BSL/BN COMMONS CCRC LLC

COMMONS -- CCRC DISCLOSURE STATEMENT

Fiscal Year Ended June 30, 2016

Contents

1. **General Information:** 3
2. **Officers and Directors:** 3
3. **Business Experience:** 4
4. **Affiliation:** 4
5. **Location and Description of Property:** 4
6. **Financial Information:** 5

SCHEDULE A: Financial Statement Certification 6

SCHEDULE A-1: Audited & Certified Financial Statements 7

THE COMMONS IN LINCOLN – CCRC DISCLOSURE STATEMENT

In accordance with M.G.L. Chapter 93, Section 76(b), we are providing you with the following information:

1. **General Information:**

Name of Community:	The Commons in Lincoln ("The Commons")
Address:	One Harvest Circle Lincoln, MA 01773
Phone:	(781) 430-6000
Fax:	(781) 430-6008

The operator of The Commons is BSL/BN Commons CCRC LLC ("Commons Operator"), a Delaware limited Liability Company.

2. **Officers and Directors:**

Commons Operator is managed by its sole member, BSL/BN Commons JV Company LLC ("Commons Parent Company"), which is managed by its managing member, BSL Friends and Family Fund LLC. Mr. Thomas H. Grape, the Chairman, Chief Executive Officer and Class A Manager of Benchmark Senior Living LLC ("BSL"), manages BSL Friends and Family Fund LLC. The other officers of Commons Operator are:

- Stephanie Handelson, President of BSL
- Andrea M. Teichman, SVP and General Counsel of BSL
- Sarah Laffey, SVP, Capital of BSL
- George E. Morris, SVP, Finance/Accounting of BSL
- John Dragat, SVP, Development of BSL

The other member of Commons Parent Company is BayNorth Realty Fund VII Limited Partnership.

Chris Golen is Campus Executive Director of The Commons in Lincoln.

3. **Business Experience:**

Commons Operator is a single purpose limited liability company created to operate The Commons.

Commons Operator has contracted with BSL to manage The Commons.

Benchmark Senior Living LLC ("BSL") manages 52 senior living communities located throughout New England (25 in Massachusetts) and the mid-Atlantic region. With the exception one of community, all are owned and operated by entities affiliated with BSL. These communities provide independent retirement housing, assisted living and Alzheimer's care. BSL has been operating senior living communities for almost 20 years.

4. **Affiliation:**

Commons Operator is not affiliated with any religious, charitable or other non-profit organization.

5. **Location and Description of Property:**

The Commons is located at One Harvest Circle, Lincoln, Massachusetts, on a campus that spans approximately 30 acres.

The Commons currently consists of independent living units, as well as independent rental units in the Flint Building, and the newly completed Community Health Center ("Health Center").

a. **Independent Living Units.** The Community has 168 independent living units, 100 of which are located in the Russell Building, 22 of which are in the Flint Building, 8 of which are apartments in the Flint Building designated for low and moderate income tenants and which do not participate in the life care contract arrangements described in this disclosure statement, and 38 of which are independent Cottages. Common areas include a dining room, café and pub area, full kitchen,

lounges, fitness center, indoor swimming pool, card room, internet café, auditorium and administrative offices.

b. **Health Center.** The Health Center is the Community's on-site health care neighborhood, housing the AL units, dementia care AL units and the SNC units, as well as an inpatient/outpatient rehabilitation area. In addition to serving residents of The Commons, the Health Center can also serves external residents. Each distinct area within the Health Center (assisted living, dementia care and skilled nursing), includes a dining room, a resident lounge, activity rooms and bathing facilities.

i. Assisted Living Units. The Health Center includes 40 assisted living units, including studios, 1 bedroom and 2 bedroom / companion (shared) units.

ii. Dementia Care Units. The Health Center includes 24 dementia care units, including studio and companion (shared) units.

iii. Skilled Nursing Units. The Health Center includes 26 skilled nursing units, including studio and companion (shared) units with 32 skilled nursing beds.

6. **Financial Information:**

Audited and certified financial statements, including a balance sheet as of June 30, 2015, are attached as Schedule A.

SCHEDULE A

FINANCIAL STATEMENT CERTIFICATION

Property Name: _____The Commons in Lincoln – Lincoln, MA_____

I hereby certify that the attached audited and certified financial statements for The Commons in Lincoln as of June 30, 2016 and for the period from July 1, 2015 through June 30, 2016, are true and correct in all material respects to the best of my knowledge.

Company: BSL/BN Commons CCRC LLC

By: BSL/BN Commons JV LLC,
Its sole member

By: BSL Friends and Family LLC,
Its manager

By:_____George Morris_____
George Morris
Vice President & Treasurer

SCHEDULE A-1

Audited and Certified Financial Statements for Commons Parent Company and its Affiliated Entities

BENCHMARK
SENIOR LIVING

MEMORANDUM

To: Users of the BSL/BN Commons JV Company LLC audited financial statements
Date: September 23, 2016
Subject: Management's Discussion and Analysis

BSL/BN Commons JV Company LLC and its consolidated subsidiaries (the "Company") owns and operates a senior living community located in Lincoln, MA known as The Commons. Attached are the audited financial statements as of and for the year ended June 30, 2016 which comprise the consolidated balance sheet, consolidated statement of operations, consolidated statement of members' equity, consolidated statement of cash flows and footnotes to the financial statements.

Year ended June 30, 2016 highlights:

- Increased cash flow from operations by $1.2M
  - Driven by receipt of non-refundable entrance fees and net inflow from working capital.

- $31.9M spent as of June 30, 2016 for construction of the health center which was placed into operations on April 1, 2016. The health center construction was financed by member contributions and construction loan financing, which was refinanced into permanent financing.

- The Commons' net income (loss) reported in its financial statements prepared in accordance with Generally Accepted Accounting Principles ("GAAP") for year ended June 30, 2016 and 2015 include numerous non-cash expenses. The following represents the "normalized" cash flow of the Commons with significant non-cash expenses added back to net income.

	2016	2015
Net (loss) as reported	($6.04)	($6.90)
Add back non-cash non-recurring expenses:		
Depreciation & amortization (a)	2.1	1.7
Accretion of interest on acquired resident contracts (a)	1.8	1.9
Interest rate swap (a)	0.6	0.0
Normalized net (loss)	($1.52)	($3.30)

a. Non-cash GAAP adjustments

Questions regarding the aforementioned matters should be directed to George Morris, SVP and CFO, at 781-489-2818.

BSL/BN Commons JV Company LLC

Consolidated Financial Report
June 30, 2016

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Contents

Independent auditor's report	1
Consolidated financial statements	
Consolidated balance sheets	2
Consolidated statements of operations	3
Consolidated statements of members' equity (deficit)	4
Consolidated statements of cash flows	5-6
Notes to consolidated financial statements	7-14

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RSM US LLP

Independent Auditor's Report

To the Members
BSL/BN Commons JV Company LLC

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of BSL/BN Commons JV Company LLC and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, the related consolidated statements of operations, members' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BSL/BN Commons JV Company LLC and its subsidiaries as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Des Moines, Iowa
September 15, 2016

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BSL/BN Commons JV Company LLC (d/b/a The Commons)

Consolidated Balance Sheets
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	**$ 8,721,452**	$ 14,361,101
Assets limited as to use	**568,311**	595,386
Accounts receivable	**1,150,757**	299,428
Due from affiliate	**-**	876,434
Prepaid expenses and other assets	**401,529**	157,592
Property, plant and equipment, net	**85,694,105**	68,680,732
Intangible assets, net	**122,439**	148,246
Goodwill, net	**837,386**	957,106
Deferred financing costs, net	**715,268**	158,683
	$ 98,211,247	$ 86,234,708
Liabilities and Members' Equity (Deficit)		
Liabilities:		
Accounts payable and accrued expenses	**$ 2,607,413**	$ 4,878,651
Deferred revenue, nonrefundable entrance fees	**5,284,290**	2,682,609
Interest rate swap liability	**620,401**	-
Mortgage payable	**29,894,942**	13,648,777
Reservation and waitlist deposits	**265,590**	418,390
Refundable entrance fee contracts	**69,341,201**	48,442,230
	108,013,837	70,070,657
Members' equity (deficit)	**(9,802,590)**	16,164,051
	$ 98,211,247	$ 86,234,708

See notes to consolidated financial statements.

BSL/BN Commons JV Company LLC (d/b/a The Commons)

Consolidated Statements of Operations
Years Ended June 30, 2016 and 2015

	2016	2015
Revenues:		
Resident services	**$ 9,095,922**	$ 5,980,757
Entrance fee amortization, nonrefundable portion	**773,219**	194,887
Other	**269,640**	225,615
Total revenues	**10,138,781**	6,401,259
Operating expenses:		
Salaries, wages and benefits	**4,786,851**	2,869,970
Resident service costs	**2,066,374**	1,378,153
Marketing	**1,215,040**	1,471,290
Management fees	**943,347**	700,219
Property and other taxes	**889,341**	807,700
Utilities	**731,799**	627,154
General and administrative	**635,011**	379,366
Insurance	**140,085**	131,903
Other resident costs	**39,640**	464,200
Total resident operating expenses	**11,447,488**	8,829,955
Net operating loss before certain expenses	**(1,308,707)**	(2,428,696)
Other operating expenses:		
Depreciation	**1,848,933**	1,499,302
Amortization of intangible assets	**25,807**	25,803
Amortization of goodwill	**119,720**	119,718
	1,994,460	1,644,823
Operating loss	**(3,303,167)**	(4,073,519)
Financial expenses:		
Amortization of deferred financing costs	**164,180**	97,322
Interest on mortgage payable	**181,201**	850,633
Interest rate swap	**620,401**	-
Accretion of interest on acquired resident contracts	**1,766,411**	1,877,676
	2,732,193	2,825,631
Net loss	**$ (6,035,360)**	$ (6,899,150)

See notes to consolidated financial statements.

BSL/BN Commons JV Company LLC (d/b/a The Commons)

Consolidated Statements of Members' Equity (Deficit)
Years Ended June 30, 2016 and 2015

	BSL Friends and Family Fund LLC	BayNorth Realty Fund VII Limited Partnership	Total
Balance, June 30, 2014	$ 1,493,398	$ 13,440,585	$ 14,933,983
Contributions	812,922	7,316,296	8,129,218
Net loss	(689,915)	(6,209,235)	(6,899,150)
Balance, June 30, 2015	1,616,405	14,547,646	16,164,051
Distributions	(1,993,128)	(17,938,153)	(19,931,281)
Net loss	(603,536)	(5,431,824)	(6,035,360)
Balance, June 30, 2016	**$ (980,259)**	**$ (8,822,331)**	**$ (9,802,590)**

See notes to consolidated financial statements.

BSL/BN Commons JV Company LLC (d/b/a The Commons)

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net loss	**$ (6,035,360)**	$ (6,899,150)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Nonrefundable entrance fee amortization	**(773,219)**	(194,887)
Depreciation	**1,848,933**	1,499,302
Amortization of deferred financing costs	**164,180**	97,322
Amortization of intangible assets	**25,807**	25,803
Amortization of goodwill	**119,720**	119,718
Accretion of interest on acquired resident refundable deposits	**1,766,411**	1,877,676
Change in interest rate swap liability	**620,401**	-
Change in working capital components:		
Accounts receivable	**(851,329)**	315,941
Prepaids and other assets	**(243,937)**	(107)
Accounts payable and accrued expenses	**1,052,884**	526,489
Reservation and waitlist deposits	**(152,800)**	(36,609)
Deferred revenue, nonrefundable entrance fees	**3,374,900**	2,330,900
Net cash provided by (used in) operating activities	**916,591**	(337,602)
Cash flows from investing activities:		
Net change in assets limited as to use	**27,075**	(60,365)
Increase (decrease) in due from affiliate	**876,434**	(876,434)
Purchases of property, plant and equipment	**(22,186,428)**	(9,741,915)
Net cash used in investing activities	**(21,282,919)**	(10,678,714)
Cash flows from financing activities:		
Payment of contingent purchase price	**-**	(5,000,000)
Contributions (distributions)	**(19,931,281)**	8,279,218
Proceeds from refundable deposits	**23,318,100**	17,875,199
Repayments of refundable deposits	**(4,185,540)**	(261,900)
Payment of financing costs	**(720,765)**	(13,501)
Borrowings from mortgage payable	**50,609,537**	-
Principal payments of mortgage payable	**(34,363,372)**	(6,636,036)
Net cash provided by financing activities	**14,726,679**	14,242,980
Net increase (decrease) in cash and cash equivalents	**(5,639,649)**	3,226,664
Cash and cash equivalents, beginning of period	**14,361,101**	11,134,437
Cash and cash equivalents, end of period	**$ 8,721,452**	$ 14,361,101

(Continued)

BSL/BN Commons JV Company LLC (d/b/a The Commons)

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest, including capitalized interest of 2016: $564,589; 2015: $432,811	**$ 807,297**	$ 1,344,569
Capital expenditures included in accounts payable and accrued expenses	**$ 735,418**	$ 4,059,540

See notes to consolidated financial statements.

Note 1. Organization

BSL/BN Commons JV Company LLC and subsidiaries (the Company) owns and operates a senior living community which opened in 2010 and is located in Lincoln, Massachusetts known as The Commons (the Community). The Company acquired the Community from The Groves in Lincoln, Inc. and The Apartments at the Groves, Inc. on June 28, 2013 (date of acquisition) through an asset acquisition pursuant to a bankruptcy auction. The Community is situated on a 30 acre campus consisting of 168 independent living units across two main apartment-style buildings and 38 cottages.

In April 2016, the Company completed construction of a health care facility (health center) consisting of a 38 unit assisted living facility, a 24 unit memory care facility, a 32 bed skilled nursing facility and an assisted rehabilitation unit on site to provide the services of a continuing care retirement community (CCRC).

Under the provisions of the Company's Regulatory Agreement with the Commonwealth of Massachusetts administered through the Department of Housing and Community Development (DHCD), eight of the Community's independent living units are designated as low and moderate income units. Monthly rental rates for these units are restricted to maximum allowable amounts based on the residents' income.

Note 2. Significant Accounting Policies

Principles of consolidation: The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company consolidates all entities in which it has a controlling financial interest. A controlling financial interest is usually obtained through ownership of a majority of the voting interests. However, there are situations in which an enterprise is required to consolidate a variable interest entity (VIE), even though the enterprise does not own a majority of the voting interests. An enterprise must consolidate a VIE if the enterprise is the primary beneficiary of the VIE. The primary beneficiary is the party that has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries BSL/BN CCRC LLC, BSL/BN Commons Flint House LLC, BSL/BN Commons AL/ALZ/SNF LLC, BSL/BN Commons Licensee Inc. (a nonprofit corporation) and BSL/BN Commons SNF Operator LLC (a variable interest entity). The Company and each of its subsidiaries will continue in existence until dissolution according to the terms of their respective Limited Liability Company Agreement or Articles of Incorporation. All intercompany transactions have been eliminated in consolidation.

BSL/BN Commons SNF Operator LLC was created during the year ended June 30, 2016, to hold the skilled nursing license, as required by the State of Massachusetts. The Company has entered into a sublease arrangement and co-borrowing relationship with this entity and determined that the financial activity of BSL/BN Commons SNF Operator LLC should be consolidated. As of June 30, 2016, this entity did not hold any assets or liabilities.

Use of estimates: The preparation of financial statements in accordance with GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents include highly liquid financial instruments with maturities of three months or less at the date of purchase. The Company maintains its cash primarily in depository accounts at two financial institutions. The combined account balances may exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage of $250,000 and, as a result there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Management believes, based on the quality of the financial institution, that the risk is not significant.

Assets limited as to use: Restricted cash includes residents' waitlist deposits, residents' last month's rent, a waste-water facility reserve, worker's compensation reserve and a woodshop, equipment or repair reserve which has been set aside as assets limited as to use in the accompanying consolidated balance sheets.

Accounts receivable: Resident accounts receivable result from the monthly rental and service fees, and other related services provided by the Community and are shown net of an allowance for doubtful accounts of $0 at June 30, 2016 and 2015. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, economic conditions and other indicators.

Property, plant and equipment: Property, plant and equipment acquired with the purchase of the Community was accounted for at fair value at the acquisition date in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. Property, plant and equipment purchased after the date of acquisition is carried at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of 5-40 years. Costs associated with construction in progress are capitalized to property, plant and equipment and are depreciated once placed into service. Costs for repairs and maintenance are expensed as incurred.

Intangible assets: In-place resident contracts represent the fair value assigned to the acquired contracts with existing residents upon acquisition of the Community, which will be amortized on a straight line basis over the 7.75 year average estimated life of the in-place residents on the date of acquisition. Accumulated amortization of the in-place resident contracts totaled $77,561 and $51,754 as of June 30, 2016 and 2015, respectively. Estimated amortization expense related to intangibles other than goodwill for the years ending June 30, 2017 through 2020 is $25,806 per year, and $19,215 for the year ending June 30, 2021.

Goodwill: Goodwill, representing the excess of the purchase price over the underlying identifiable net assets acquired, was recognized upon acquisition of the Community. The Company has elected to adopt the accounting alternative provided in Accounting Standards Update (ASU) 2014-02 (*Intangibles—Goodwill and Other*,) ASC 350. In accordance with ASU 2014-02, the Company amortizes goodwill on a straight-line basis over a period of 10 years. Accumulated amortization of goodwill totaled $359,815 and $240,095 as of June 30, 2016 and 2015, respectively. Estimated amortization expense related to goodwill for the years ending June 30, 2017 through 2022 is $119,720 per year, and $119,066 for the year ending June 30, 2023.

Impairment of long-lived assets: Long-lived assets, including amortizable intangible assets and goodwill, are tested for impairment whenever events or changes in circumstances indicate that the carrying value of such property or asset may not be recoverable. Management determined that no impairment of long-lived assets existed as of June 30, 2016 or 2015.

Deferred financing fees: Deferred financing fees consist of costs incurred in obtaining the mortgage payable, which are amortized using the effective interest method over the term of the related mortgage payable. Accumulated amortization of deferred financing fees totaled $18,998 and $195,443 as of June 30, 2016 and 2015, respectively.

Note 2. Significant Accounting Policies (Continued)

Interest rate swap derivative contract: The Company has entered into an interest rate swap contract in connection with its long-term debt to hedge the variability of cash flows to be received or paid related to a recognized liability. The interest rate swap contract is recognized on the balance sheet at fair value. The Company has not formally designated this contract as a cash flow hedge; therefore, changes in the fair value of the contracts are recorded into earnings as interest expense and is affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate liability are recorded in earnings). The Company measures the interest rate swap derivatives using Level 2 inputs, as defined in the fair value hierarchy. Fair value is determined using a discounted cash flow model and observable market-based inputs, including interest rate yield curves.

Waitlist deposits: A prospective resident pays a deposit, equal to 10 percent of the total due upon execution of a continuing care contract (Contract), to reserve a unit and be placed on the waiting list. The deposit is held in escrow and is fully refundable until the execution of a Contract, at which time it becomes refundable only as and to the extent specified in the Contract.

Entrance fee contracts: Each independent living resident is required to pay an entrance fee when the unit is ready for possession consisting of a 10 percent nonrefundable first person fee, a nonrefundable second person fee if applicable, and a 90 percent refundable first person fee. The 10 percent nonrefundable portion of the fee, and any second person fees paid, are recorded as nonrefundable entrance fees and amortized over the estimated life of the resident.

The remaining 90 percent is non-interesting bearing and refundable, less any allowable offsets and deductions, upon the sooner of 10 years from the date of termination of the Contract or 60 days from receipt of payment on a new Contract by a subsequent resident for the same unit, provided, however, that (a) if the Contract was terminated before June 28, 2015, then no payment will be made until the later of June 28, 2015, or a qualifying resale of the unit, except in the case of a resident's death; and (b) if, despite marketing efforts there has been no resale of the applicable unit, the Company may in its sole discretion notify the resident who will have the option of directing the Company to continue sales efforts or to accept, in lieu of the entrance fee refund otherwise due, an amount that equals the first person entrance fee less 1 percent of such entrance fee per month of occupancy. As the entrance fee repayment is not limited to the proceeds of a subsequent sale of the same unit, the refundable portion of the Contract is recorded as a liability in the financial statements.

Refundable entrance fees associated with Contracts acquired at acquisition with various refundable terms were recorded at fair value at the purchase date. The fair value of those refundable entrance fees are being accreted to face value using the effective interest method over the estimated life expectancy of the in-place residents at acquisition using a discount rate of 6.3 percent. As of June 30, 2016 and 2015, the unamortized discount was $9,384,429 and $11,150,840, respectively.

Obligation to provide future services (FSO): The Commons constructed a health center and offers life care services as a CCRC. In April 2014, the Massachusetts Department of Public Health approved the application by BSL/BN Commons SNF Operator LLC, an affiliate of the Company, for a determination of need to construct a 32 bed skilled nursing facility as part of the health center which opened in April 2016. To participate in a CCRC, qualified (financially and physically) residents sign a life care contract that entitles them to health center services and use of those facilities at the monthly fee, with adjustment for added care over basic care levels specified in the contract. The existence of this type of contract can create a future service obligation liability to the Community. In accordance with GAAP, the Commons annually assesses if it has an FSO liability. An FSO liability is recorded if the present value of the net cost of future services and use of facilities to be provided to current residents exceeds the balance of nonrefundable entrance fees, plus the amortization related to resident contracts, plus the unamortized cost of in-place resident contracts.

Note 2. Significant Accounting Policies (Continued)

At acquisition of the Community, no such liability existed as no life care contracts were in-place at that time. During the period from June 28, 2013 (inception) through June 30, 2016, a majority of the current residents qualified for and signed life care contracts with the Commons. This did not create an FSO liability as the present value of the net cost of future services and use of facilities to be provided to current residents would not exceed the balance of deferred revenue from nonrefundable entrance fees, plus the amortization related to resident contracts, plus the unamortized cost of in-place resident contracts.

Fair value of financial instruments: The carrying amounts of assets limited as to use, accounts receivable, accounts payable and accrued expenses, and resident deposits are estimated to approximate fair value due to their short-term nature. The fair value of long-term debt approximates book value based on contract terms currently available to the Company. The fair value of the interest rate swap liability is estimated by a third party using yield curves. Liabilities related to in-place refundable resident contracts were reported at fair value at acquisition. On an annual basis, it is not practicable to estimate the fair value of in-place and subsequent refundable entrance fee contracts due to the uncertainty of the timing of cash flows.

Income taxes: As a limited liability company, the Company is not subject to income taxes. Each Member is taxed on its share of the Company's taxable income, whether or not distributed, and reports on its tax return its share of any net taxable income or loss. Therefore, no provision is made in these financial statements for income taxes, or penalties and interest thereon.

In accordance with GAAP, management has evaluated material tax positions and determined there were no uncertain tax positions that require adjustments to the financial statements. The Commons has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Resident services revenue recognition: Revenue from resident services consists primarily of monthly resident fees for apartment, house cleaning, meals, resident care in the health center, when and if needed, and other services. Such fees are reported at the net estimated realizable amount in the period the services are provided. The Company has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined per diem payments that are not subject to retrospective adjustment. Health center revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered at the time the service is provided. See Note 3 for additional information on health center revenues.

Pending accounting pronouncement: In May 2014, the FASB issued ASU 2014-09 as revised by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In April 2015, the FASB has issued ASU 2015-03, *Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Cost*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the effect that the standard will have on the consolidated financial statements.

Note 2. Significant Accounting Policies (Continued)

Subsequent events: Management has evaluated subsequent events for potential recognition and disclosure through September 15, 2016, the date the financial statements were available to be issued.

Note 3. Medicare Reimbursement System and Concentration

Upon completion of the Health Center in April 2016, the Company began providing care to patients in its skilled nursing wing under the Medicare program. Revenue from the Medicare program accounted for approximately 2.7 percent of total revenue for the year ended June 30, 2016. Medicare reimburses the Company under prospectively determined rates based on the level of care provided. These rates, which are not subject to retrospective readjustment, vary according to a patient classification system that is based on clinical, diagnostic and other factors. At June 30, 2016, accounts receivable from Medicare totaled $317,516.

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 accreditation, licensure, government healthcare program participation, reimbursement for patient services, and Medicare fraud and abuse. As a result, there is ongoing government activity focused on identifying 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. Compliance with such laws and regulations can be subject to future review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 4. Equity

The Company is owned 90 percent by BayNorth Realty Fund VII Limited Partnership (BayNorth) and 10 percent by BSL Friends and Family Fund LLC (BSL F&F). As of June 30, 2016, BayNorth and BSL F&F have contributed capital of $27,883,192 and $3,098,132, respectively.

Distributions from cash flow, as defined in the Limited Liability Company Agreement, have the following priority:

i. First, to the members in accordance with their percentage interests, until the aggregate distributions pursuant to this section to each member have equaled the aggregate capital contributed by such member, plus an amount sufficient to provide BayNorth with an IRR of 12.5 percent;

ii. Second, to each member, as applicable, until the distributions pursuant to this section have equaled payments made under any Completion Guaranty, if any, made by such member;

iii. Third, 17.6 percent to BSL F&F, as a carried interest, and 82.4 percent to the members in accordance with their percentage interests, until the aggregate distributions to BayNorth pursuant to this section are sufficient to provide BayNorth with an IRR of 14 percent;

iv. Fourth, 29.4 percent to BSL F&F, as a carried interest, and 70.6 percent to the members in accordance with their percentage interests, until the aggregate distributions to BayNorth pursuant to this section are sufficient to provide BayNorth with an IRR of 17 percent or two times the aggregate capital contributed by Bay North; and

v. Thereafter, 41.2 percent to BSL F&F, as a carried interest, and 58.8 percent to the members in accordance with their percentage interests.

Note 5. Assets Limited as to Use

Amounts of assets limited to use as of June 30 are set aside for the following purposes:

	2016	2015
Waitlist deposits	$ 265,590	$ 418,390
Waste-water replacement reserve	48,251	48,251
Workers' compensation escrow deposits	140,877	96,947
Other	113,593	31,798
	$ 568,311	$ 595,386

Note 6. Property, Plant and Equipment

A summary of property, plant and equipment at June 30 is as follows:

	2016	2015
Land and improvements	$ 10,697,837	$ 10,492,349
Buildings and improvements	73,678,332	44,216,188
Furniture, fixtures and equipment	5,724,441	2,388,133
Vehicles	323,107	233,796
Construction in progress	98,317	14,329,262
	90,522,034	71,659,728
Less accumulated depreciation	4,827,929	2,978,996
	$ 85,694,105	$ 68,680,732

Note 7. Mortgage Payable

At June 30, 2015, the Company had $13,648,777 outstanding on a mortgage payable that was secured by substantially all assets of the Company. Additionally, the Company had borrowings available of $24,360,000 under a construction loan of which none was borrowed as of June 30, 2015. During the year ended June 30, 2016, the Company paid in full the mortgage loan in connection with the refinancing of its construction loan to permanent financing with its existing construction lender. The total initial borrowings available under the new loan was $33,270,366, of which $29,894,942 was outstanding as of June 30, 2016. The remaining $3,375,424 of initial borrowing will be drawn in 2017 through operating deficit draws. An additional $8,729,634 of borrowings are available at such time as the Company achieves a specified debt service coverage ratio and days cash on hand requirement. The loan bears interest at 1 month LIBOR plus 2.5 percent (2.96 percent at June 30, 2016), and requires interest only payments through May 2017. Subsequent to May 2017, principal and interest payments are due monthly through May 2021 with a final balloon payment due May 2021. The loan is subject to customary restrictive covenants and is collateralized by substantially all assets of the Company and its subsidiaries.

In May 2016, the Company entered into an interest rate swap agreement relating to its mortgage payable with an amortized notional amount of approximately $21,000,000 as of June 30, 2016, and a term extending through May 2021. The swap effectively fixes the interest rate at 3.93 percent. The approximate fair value of the interest rate swap derivative liability at June 30, 2016, is $620,401. The change in the fair value of the interest rate swap liability is included in interest expense in the statement of operations.

Note 7. Mortgage Payable (Continued)

The approximate aggregate principal payments due as of June 30, 2016, are as follows:

2017	$ 82,000
2018	1,002,000
2019	1,046,000
2020	1,087,000
2021	26,678,000
	$ 29,895,000

Note 8. Related Parties

The Company has a management agreement with Benchmark Senior Living LLC (BSL), an affiliate through common ownership, for management and administrative services in relation to the independent living facility and the health care facility (beginning after opening of health care facility) for which the Company pays BSL a fee of 5 percent of Gross Operating Revenues and 5 percent of Net Entrance Fees. The initial term of the agreement expires on June 28, 2018. Subsequently, the agreement automatically renews for a one-year term unless terminated by the Company or BSL in accordance with the provisions of the management agreement. Management fee expense was $943,347 and $700,219, respectively, for the years ended June 30, 2016 and 2015.

In addition, the Company agreed to pay BSL a pre-opening service fee of $90,000 payable in nine equal monthly payments prior to the anticipated opening date. The pre-opening fee of $90,000 was paid in full during the year ended June 30, 2016.

BSL employs all employees of the Community and is reimbursed by the Company for actual payroll costs, to include salaries, wages, employer taxes and other employer paid benefits. Amounts incurred for the years ending June 30, 2016 and 2015, under this agreement totaled $4,786,851 and $2,869,970, respectively.

The Company reimburses BSL for 401k plan expense related to the Community's employees. Amounts reimbursed to BSL for the years ended June 30, 2016 and 2015, under this agreement totaled $26,133 and $2,638, respectively, which is included in salaries, wages and benefits on the consolidated statements of operations.

In connection with development and construction of the health center, the Company entered into a Development Agreement with BSL on October 6, 2014. As compensation for services provided by BSL under the terms of the agreement, the Company agreed to pay $327,659 to BSL upon execution of the Development Agreement and $655,318 on a pro rata basis based on construction completed and $327,659 after substantial completion. As of June 30, 2016, the Company has incurred and capitalized in the cost of the health center $1,310,636 of the development fee, of which $982,967 and $327,669 was paid to BSL during the years ended June 30, 2016 and 2015, respectively.

Note 9. Commitments and Contingencies

The Company is exposed to the risk of investigation, lawsuits and claims in the normal course of business. Management has evaluated current activities and actions and believes they would not materially affect the financial position or results of operations.

Certain resident contracts assumed in the acquisition of the Community had terms such that the entrance fee is refundable in the amount of the entrance fee less 1 percent of the entrance fee per month of occupancy up to 100 months. Upon acquisition, the aggregate refundable portion of these entrance fees was $4,024,100 and will become fully non-refundable over the period from March 2020 through September 2021. As of June 30, 2016, the aggregate refundable portion of these entrance fees was approximately $2,082,562. At June 30, 2016 and 2015, management evaluated the health assessment of these residents and recorded a liability of $339,660 and $464,200, respectively, for an expected refund of entrance fees.