current Portion	(1,495,000)	(1,435,000)
Total Long-Term Debt, net of Current Portion	$ 63,165,000	$ 63,285,000

At June 30, 2013, RiverWoods had Series 2012A and Series 2012B Revenue Bonds outstanding. At June 30, 2012, RiverWoods had Series 1997B, 2003, 2007 and 2008 Revenue Bonds outstanding. The Series 1997B Revenue Bonds were scheduled to mature on March 1, 2023. The Series 1997B Revenue Bonds required annual sinking fund installments of amounts ranging from $140,000 to $1,600,000 through 2023. Interest was paid monthly at variable rates.

On June 21, 2011, 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 were pledged as collateral under RiverWoods’ agreement with the Authority.

The Series 2003 Revenue Bonds represented term bonds, which were subject to an optional redemption schedule, with annual installments of amounts ranging from $360,000 to $1,010,000 through 2034. Interest was payable monthly based on variable rates.

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 were pledged as collateral under RiverWoods' agreement with the Authority.

The Series 2007 Revenue Bonds, represented term bonds which were subject to an optional redemption schedule, with annual installments of amounts ranging from $525,000 to $820,000 through 2022. Interest was 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, 2013 and 2012, 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, 2013 and 2012. The swap agreement expires March 1, 2023 and has a fixed interest rate of 3.499 percent.

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 were pledged as collateral under RiverWoods' agreement with the Authority.

The $73,665,000 of Series 2008 Revenue Bonds represented term bonds, which were subject to an optional redemption schedule, with annual installments of amounts ranging from $805,000 to $4,115,000 through 2038. Interest was payable monthly at variable rates.

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. The notional amount of the swap, $12,000,000, was applied to the Series 2003 Bonds. 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, 2013 and 2012.

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 years ended June 30, 2013 and 2012. The total notional amount of the swap, $35,725,000, was applied to the Series 2008 Bonds and had 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, was to be applied to the Series 2008 Bonds starting November 1, 2013.

The change in the fair value of the swap is excluded from the performance indicator for the years ended June 30, 2013 and 2012. The swap agreement had a fixed interest rate of 1.53 percent.

The outstanding Series 1997 Bonds, Series 2003 Bonds, Series 2007 Bonds, and Series 2008 Bonds were secured by Letters of Credit which were to expire on July 15, 2016. 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.

On September 28, 2012, RiverWoods entered into an agreement with the New Hampshire Health and Education Authority for $65,605,000 Revenue Bonds, Series 2012A and Series 2012B. The proceeds were used to redeem $64,120,000, representing the total outstanding balances, of the 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.

In conjunction with the refinancing, RiverWoods retired the Letters of Credit and terminated the two interest rate swap agreements with Bank of America. Additionally, RiverWoods modified the $12,000,000 notional amount interest rate swap agreement with Deutsche Bank. Effective October 1, 2012, the interest rate of the swap is 1.69 percent and the original notional amount was $47,000,000. The swap was recorded as a financial instrument at fair value and met the criteria as a derivative instrument. The change in the fair value of the swap is excluded from the performance indicator for the year ended June 30, 2013. The swap agreement expires October 1, 2022.

Following is a summary of interest rate swaps outstanding at June 30, 2013:

	Current Notional Amount	Fixed Rate	Expiration Year
Deutsche Bank	$ 6,940,000	4.189%	2023
Deutsche Bank	47,482,000	1.690%	2023
Morgan Stanley	7,005,000	3.499%	2022
Total Notional Amount	$ 61,427,000		

RiverWoods is required by the Loan Agreements to meet certain financial ratios. As of June 30, 2013 and 2012, management is not aware of any violations with these financial covenants.

NOTE 4 LONG-TERM DEBT (CONTINUED)

Total interest expense incurred was approximately $2,329,000 and $2,602,000 for the years ended June 30, 2013 and 2012, 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	Total
2014	$ 885,000	$ 610,000	$ 1,495,000
2015	940,000	660,000	1,600,000
2016	930,000	665,000	1,595,000
2017	970,000	710,000	1,680,000
2018	1,030,000	740,000	1,770,000
2019 and Thereafter	28,300,000	28,220,000	56,520,000
Total	$ 33,055,000	$ 31,605,000	$ 64,660,000

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:

	2013	2012
Resident and Health Care Services	$ 27,887,393	$ 26,422,398
General and Administrative	6,529,671	5,839,711
Total	$ 34,417,064	$ 32,262,109

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 $167,698 and $152,380 for the years ended June 30, 2013 and 2012, 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) for the fiscal year ended June 30, 2012.

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:

	2013	2012
Medicare and Supplemental Insurance	43%	46%
Residents and Other Accounts Receivable	57%	54%
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 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”.

The amendments in this ASU clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community 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 RiverWoods’ financial statements for the year ending June 30, 2014.

The adoption of the amendment is expected to result in an adjustment increasing net deficiency and increasing the liability for refundable fees by approximately $53,200,000, based on estimates at June 30, 2013. In addition, revenue from amortization of deferred revenue arising from entrance fees would be reduced by approximately $5,800,000 based upon estimates for the year ending June 30, 2013.

Management has not completed its evaluation of the impact of the adoption of this standard on the calculation of its obligation to provide future services, but believes that it will have a material impact on RiverWood’s liabilities and net deficiency.