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## INTRODUCTION

We are pleased that you have expressed an interest in Edgewood. We are very proud of our senior living community, and appreciate this opportunity to tell you more. We are convinced that the more you learn, the more comfortable you will be in deciding to choose to make Edgewood your future home.

ERCI (Edgewood Retirement Community, Inc., aka "Edgewood") brings to residents who are age 62 and over a way of senior living known as "continuing care" or "life care." This concept offers seniors a life-style which is designed to meet their unique needs while allowing them the freedom to pursue their personal interests. Life care communities such as Edgewood encompass these important components: a private residence, a wide array of personal services, and the security of access to an on-site professional health center, known as The Meadows, all combined within a sound financial plan. Edgewood is a not-for-profit corporation that is committed to developing and managing a quality senior living community which is financially sound and genuinely responsive to resident needs.

One of the purposes of this Disclosure Statement is to explain to prospective residents, their families and their advisors, who and what is involved in the operation of Edgewood. This statement was prepared with the information available at the time of its publication and includes assumptions which were believed to be true as of the revised date. Such information and assumptions are, of course, subject to change particularly in the area of economics. Edgewood can be significantly affected by changes in inflation and interest rates, even though our projections are conservative and attempt to protect us from those influences. Because of these and other influences, future changes may be necessary, and ERCI reserves the right to make those changes as it deems appropriate.

Because nontechnical language has been used in this Disclosure Statement and it includes only summaries of the provisions of the involved documents, there may be differences between the text of this Disclosure Statement and the language of the Residency Agreement or other documents. Copies of the actual documents should be inspected to fully understand all of their terms and provisions, and those specific terms take precedence over the summaries in this Disclosure Statement. Capitalized terms used in this Disclosure Statement have the same meaning as given to them in the Residency Agreement.

**We are pledged to the letter and spirit of U.S. policy for achievement of equal housing opportunity throughout the Nation. We encourage and support an affirmative marketing and admissions program in which there are no barriers to obtaining housing because of race, color, religion, sex/gender, sexual orientation, disability/handicap, familial status or national origin.**

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# **I. THE PEOPLE**

## **EDGEWOOD RETIREMENT COMMUNITY, INC.**

Edgewood Retirement Community, Inc. ("ERCI" or the "Provider"), is a Massachusetts not-for-profit corporation organized for the purpose of owning and operating a life care senior living community in North Andover, Massachusetts (the "Community"). Its principal business address is 575 Osgood Street, North Andover, Massachusetts 01845. ERCI was incorporated on March 13, 1993 and has received recognition as an organization exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. No part of ERCI's earnings will be used for the benefit of, or be distributed to, its trustees or other private individuals. ERCI is not affiliated with any religious, charitable or other nonprofit organization. The Board of Trustees of ERCI currently consists of 15 members. Neither ERCI nor any persons involved in the management of Edgewood have any proprietary interest in Edgewood. The trustees and officers of ERCI are listed here:

Chair, Timothy L. Vaill, 9 Bancroft Road, Andover, Massachusetts 01810

Mr. Vaill holds a BS degree in Mathematics from Tufts University, an MBA in Finance from the Harvard Business School, and a Master's in Public Administration (MPA) from the Harvard Kennedy School. Formerly, he was the Chairman and Chief Executive Officer of Boston Private Financial Holdings, Inc., a publicly-held national financial services company. Currently, Mr. Vaill serves as Chairman of the Board of Directors for the ERCI and he is on the board of the Washington DC-based ICMA Retirement Corporation. He is also on the Investment Committee for MassPRIM—the State's pension fund. Since 2011 he has been the Chairman of the Economic Development Council for his home town of Andover, MA.

Vice Chair, Thomas E. Smith, 7 Cortland Circle, Dracut, Massachusetts 01826

Mr. Smith has a strong background in business, military, government, and academia. Mr. Smith was a Battalion Commander with the Patriot Air Defense artillery units during the Gulf War and is a retired US Army Colonel. He spent several years working at the Pentagon under the Office of the Chief of Staff and the Office of the Secretary of Defense. In addition, Mr. Smith worked as a Senior Manager at Computer Sciences Corporation and a Senior Manager at Raytheon Company. Mr. Smith is currently employed as a Principal Consultant for Eagle Eye Global.

Treasurer, Michael W. Hawkins, 38 Hemlock Shore Drive, Atkinson, N.H. 03079

Mr. Hawkins received a Bachelor's degree from University of Massachusetts. He has extensive experience managing financial operations and providing management information to key decision makers. He is currently working as the Chief Financial Officer of Resonetics, Inc.

Secretary, Rabbi Dr. Robert S. Goldstein, Temple Emanuel, 7 Haggets Pond Road, Andover, MA, 01810

Dr. Goldstein has been at Temple Emanuel since 1990. His education includes a Doctor of Ministry, Andover Newton Theological School; Rabbinic ordination, Hebrew Union College; M.A., Hebrew literature, Hebrew Union College/Jewish Institute of Religion; M.S., Clinical Psychology, American International College; and B.A., cum laude, Psychology/Religion, University of Massachusetts. Dr. Goldstein is a trustee at Lawrence General Hospital, a board member for the Merrimack Valley Hospice and a board member of the YMCA.

Gerard J. Foley, 6 Ridgefield Road, Winchester, Massachusetts 01890

Mr. Foley received his juris doctorate from Suffolk University Law School in 1984. He is currently the President and CEO at MI Nursing Restorative Center in Lawrence, MA after working for many years as the Vice President of Lawrence General Hospital also in Lawrence, MA. He is a licensed nursing home administrator. Mr. Foley has served on several health care boards of trustees.

Dennis C. Gillespie, 34 Lilac Lane, Haverhill, Massachusetts 01830

Mr. Gillespie holds a Bachelor of Science degree in hotel and restaurant management from the University of New Hampshire. Mr. Gillespie was the general manager at Merrimack College in North Andover for almost 20 years.

Elliot Hacker, 7 Cricket Circle, Andover, MA 01810

Mr. Hacker holds an MBA in Accounting from Northeastern University and a BA in Psychology from Bowdoin College. Mr. Hacker was the Director of Finance and Assistant Treasurer at Phillips Academy in Andover, Massachusetts for twenty years. Mr. Hacker served in the Army as a First Lieutenant.

Marlene Hoyt, 11 Wing Road, Lynnfield, MA 01940

Ms. Hoyt has attended Northeastern University in Boston and has an MBA in Financial Studies from the School of Management and Commercial Lending School at Babson College. She is the Senior Vice President and Construction Lending Manager at Enterprise Bank and Trust Company where she has been since 2001. Prior to that she was the Vice President and Loan Work-out/CRE/Construction Lender at Andover Bank/TD Bank from 1994 – 2001. She has also worked at The Savings Bank, Winchester Savings Bank and Stoneham Savings Bank and has experience as a Lending Consultant for residential lending as well as loan work out and real estate appraisal work. She serves on a number of Boards and Professional Organizations including serving as President for MVCC/Greater Lawrence Revolving Loan Fund.

Linda Kaloustian, 40 Appledore Lane, North Andover, MA 01845

Attorney Kaloustian graduated from the New England School of Law. She also has a BA in Psychology from Boston University and an R.N. from St. Vincent's Hospital and Medical Center School of Nursing in New York City. She worked as a nurse for 6 years with the most recent years at Massachusetts General Hospital. Currently, she has had her

own private practice in North Andover, MA since 1982. She has also served with Merrimack Valley Legal Services as well as with a number of Boards including past President of the Greater Lawrence Day Treatment Center for Adults as well as past Vice President of the Greater Lawrence Volunteer In service Program.

Donald P. Piccirillo, 166 North Policy Street, Salem, New Hampshire 03079

Mr. Piccirillo has earned a Bachelor of Science degree from the Whittemore School of Business at the University of New Hampshire in Durham. He has been employed at Jackson Lumber since 1982 holding a variety of positions including most recently working on Software Design and Development and as the Business Development Leader.

Bill Schirmer, 575 Osgood Street, Unit 6202, North Andover, MA

Mr. Schirmer graduated from Greensboro College with a B.S. in Biology and a minor in Psychology. He completed his graduate work at Wesleyan University and Boston College. He has worked as a phlebotomist and as a lab tech at Lee Memorial Hospital, Fort Myers, Florida as well as a Biology teacher in Salisbury, CT. He was the Science Department Chair at the Dana Hall School in Wellesley, MA and went on to teach at the Cambridge School of Weston in Weston, MA. In addition he worked as a broker in Real Estate for Coldwell Banker and owned and operated Hager House Antiques in Sudbury, MA.

Mary Wiggin-Loux, 18 Battis Road, Merrimac, Massachusetts 01860

Ms. Wiggin-Loux graduated from the University of Massachusetts at Lowell with a degree in Nursing Administration. She has been the director of patient operations at Lawrence General Hospital and most recently was the Associate Chief of Nursing at North Shore Medical Center. She is involved with the Northeast Council of Nurse Executives and is on the Board of Trustees with Central Catholic High School. In 2004, Ms. Wiggin-Loux received the Greater Lawrence YWCA Tribute to Women Award.



## **RESIDENTS' ASSOCIATION AND RESIDENT COUNCIL**

The residents of Edgewood have established a Residents' Association. The Residents' Association ("Association") has established a Resident Council ("Council"). The members of the Council are elected by the Association. The Council meets on a monthly basis. All residents are invited to attend regularly scheduled Association and Council meetings.

The purpose of the Association and Council is to represent the residents in relations with the Administration of Edgewood, to develop good fellowship among the residents, to promote and provide for the general welfare of the residents, and to assist the Edgewood Board of Trustees as appropriate.

## **ADMINISTRATION**

Edgewood is managed by a team of qualified executive employees with significant experience in senior housing. The responsibilities of Edgewood's executives include: preparing and adhering to annual budgets; maintaining a system of financial controls; implementing and overseeing clinical and safety protocols; compliance with applicable laws and regulations; hiring, training and supervising staff; and ensuring the highest possible level of services to Edgewood residents within the organization's financial means. Edgewood's executives consult with professional advisors, such as accountants, lawyers and health care providers, as necessary and appropriate. The Chief Executive Officer of Edgewood reports to its Board of Trustees.

Marlene Rotering served initially as Executive Director of Edgewood in August 1996 and in 2012 was hired as Edgewood's President and Chief Executive Officer. Formerly, Ms. Rotering was employed by Life Care Services for almost 21 years. Her career in senior housing management started in 1991, when she joined Life Care Services as an administrator-in-training. Ms. Rotering earned a Bachelor of Science Degree from the school of Business at Quinnipiac University and is licensed as a Nursing Home Administrator in Massachusetts. Marlene is a member of the Leading Age Board of Trustees of Massachusetts. She previously served on the Sisters of Mercy Board of Directors and participated as a member of the Boston Executive Board.

Jane Sullivan, Chief Financial Officer, joined Edgewood in August 2006. Ms. Sullivan's entire career has been spent primarily in Health Care. Prior to joining Edgewood, she was the Vice President of Operations for the New England Division of Home Health Corporation of America, Inc., a national home health, durable medical equipment company. Ms. Sullivan also held the position of Chief Financial Officer for Nursing Services, Inc. of Salem, New Hampshire. Prior to these roles, she was Director of Accounting for South Shore Hospital, South Weymouth, Massachusetts.

Natalie MacBrien, Chief Health Officer, considered an expert in quality assurance, team development and regulatory compliance, has more than 30 years of experience in the

long term care industry with 16 years as a Director of Nursing. Natalie spent 10 years at Edgewood as the Director of Nursing, where she and her team achieved multiple years of deficiency-free state surveys and developed a culture of excellence in resident-centered care. During her tenure at Edgewood she also developed and managed the Social Day and Resident Services programs at Edgewood. Natalie spent four years as a National Nurse Consultant and was responsible for risk management, education, oversight and regulatory compliance. Natalie returned to Edgewood in 2012 as the Chief Health Officer for the campus. Natalie is a past member of the Board of Directors for the Sisters of Mercy of the Warde Health Center in New Hampshire.

## **II. THE COMMUNITY**

## THE LOCATION

Edgewood is located on 100 acres bordering Lake Cochichewick, just north of the intersection of Osgood and Stevens Streets in North Andover, Massachusetts. The site is on Edgewood Farm and is largely preserved as open space.

## EDGEWOOD

Edgewood opened in March 1997 and consists of 217 residential apartment residences and 24 cottages. The cottages range from 1671 to 2470 square feet of living space. Each cottage has distinct features. The various apartment styles include: one-bedroom, one-bedroom classic, one-bedroom deluxe, one-bedroom with den, two-bedroom, two-bedroom custom, two-bedroom classic, two-bedroom deluxe, two-bedroom with den, two-bedroom deluxe with den, two-bedroom select, two-bedroom premier, two-bedroom premier deluxe, two-bedroom master with den, two-bedroom grand, and two-bedroom loft units. All residential buildings are connected by common corridors and elevators. The apartment residents have indoor access throughout Edgewood. All residences are equipped with safety features such as emergency nurse call signals in the bedrooms and baths, full sprinkler systems, smoke alarms and carbon dioxide alarms.

Edgewood includes a number of common spaces available to all residents. They include a formal dining room, a bistro, a private dining room, an indoor lounge, a living room, a card room, a veranda, guest suites, a library, a billiards room, an arts and crafts studio, an art gallery, a beauty/barber shop, a social day room, a bank, a convenience store, a woodworking shop, an auditorium, a Medicare certified clinic, a computer room, resident meeting rooms, an indoor, heated swimming pool and a fitness center.

The Meadows is the 60-bed health center that consists of private and semiprivate rooms, a physical therapy room, an arts and crafts therapy area, a dining room and a lounge. It has two branches. The Meadow View unit is for short term restorative or therapeutic care. The Garden View unit provides care for those with different types of memory loss in a skilled nursing environment.

In addition to the primary intent of Edgewood, which is to assure the residents of life care throughout their senior years, Edgewood's mission is to create and nurture an environment where the residents are architects of their own well-being. The design of the hub of the facility, The Club House, provides large areas for shopping, recreation, dining and social meeting rooms without detracting from the homelike environment of the individual units.

## **THE PERSONNEL**

In addition to the Chief Health Officer, Edgewood employs medical personnel including registered nurses, licensed practical nurses, nursing paraprofessionals and a nurse practitioner. A medical director and a dietitian are hired on a consulting basis and Edgewood has contracted the services of physical, occupational and speech therapists. Other employees include the marketing director, receptionists, the life enrichment director, the wellness specialist, a certified activities director for The Meadows, maintenance staff, groundskeepers, security personnel, housekeeping personnel, kitchen staff, dining room personnel, bookkeeping and administrative support and transportation personnel.

## **SERVICES AND AMENITIES**

A description of the services and amenities to be provided by Edgewood is attached as Exhibit A. In accordance with the terms of the Residency Agreement and in addition to providing a residence for lifetime use by the resident, Edgewood provides the following services and amenities: (1) maintenance and cleaning of the residence and commons spaces, (2) food service according to the terms of the Residency Agreement, (3) the services of a life enrichment director, (4) security, (5) scheduled local transportation services, (6) certain services in The Meadows, (7) a Resident Services program; (8) Care Management services and (9) various administrative services. Some of these services and amenities are provided for an extra charge and are not included in the Monthly Fee as described in the Residency Agreement.

Semiprivate accommodations and services in The Meadows (see The Meadows section for more details) will be available to all residents of Edgewood. With direction from his or her attending physician, a resident may be admitted directly to The Meadows from a residence or from the hospital. Residents who are able to do so are encouraged to return to their residences as soon as possible. Residents who are unable to return to their residence, however, have the benefit of permanent care in The Meadows.

Residents who do not require care in The Meadows, but who need additional personal services to continue occupancy in their residence, are eligible, at an extra charge, to receive services from the Resident Services program. This program is not provided by The Meadows nursing staff, but by other Edgewood staff members. Services such as bathing, dressing, shopping, escort, nursing services, Care Management and assistance with scheduling and travel to physician appointments are all made available to the residents under the Resident Services program.

## THE MEADOWS

Edgewood has an on-site Health Center known as The Meadows. It is licensed to provide skilled medical care and nursing services under the licensure requirements of the Commonwealth of Massachusetts. The Meadows is also Medicare certified. The Meadows consists of two (2) neighborhoods: Meadow View and Garden View.

The Garden View is a state certified Special Care Dementia Unit and is a Hearthstone-certified Center of Excellence for memory care. Meadow View is staffed predominantly to provide short term rehabilitation to its guests. First preference for admission is given to Edgewood Residents. Residents may be admitted directly to The Meadows from their residence with a physician's order and need not come from a hospital.

A physician is retained on a consulting basis to be the Medical Director. The Medical Director is responsible for medical supervision of The Meadows operations, quality of care and resident care planning.

If the medical team determines that a resident requires temporary skilled nursing care, such care will be provided at The Meadows at the same rate as if the resident were continuing to live in his or her residence. The Meadows staff, along with the resident's primary physician, will determine the appropriate level of nursing care required upon admission to The Meadows. As part of the determination, the resident's long-term ability to return to his or her residence will be evaluated. The nursing staff will provide an appropriate plan of care, the ultimate goal of which shall be, if at all possible, to return the resident to his or her residence as soon as possible.

A resident of Edgewood who is permanently assigned to The Meadows does not automatically release his or her residence. Each resident is free to make the determination as to when to release his or her residence under such circumstances. This gives residents the opportunity to maintain their private residences even after relocating to The Meadows. Upon release of the residence, each resident pays fees for care in The Meadows equal to the Monthly Fee applicable to the resident's current Monthly Fee.

Residents of Edgewood are provided with 90 days of cumulative care in The Meadows at no extra charge other than for extra meals and other services not covered by the Monthly Fee. After the resident has used 90 days of cumulative care, then the resident's Monthly Fee depends upon one of four different conditions outlined in detail in Section 6 of the Residency Agreement.

Regardless of whether a resident is temporarily or permanently assigned to The Meadows, the resident will be charged for: extra meals not covered by the monthly fee, medical treatment, medicine, drugs, prescribed therapy and other medical and miscellaneous supplies, equipment and services associated with the medical treatment.

Accommodations in The Meadows are provided in a semiprivate room. If a resident

desires an available private room, the resident may obtain a private room if available and will be required to pay the then- current difference between private and semiprivate room rates.

If emergency medical care is required, the resident's attending physician and the resident's family or personal representative will be notified. The resident is responsible for the charges for the services of his/her personal physician and for the charges for medication, therapy or various supplemental services.

Edgewood provides an Activities Director for the Meadow View neighborhood and a Certified Recreation Therapist for the Garden View neighborhood. Both are responsible for coordinating and directing the arts, crafts, social, and recreational activities for their units. The focus of the activities is appropriate to the individual patient care plan.

Visitors are encouraged. Likewise, residents will be allowed to visit their Edgewood residence with an escort as a part of the rehabilitation process and as specified in the resident's nursing care plan. If a volunteer escort is not available, the resident may hire one through Edgewood's Resident Services Department.

In the unlikely event The Meadows is fully occupied, the resident will be provided nursing care in a nursing care facility of comparable quality. To the extent Edgewood would be liable for the resident's care and accommodations in The Meadows under the Residency Agreement, Edgewood will be responsible for the charges associated with the alternate nursing care accommodations (excluding a Medicare stay) so long as the resident continues to pay the monthly fee until the resident returns to Edgewood.

The Residency Agreement (see Exhibit B) sets forth in greater detail the extent of health care provided and the terms for providing this care.

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### **III. THE PROPOSAL**

## **THE LIFE CARE CONCEPT**

The life care concept ensures an individual lifetime use of a residence, support services and long-term nursing care in an on-site health center if he or she is no longer capable of occupying his or her residence. This concept has grown as the result of the increasing number of seniors and the concern for providing alternatives to traditional senior living. At Edgewood, a resident pays an Entrance Payment consisting of a Down Payment and a Balance Payment and a one-time Capital Reserve Fee in accordance with the terms of the Residency Agreement executed by each resident. The resident begins paying a Monthly Fee on the earlier of (i) the date he or she moves into Edgewood, or (ii) within 90 days of signing a residency agreement for the resident's apartment or home. A resident who resides in a residence may relocate to The Meadows on a temporary or permanent basis.

## **THE RETURN-OF-CAPITAL™ PLAN**

The Life Care concept has evolved over the years in many ways. Probably the most dramatic change is the handling of the historical, one-time entrance fee, or "Entrance Payment". Originally the Entrance Payment became the property of the provider on the day the resident assumed occupancy. This appeared to some to be inequitable for an individual who was a resident for only a short time, despite the balancing effect for the very long-term resident. As a consequence, providers began offering partial repayments to estates of residents, based on a resident's term of residency. In other words, the provider "earned" the Entrance Payment over a period of time, until the repayment became zero.

Edgewood's Return-of-Capital™ residency agreement (the "Residency Agreement") provides residents with an opportunity to receive a partial repayment of the Entrance Payment. After occupancy - if the resident elects to leave, or in the event of the resident's death - the resident or resident's estate may be entitled to repayment of a portion of the Entrance Payment. The partial repayment is subject to the deductions specified in the Residency Agreement and will be paid after the resident's residence is reoccupied and payments are made by the new resident under a new Residency Agreement. A copy of the Return-of-Capital™ Residency Agreement is attached to this Disclosure Statement as Exhibit B.

In anticipation of meeting the needs of residents over time, ERCI recognizes the need to be able to update the Residency Agreement. Thus, ERCI reserves the right to offer to prospective residents revised forms of the Residency Agreement from time to time.

## **SUMMARY OF RESIDENCY AGREEMENT TERMS**

Upon deciding to become a resident of Edgewood, a future resident will execute a Residency Agreement to reserve the residence selected. The type of Residency Agreement depends upon the residence being reserved. When a prospective resident selects an apartment or cottage the appropriate Return-of-Capital™ Residency Agreement will be executed.

Residency Agreements are subject to acceptance by ERCI. At the time of signing a Residency Agreement, the resident's health must permit occupancy of a residence, as set forth in our Admissions Policy, unless ERCI waives this requirement in its discretion. After making the Entrance Payment, the resident must have sufficient financial resources to permit payment of the Monthly Fee, plus other personal expenses which may be reasonably expected, and to meet anticipated increases in the cost of living and increases in the Monthly Fee. ERCI may not cancel the Residency Agreement after it has accepted a resident, except for just cause as set forth in the Residency Agreement.

A summary of the Residency Agreement and terms of residency is set forth below. The summary explanation of the Residency Agreement contained in this Disclosure Statement is qualified by reference to the Residency Agreement (see Exhibit B) which will prevail in the event of any conflict between their specific terms and the summary below.

1. **Payment of Down Payment.** A resident is required to pay a Down Payment to ERCI at the time the resident signs a Residency Agreement (if there are two residents, a second person Down Payment is paid at the time the Balance Payment is paid) as outlined in Section 1.1.1 of the Residency Agreement.

2. **Repayment of Down Payment Prior to Occupancy.** Prior to occupancy, the Down Payment is fully repayable, without interest, if (i) ERCI does not accept a resident's application for residency; (ii) a prospective resident changes his or her mind within 14 days of signing a Residency Agreement; or (iii) due to death, injury, illness or incapacity the prospective resident cancels the Residency Agreement. In all other cases, if the resident changes his or her mind prior to occupancy, ERCI will retain from the Down Payment 1% of the full Entrance Payment and the balance will be repaid to the resident, without interest within 60 days from the date ERCI receives such notice of cancellation.

After occupancy, the Entrance Payment may be fully repayable, partially repayable, or non-repayable, as outlined in the Residency Agreement.

3. **Payment of Balance Payment.** A resident of an existing residence is required to pay the Balance Payment of the Entrance Payment to ERCI on the earlier of (i) within 90 days of the date the resident signs the Residency Agreement or (ii) the date the resident occupies the residence.

4. **Repayment of the Balance Payment.** The Balance Payment is repayable by Edgewood as set forth in Section 2 of the Residency Agreement.

5. **Payment of a One-Time Capital Reserve Fee.** A resident is required to pay a one-time Capital Reserve Fee to ERCI at the same time the resident pays the Balance Payment. The Capital Reserve Fee is equal to the then-current Monthly Fee and will be placed in a working capital account to be used only for purposes related to Edgewood.

6. **Repayment of the Capital Reserve Fee.** The Capital Reserve Fee is non-repayable.

7. **Payment of the Monthly Fee.** A resident is required to pay a Monthly Fee to ERCI during each month of his or her residency at Edgewood. For a more complete description of the Monthly Fee, see "Monthly Fee" on page 21 of this Disclosure Statement. The Monthly Fee is intended to be used by ERCI only for purposes related to Edgewood.

8. **Charges for Nursing Care Services in The Meadows.** Semiprivate nursing care will be provided in The Meadows without extra charge for 90 cumulative days (if there are two residents, 90 cumulative days for each resident, but the allowance cannot be combined and used by only one resident) except the resident will be responsible for the charges for extra meals not covered by the Monthly Fee and ancillary items and services.

After the resident receives 90 cumulative days of care in The Meadows, the charges for care in The Meadows will depend upon whether the resident releases his or her residence. A more detailed description of the care provided in The Meadows can be found in Section 6 of the Residency Agreement.

9. **Miscellaneous Extra Services and Charges.** Certain items and services are available for an extra charge such as additional meals not covered by the Monthly Fee, use of the beauty/barber shop, services provided by Resident Services as outlined in Section 5 of the Residency Agreement, and services not included in the Monthly Fee.

10. **Cancellation.** Cancellation rights are described in the Residency Agreement. Prior to occupancy, a Residency Agreement may be rescinded by the resident upon written notice of cancellation to ERCI in the circumstances described in items (ii) and (iii) of paragraph 2 above. In such event, the full amount of the Down Payment paid by the resident will be repaid within 60 days, without interest, less any nonstandard charges incurred by ERCI at the resident's request and as described in any addendum to the Residency Agreement. In the event of cancellation after occupancy, ERCI may retain the lesser of (i) the Down Payment or (ii) an amount equal to 1% of the Entrance Payment for each full or partial month of residency, with partial months to be prorated.

## **MANAGED CARE**

If the resident has chosen to participate in a managed care program as an alternative to Medicare Part A, Medicare Part B and supplemental insurance coverage, the terms governing care in The Meadows are as follows:

1. If The Meadows is a participating provider in the resident's managed care program and the resident's stay is a Medicare-qualified stay, The Meadows will accept, as full payment, reimbursement at the rate negotiated with the resident's managed care program. Such a managed care stay in The Meadows will not reduce the 90 cumulative days of care

that the resident is eligible to receive without extra charge pursuant to Section 6.1 of the Residency Agreement.

2. If The Meadows is not a participating provider in the resident's managed care program and the resident chooses to receive health care services at a managed care participating provider after a Medicare-qualified hospital stay, then the resident understands and agrees that he or she must relocate to a participating managed care provider for as long as necessary for those services to be provided, and must be responsible for all charges for those health care services. In addition, while receiving health care services at the managed care participating provider, the resident will continue to pay the Monthly Fee unless the Residency Agreement is cancelled. Such a Medicare-qualified stay at a managed care participating provider other than The Meadows will not reduce the 90 cumulative days of care that a resident is eligible to receive without extra charge pursuant to Section 6.1 of the Residency Agreement.

3. If The Meadows is not a participating provider in the resident's managed care program and the resident would still like to receive health care services in The Meadows during a Medicare qualified stay, ERCI will attempt to negotiate an acceptable reimbursement rate with the resident's managed care program. If The Meadows is able to negotiate an acceptable rate, The Meadows agrees to accept as full payment the rate provided by the resident's managed care program. Such a managed care stay in The Meadows will not reduce the 90 cumulative days of care that the resident is eligible to receive in The Meadows without extra charge pursuant to Section 6.1 of the Residency Agreement.

4. If The Meadows is not a participating provider in the resident's managed care program and a negotiated rate is not agreed upon and the resident would still like to receive health care in The Meadows during a Medicare-qualified stay, then each day of the resident's stay in The Meadows will reduce by one day the number of cumulative days of care that the resident is eligible to receive without extra charge pursuant to Section 6.1 of the Residency Agreement. During any Medicare-qualified stay in The Meadows, the resident will continue to pay the Monthly Fee and will also pay for the extra charges for extra meals not covered by the Monthly Fee, and the extra charges for medicine, drugs, prescribed therapy, medical treatment by physicians, nursing supplies and other medical and miscellaneous supplies and services associated with medical treatment. If at any time during any Medicare-qualified stay in The Meadows the resident is no longer eligible to receive any of the cumulative days of care provided for in Section 6.1 of the Residency Agreement, the resident will pay the per diem rate for the resident's care in The Meadows, and charges for medicine, drugs, therapy, medical treatment by physicians, nursing supplies and any other medical and miscellaneous supplies and services associated with medical treatment, in addition to continuing to pay the Monthly Fee.

5. At the conclusion of each Medicare-qualified stay, the resident will be entitled to care in The Meadows in accordance with the terms of the Residency Agreement other than as set forth above.

## **MONTHLY FEE**

For existing residences, the resident is required to pay the one-time Capital Reserve Fee and the Balance Payment on the earlier of either (i) within 90 days of the date the Residency Agreement is executed or (ii) upon the date of occupancy, as explained in the Residency Agreement. In addition, the resident will begin to pay the Monthly Fee as described in the Residency Agreement.

The amount of the Monthly Fee in effect at the time the Residency Agreement is executed will be clearly stated in the Residency Agreement. The total Monthly Fee is higher when a second person shares a residence. The amount of the Monthly Fee payable by all residents may be adjusted upon 30 days' written notice if Edgewood deems it necessary to meet the financial needs of operating Edgewood and/or providing services to residents. The Monthly Fee will not be adjusted more than once each year.

## **ESTATE PLANNING**

The Residency Agreement provides for payment of the Entrance Payment in two parts: the Down Payment and the Balance Payment. Pursuant to the Residency Agreement, a portion of the Entrance Payment may be repayable to a resident's estate upon the death of the resident (or the death of the surviving resident). If a resident is entitled to a repayment, such repayment will be paid, without interest, within 30 days of re- occupancy of the residence by a new resident and upon ERCI's receipt of the Entrance Payment from the new resident.

In the absence of any agreement between the residents of a double-occupied residence which has been provided to ERCI, the repayment will be repayable to the estate of the surviving resident. Residents of a double-occupied residence who wish to make other provisions as to whom the repayment would be repayable should consult with their attorney for an appropriate agreement. It is the responsibility of the resident to make ERCI aware of the existence of any such agreement and to provide a copy of the agreement to ERCI. No other rights under the Residency Agreement are assignable. A form for Assignment of Rights to Repayments is available for review by the resident or by the resident's financial or legal advisor upon request.

## **IV. FINANCIAL MATTERS**

## FINANCIAL STATEMENTS

Edgewood's fiscal year ends on December 31. Copies of the three most current certified financial statements (for 2015, 2014, and 2012/13) are attached as Exhibit D to this Disclosure Statement. Also attached as Exhibit E are unaudited interim financial statements as of March 31, 2016. It is important for future residents, their families, and their advisors to understand the financial basis on which Edgewood is developed and operates.

## FINANCING

Financing for Edgewood has been provided through various series of new money and refunding bonds issued by the Massachusetts Development Finance Agency in 1995, 2000, 2008 and 2013. Edgewood currently has two series of bonds outstanding: \$13,040,000 Massachusetts Development Finance Agency Revenue Bond, ERCI, Inc. Issue, Series 2013A (the "Series 2013A Bonds") and \$26,960,000 Massachusetts Development Finance Agency Revenue Bond, ERCI, Inc. Issue, Series 2013B (the "Series 2013B Bonds" and, with the Series 2013A Bonds, the "Series 2013 Bonds"). The Series 2013A Bonds are owned by Bank of America Public Capital Corp ("BAPCC") and mature on May 15, 2030, and have an interest rate based on 67% of One Month LIBOR plus 115 basis points through December 15, 2023. The Series 2013A Bonds are subject to mandatory tender by BAPCC on December 15, 2023, at which time Edgewood will either need to convert the Series 2013A Bonds to another interest rate or mode, refund the Series 2013A Bonds, or repay the Series 2013A Bonds in full. The Series 2013B Bonds are owned by Bank of America, N.A. ("BofA" and, with BAPCC, the "Bondowners"), will mature on May 15, 2039, and have an interest rate of 2.95% through December 15, 2023. The Series 2013B Bonds are subject to mandatory tender by BofA on December 15, 2023, at which time Edgewood will either need to convert the Series 2013B Bonds to another interest rate or mode, refund the Series 2013B Bonds, or repay the Series 2013B Bonds in full.

The Series 2013 Bonds were issued pursuant to two Loan and Security Agreements (collectively, the "Agreement") dated as of December 1, 2013, among the Massachusetts Development Finance Agency, as the issuer (the "Issuer"), Edgewood Community Retirement Community, Inc. ("Edgewood"), as the borrower, and BAPCC (Series 2013A Bonds) and BofA (Series 2013B Bonds). Pursuant to the Agreement, the Issuer has loaned to Edgewood the proceeds of the Series 2013 Bonds, the repayment of which is a general obligation of Edgewood to which its full faith and credit are pledged. As security for the Series 2013 Bonds, the Issuer has assigned to the Bond owners all of its rights, title and interest in and to, and remedies under, the Agreement, except for certain reserved rights. The Series 2013 Bonds are also secured by security interests in certain of Edgewood's personal property and a mortgage on its real estate.



Proceeds of the Series 2000 Bonds, together with other available funds of ERCI, have been used to: (1) advance refund the Issuer's \$14,650,000 Fixed Rate Revenue Bonds, ERCI Project, Series 1995A; (2) reimburse ERCI for a portion of the costs of developing and constructing Edgewood; (3) fund a Debt Service Reserve Fund for the Series 2000 Bonds; and (4) pay costs of issuance of the Series 2000 Bonds. The proceeds of the Series 2008 bonds have been used for: (i) the construction and furnishing of twenty-two (22) houses and two (2) apartment style residences (ii); the construction and equipping a new cognitively impaired unit consisting of forty (40) skilled nursing beds, which increased the total number of skilled nursing beds in The Meadows from forty-five (45) to sixty (60); and (iii) construction of a new wellness center, social day facility as well as an additional dining facility. Proceeds of the Series 2013 Bonds have been used to: (1) refund the Issuer's \$16,880,000 Variable Rate Revenue Refunding Bonds, Series 2000A;(2) refund the Issuer's \$41,080,000 aggregate principal amount of Variable Rate Revenue Bonds, Series 2008; (3) pay costs of issuance of the Series 2013 Bonds; and (4) pay the costs of renovating, furnishing and equipping portions of Edgewood's facility, including the auditorium, audio/visual equipment and fitness and locker room facilities.

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## **V. REGULATORY MATTERS**

## **CONTINUING CARE STATUTES**

Edgewood is subject to the provisions of Section 76 of Chapter 93 of the General Laws of the Commonwealth of Massachusetts regulating the sale of life leases and long-term leases in retirement homes (the "Statute"), which was enacted in 1982. Pursuant to the Statute, ERCI is required to deliver a Disclosure Statement to a prospective resident upon the earlier of a Residency Agreement being executed or the transfer of money or other property to ERCI. Copies of the Disclosure Statement and the Residency Agreement are required to be filed with the Executive Office of Elder Affairs.

## **LICENSURE OF THE MEADOWS**

The Meadows is currently licensed by the Massachusetts Department of Public Health for 60 beds to provide skilled nursing care and is required to pass yearly inspections to maintain skilled nursing licensure. The Meadows is Medicare Certified.

## **TAX DISCUSSION**

The signing of the Residency Agreement and payment of the Entrance Payment and Monthly Fee gives rise to certain unique tax considerations. The discussion below outlines the process which will be utilized to determine the percentage of the Entrance Payment and Monthly Fee that the resident may choose to deduct as a medical expense. The discussion below is not tax advice. Each resident is advised to consult with his/her personal tax advisor regarding the tax consequences associated with becoming a resident of Edgewood. ERCI is not a tax advisor and disclaims any responsibility for any tax advice relating to individuals becoming a resident of Edgewood.

## **MEDICAL EXPENSE DEDUCTION**

A resident of Edgewood may be allowed tax benefits associated with his or her residency at Edgewood. A percentage of the non-repayable portion of the Entrance Fee may qualify as a medical expense deduction in the year in which it is deemed finally paid. Also, a percentage of the Monthly Fee paid by a resident may qualify as a medical expense deduction each year. In February of each year, ERCI will issue a letter or statement to the residents stating the portion of the prior year's Monthly Fee that has been determined to be attributable to health related expenses at Edgewood. ERCI makes no representation as to whether a resident may properly deduct these expenses for income tax purposes. All deductions are subject to limitations imposed by the Internal Revenue Code of 1986, as amended. It is highly advisable that the residents seek the advice of their tax counsel before taking this deduction.

## **VI. EXHIBITS**

## **EXHIBIT A: DESCRIPTION OF SERVICES AND AMENITIES**

The services and amenities provided by Edgewood to residents are listed in the Residency Agreement, which governs all such obligations. To more fully explain the nature of these services and amenities, the following detailed description has been prepared. Subject to the terms of the Residency Agreements, these services and amenities may be modified by Edgewood from time to time to best meet the needs of Edgewood residents. Residents will be advised of any changes in these services and amenities through Edgewood's Residents' Association.

### **Activities (see Life Enrichment)**

#### **Ancillary Health Care Services**

Any health care services, whether or not ordered by a physician, which are not explicitly listed in the Residency Agreement as services and amenities provided to all residents which are included in the Monthly Fee, are regarded as ancillary health care services and if they are provided to a resident will be at an extra charge. A current schedule of charges for ancillary health care services will be available during normal business hours at Edgewood's administrative office.

#### **Beauty and Barber Shop**

A beauty and barber shop is located in the common area of Edgewood. The services provided by professional beauticians and barbers are available at an extra charge.

#### **Cable Television**

Each residence has cable jacks in various locations. Any cable or internet service is arranged by the resident and at the resident's expense.

#### **Culinary Services**

Culinary service is provided at two venues at Edgewood. The Bistro 575 offers a continental or full breakfast, lunch and dinner. The main dining room provides lunch and dinner. Menus include soup, salad, and choice of entrée, beverage and dessert. Main entrees are the same at lunch and dinner. Lighter fare is also available for lunch and dinner.

Temporary tray service for residents is provided through the Resident Services department upon order of the resident's physician. There is no extra charge to the resident for temporary tray service when ordered through the Resident Services Nurse Manager for a period of up to 3 days. For tray service after 3 days, there may be an extra charge. The services of the dietitian are provided to the residents on a consultant basis.

Residents must dress and conduct themselves in a socially acceptable manner in the dining room. Waited table service is provided in the dining room during set hours.

### **Emergency Call System**

All residences have an emergency call system in each bedroom and bathroom. The purpose of the system is to summon help in an emergency. The emergency call system is connected to an indicator panel in The Meadows which identifies the residence from which a signal is initiated. Edgewood personnel who have had emergency training will respond to calls from the emergency call system and will summon any other appropriate emergency services that might be required.

### **Extra Charges**

Other services and amenities may be provided to residents at an extra charge, which will be added to the monthly billing statement. Such services include, but are not limited to, guest accommodations, guest meals, beauty/barber shop services, additional resident meals not covered by the Monthly Fee, additional housekeeping, additional maintenance, extended Resident Services, and such other reasonable services and amenities as may be requested.

### **Financial Data**

Each year, ERCI provides a Disclosure Statement and the most current available certified financial statements for Edgewood to the residents, through Edgewood's administration office. Residents are informed of the budgeting process annually (reports and other data required under various statutes will be provided as requested).

### **Garages**

Underground garages are available to residents at an extra charge on a first-come, first-served basis. A copy of the Garage Space Agreement and current charges are available during normal business hours at the marketing office.

### **Grab Rails**

If additional grab rails are desired, installation must be arranged and paid for by the resident.

### **Gratuities**

Gratuities are not permitted, and employees who accept them will be subject to discharge. The residents of Edgewood have established an Employee Gift Fund which is dispersed to all employees during the holiday season. This Gift Fund has been established in lieu of tips for the employees' hard work and dedication to the residents.

### **Life Enrichment**

The Director of Life Enrichment is responsible for scheduling group events, day trips, in-house programs including arts, crafts, Edgewood Life Long Learning courses, repeating as well as one time only activities and the coordination of the fitness program.

### **Maintenance of the Residence**

Edgewood maintains all common areas and provides weekly housekeeping services. These services are included as part of the Monthly Fee. Housekeeping services include cleaning, dusting and vacuuming the interior of the residence, washing hard surface floors and windows (as needed). Carpets and ovens are cleaned approximately once a year and, at other times, spot cleaning is done. Furniture is moved once a year for cleaning hard-to-

reach areas. Extra cleaning is available for an additional charge.

### **Monthly Billing Statement**

A monthly billing statement outlining the Monthly Fee and any extra charges is placed in the resident's in house mailbox no later than the fifth business day of each month and is payable upon receipt. Payment may be made at the reception desk or through an automatic withdrawal set up through the accounting department.

### **Pets**

In recognition of the strong role pets currently play in the lives of some of Edgewood's residents, the following Pet Policy has been adopted by ERCI:

- (a) The opportunity for residents to keep pets is subordinate to the right of each resident to be free from any inconvenience created by other residents' pets. Pet owners are responsible for payment of charges for any damages to the residence, which may be deducted from any Entrance Fee repayment as set out in the Residency Agreement.
- (b) The maintenance of a pet at Edgewood is a revocable privilege and the determination of the CEO (or his/her designee) concerning the suitability of the pet and any permission or denial to keep the pet in the resident's residence shall be final. The animal shall be spayed/neutered, declawed and/or silenced if the CEO (or his/her designee) determines such is necessary to protect the rights or health or safety of other residents.
- (c) The resident shall be responsible for keeping the pet properly restrained and for cleaning up after the pet. The resident shall make arrangements for the care and treatment of the pet in the event of the resident's death or inability to care for the pet and shall notify Edgewood as to what arrangements have been made. The resident will restrict the pet's access to only those areas which are designated as areas in which pets are allowed.
- (d) In order to protect the residents of Edgewood, this policy is subject to revision.

### **Prescription Services**

Delivery service from several pharmacies is provided for a nominal fee for residents' convenience.

### **Private Dining Room/Lounge**

A private dining room/lounge is available for use by residents and their guests. Meals and wait staff are provided at an extra charge. Advance reservations are required.

### **Reception Desk**

A receptionist is on duty every day from approximately 8:00 a.m. to 8:00 p.m. Payments of monthly billing statements, as well as maintenance requests, postage, transportation and messages are handled at the reception desk.

### **Residents' Association**



Membership in the Residents' Association is open to all residents of Edgewood. Regularly scheduled Resident Council meetings are held to enable the residents to ask questions and to permit the administration and the Board of Trustees to communicate with the residents. These resident meetings are held monthly.

### **Resident Parking**

Surface parking and underground garage parking are available to the residents. Typically not all residents require parking; therefore, there is not a parking space for every residence. Designated visitor parking is available. An additional garage space fee is required for the underground garage parking. Garage spaces are assigned on a first come, first served basis.

### **Resident Services**

As the need developed in the operation of Edgewood, a program of additional personal services was implemented to serve the residents. This program's purpose is to provide assistance to residents so that residence occupancy can continue for as long as possible. This program will not be provided by The Meadows nursing staff, but by other hired and trained staff. Services such as dressing, shopping, escorting, and laundry will be made available to the residents for an extra charge.

### **Security**

Edgewood provides security personnel. For the residents' added safety, all resident entrance and exit doors (except the main entrances during the day) are locked 24 hours per day, requiring the residents to use a key to gain entrance.

**Skilled Nursing Care:** See section II - The Community, The Meadows

### **Smoking**

Edgewood retirement community is a smoke free campus. The campus included all buildings and grounds. This policy includes not only cigarettes and cigars but e-cigarettes, e-cigars or anything that can be smoked. Residents, staff, guests, vendors, contractors and all visitors must adhere to the Edgewood no smoking policy.

### **Telephone Service**

Each residence has wired jacks in various locations. Individual resident telephone service is the resident's responsibility and expense.

**The Meadows:** See section II - The Community, The Meadows

### **Transportation**

Bus and other transportation services are available, as scheduled, seven days a week. Areas of regularly scheduled transportation generally include shopping centers, medical and other professional offices and places of worship. Additional transportation may be provided for an extra charge to the resident.

**EXHIBIT B: RETURN of CAPITAL <sup>TM</sup> RESIDENCY AGREEMENT**



**RETURN-OF-CAPITAL<sup>™</sup>**  
**RESIDENCY AGREEMENT**

**05/03/16**

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## GLOSSARY

The following described terms are used in the accompanying Agreement. Reference to the Agreement and the context in which the terms are used is recommended to provide a fuller understanding of each of the terms.

**"Agreement"** refers to this Residency Agreement.

**"Admissions Policy"** refers to that policy implemented by Edgewood Retirement Community, Inc., which outlines the requirements of residency at Edgewood.

**"Capital Reserve Fee"** refers to the one-time non-repayable fee identified in Section 1.3 of the Agreement.

**"Down Payment"** refers to the portion of the Entrance Fee paid to us when you apply for a Residence and before it is ready for occupancy.

**"Edgewood"** refers that life care senior living community known as Edgewood, including all residences (houses and apartments), The Meadows, and all common areas.

**"Entrance Fee"** refers to the total of the Down Payment and the Refundable Amount identified in Section 1.1 of the Agreement and is payable in consideration for your Residence in Edgewood and for a room in The Meadows should you be transferred under Section 6 of the Agreement.

**"Monthly Service Fee"** refers to the Monthly Service Fee identified in Section 3.1 of the Agreement, which is payable in consideration for the services and amenities provided to all residents.

**"Occupancy"** refers to the earlier of (i) the date Resident moves, or the Resident's personal property is moved, into Edgewood,

or (ii) when the Resident acknowledges in writing its acceptance and intention to occupy the Residence and begins paying the Monthly Service Fee.

**"Non-Refundable Amount"** refers to the portion of the Entrance Fee which we will retain, and which equals the Down Payment subject to adjustments described in Sections 2.1 and 2.2 of the Agreement.

**"Refundable Amount"** refers to the portion of the Entrance Fee paid to us when you begin Occupancy of your Residence. This also represents the refundable portion of your Entrance Fee, subject to adjustments described in Sections 2.1 and 2.2 of the Agreement.

**"Residence"** refers to the apartment or house at Edgewood identified in Section 1.1 of the Agreement, which you are entitled to occupy in exchange for paying the Entrance Fee and the Monthly Service Fee pursuant to the Agreement.

**"Resident" or "you"** refers to the person or persons who sign the Agreement as Resident. Sometimes a second Resident (if there are two of you) is referred to in the Agreement as the "second person." Unless otherwise indicated, "you" refers to both of you if there are two of you.

**"Second Person Fee"** refers to the non-refundable fee for a second person payable upon Occupancy in addition to the Entrance Fee, as described in Section 1.2 of the Agreement.

**"The Meadows"** refers to the facility forming a part of Edgewood that provides private or semiprivate nursing accommodations for nursing care as identified in Section 6 of the Agreement.

**"We," "our," or "us"** refers to Edgewood Retirement Community, Inc., a nonprofit Massachusetts corporation, which is the owner and operator of Edgewood.



**EDGEWOOD RETIREMENT COMMUNITY, INC.**  
**RETURN-OF-CAPITAL™ RESIDENCY AGREEMENT**

**THIS RESIDENCY AGREEMENT** ("Agreement") is by and between Edgewood Retirement Community, Inc. (hereafter "we," "our," or "us"), the owner and operator of Edgewood, a life care senior living community located at 575 Osgood Street, North Andover, Massachusetts (hereafter "Edgewood") and \_\_\_\_ (the "Resident" or "you"). This Agreement describes the terms of your residency at Edgewood, and each of our respective rights and obligations.

**1. ENTRANCE FEE(S) AND ONE-TIME CAPITAL RESERVE FEE.**

**1.1 Entrance Fee.** To establish your residence in Edgewood, in accordance with all the terms of this Agreement, you will pay to us an Entrance Fee of \$\_\_\_\_. Your Entrance Fee is comprised of two components described below: (i) the Down Payment; and (ii) the Refundable Amount. When you pay us your Down Payment described in Section 1.1.1 below, we will reserve for you Edgewood Apartment/House No.\_\_\_\_(the "Residence") while we review your application for residence at Edgewood. If we accept your application, your payment of the Refundable Amount, any Second Person Fee (described below), and the Monthly Service Fee described in Section 3 entitles you to occupy the Residence for as long as you are capable of living there, and in The Meadows if you are no longer capable of living in the Residence, as described in our current Admissions Policy, all in accordance with the terms of this Agreement.

**1.1.1 Down Payment (Non-Refundable Amount).** You will pay a first person down payment of \$\_\_\_\_(the "Down Payment") to reserve the Residence when you sign this Agreement. The Down Payment equals \_\_\_\_percent (\_\_\_\_%) of your total Entrance Fee and will become non-refundable as described in Sections 2.1 and 2.2 below.

**1.1.2 Refundable Amount.** You will pay to us the difference between the total Entrance Fee and the Down Payment an amount of \$\_\_\_\_ (the "Refundable Amount") upon Occupancy. This amount equals percent (\_\_\_\_%) of your Entrance Fee and is refundable when you no longer are a resident as described in, and subject to the terms and conditions of, Section 2.2 below.

**1.2 Second Person Fee.** If there are two of you, you will pay us upon Occupancy an additional second-person fee of \$\_\_\_\_ (the "Second Person Fee"). The entire Second Person Fee becomes nonrefundable as described in Section 2.2 below.

**1.3 One-Time Capital Reserve Fee.** At the same time you pay the Refundable Amount, you will pay us an amount equal to your then-current Monthly Service Fee (as described in Section 3.1). This is a one-time non-refundable charge which we will place in a working capital reserve account to be used by us only for purposes related to Edgewood as described in Section 11.16.

## **1A. OCCUPANCY DATE**

**1A.1 Expected Occupancy Date.** At the time of signing this Agreement, it is expected that the Residence will be ready for occupancy by you on\_\_\_\_\_, 2016 (the “Expected Occupancy Date”).

**1A.2 Failure by Us to Have Residency Ready for Occupancy.** If we are unable to have the Residence ready for your Occupancy by the Expected Occupancy Date, then unless we agree in writing to extend the Expected Occupancy Date, this Agreement will be cancelled automatically.

**1A.3 Failure by You to Occupy Residence.** If we have the Residence ready for your occupancy by the Expected Occupancy Date and you fail to Occupy the Residence for any reason, then unless we agree in writing and at our discretion to extend the Expected Occupancy Date, this Agreement will be cancelled automatically.

## **2. REPAYMENT OF ENTRANCE PAYMENT.**

### **2.1 Cancellation Prior to Occupancy.**

**2.1.1 Non-Acceptance.** If prior to occupancy of the Residence and within 30 days after the date you sign this Agreement we do not accept you for residency at Edgewood, this Agreement will be cancelled automatically. In such event, we will repay the full amount of the Down Payment you have paid, without interest, as promptly as possible and no later than 45 days following cancellation.

**2.1.2 Cancellation Within 14 Days or Failure to Have Residence Ready to Occupy.** If prior to occupancy of the Residence, you change your mind and you give us written notice of cancellation within

14 days following the date you sign this Agreement, this Agreement will be cancelled automatically. In such event, or if this Agreement is canceled under Section 1A.2, we will repay the full amount of the Down Payment you have paid, without interest, less any nonstandard charges incurred by us at your request and as described in any addendum to this Agreement, no later than 45 days following the date we receive such notice of cancellation.

**2.1.3 Change in Condition.** If prior to occupancy of the Residence, (i) you (either of you if there are two of you) die or become unable to occupy your Residence because of illness, injury or incapacity or (ii) you elect to cancel this Agreement because of a substantial change in your physical, mental or financial condition, then upon our receipt of your written notice by registered or certified mail, this Agreement will be cancelled. In such event, we will repay to you or your legal representative the full amount of the Down Payment you have paid, without interest, less any nonstandard charges incurred by us at your request and as described in any addendum to this Agreement, no later than 45 days following the date we receive such notice of cancellation.

**2.1.4 Cancellation Prior to Occupancy for Other Reasons.** In all other situations, if you cancel this Agreement prior to occupancy of the Residence or if it is automatically canceled under Section 1A.3, we will retain as a service fee an amount equal to 1% of your full Entrance Fee and we will repay the balance of your Down Payment, without interest, less any nonstandard charges incurred by us at your request and as described in any addendum to this Agreement, no later than 45 days following the date we receive such notice of cancellation.

## **2.2 Cancellation After Occupancy.**

If after you move into the Residence, either of us cancels this Agreement pursuant to Section 7 or 8, or upon the death of the surviving Resident if there are two of you, we will retain an amount equal to 1% of the sum of your Entrance Fee and Second Person Fee (if any) for each full or partial month of residency up to the combined amount of the Down Payment and the Second Person Fee (if any). Partial months will be prorated. If you (or your estate) are entitled to a repayment of your Refundable Amount, we will make the payment, without interest, no later than 30 days following the re-occupancy of your Residence by the new resident and upon our receipt of the proceeds of the total then-current Entrance Fee paid by the new resident. Re-occupancy of your Residence by a new resident(s), our receipt of the new Entrance Fee, and your departure from Edgewood are conditions which must be met before you have a right to receive a repayment of your Refundable Amount. If you have moved to The Meadows, released your Residence which is re-occupied and we have received the new Entrance Fee as described above, then we will repay your Refundable Amount within 30 days following your death (or the death of the survivor if there are two of you) or other departure from Edgewood. Further, any such repayment amount also will be reduced and offset by the following:

**2.2.1** The amount of unreimbursed health care expenses (except the charges for services described in Section 4 of this Agreement) incurred by us for your care during the time you live in The Meadows;

**2.2.2** The amount of any Monthly Service Fee or other sums owed by you to us under this Agreement, or incurred by us pursuant to your specific request and set forth in a separate addendum;

**2.2.3** The amount of any Monthly Service Fee or other sums deferred by us on your behalf under Section 8.2; and

**2.2.4** All sums expended by us to remove alterations and restore your Residence to its original condition, reasonable wear and tear excepted.

## **3. MONTHLY SERVICE FEE.**

**3.1 Monthly Service Fee.** You will pay to us each month the current Monthly Service Fee which is \$\_\_\_\_\_per month for one person and an additional \$\_\_\_\_\_per month if there are two of you. The Monthly Service Fee is for the services and amenities provided under Section 4.

**3.2 Monthly Service Fee Changes.** We may adjust the amount of the Monthly Service Fee upon 30 days' written notice if, in our sole discretion, we deem it necessary to meet the financial needs of operating Edgewood or to provide the services to the residents (or without notice if such change in fee is required by local, state, or federal laws or regulations). We will provide you with an explanation of any adjustment to your Monthly Service Fee in the 30-day notice.

The following table shows the frequency and average dollar amount of changes in the Monthly Service Fee over the last 5 years. This is historical information and is not necessarily indicative of changes in the Monthly Service Fee which may be required in the future.

Year	Change in Monthly Fee	Frequency of Change	Average Dollar Increase
2016	3.7%	Annual	\$150
2015	3.5%	Annual	\$138
2014	3.5%	Annual	\$131
2013	3.9%	Annual	\$140
2012	3.9%	Annual	\$136

**3.3 Use of Monthly Fee.** The Monthly Service Fee will be used by us only for purposes related to Edgewood.

**3.4 Payment.** You will pay a pro rata portion of the Monthly Service Fee commencing within ten (10) days of the date of occupancy. Thereafter, such Monthly Service Fee will be billed and payable each month in advance. Any extra charges for additional services requested by you will be billed and payable each month for the additional services obtained during the preceding month.

**3.5 Cancellation of Second Person Monthly Fee.** If there are two of you who occupy the Residence and one of you dies or is permanently relocated to the Meadows under Section 6 below, then the second person Monthly Service Fee will cease and the person remaining in the Residence will continue to pay the first person Monthly Fee.

**4. SERVICES AND AMENITIES PROVIDED TO ALL RESIDENTS.** We will furnish at Edgewood, so long as you reside in a residence, the following services and amenities, which are included in the Monthly Fee:

**4.1** One meal per day in the dining room or Bistro 575;

**4.2** Water, sewer, air conditioning, heating and electricity;

**4.3** Maintenance and cleaning of the Residence and common spaces;

**4.4** Planned in-house activities (social, cultural and recreational) for those who wish to participate;

**4.5** Washers and dryers;

**4.6** Carpeting (except in kitchen and bath where there will be alternate floor covering);

**4.7** Complete kitchen including refrigerator, range/oven, microwave, garbage disposal, and dishwasher;

**4.8** Local transportation scheduled by us;

**4.9** Twenty-four hour emergency call system and emergency nursing services to your Residence;

**4.10** Nursing care in a semiprivate room at The Meadows, as specified in Section 6;

**4.11** Use of all common areas in Edgewood;

**4.12** Common use of uncovered, surface parking; and

**4.13** Twenty-four hour security.

**5. ADDITIONAL SERVICES PROVIDED FOR AN EXTRA CHARGE.** We will also make available at Edgewood, at your request and so long as you reside in a residence at Edgewood, at the then prevailing rates of extra charge:

**5.1** Additional meals over those provided in consideration for the Monthly Fee;

**5.2** Tray service to your Residence when ordered by the medical director or director of nursing services;

**5.3** Additional housekeeping;

**5.4** Resident Services (including, but not limited to, such items as assistance with bathing, dressing, transportation, escorting, personal shopping, social day program) as determined by evaluation to be appropriate for you.

**5.5** Guest rooms;

**5.6** Underground parking;

**5.7** Beauty parlor/barber shop;

**5.8** Services of the medical director not provided in consideration of the Monthly Fee;

**5.9** Nursing care in a private room at The Meadows, as available;

**5.10** Certain other services such as medicine, drugs, prescribed therapy, nursing supplies, and other medical and miscellaneous supplies and services, such as those provided at the Rokous Clinic, associated with medical treatment; and

**5.11** Other additional services and amenities as may be provided from time to time.

**6. THE MEADOWS.** If, after consultation with our medical director and your attending physician, your family or your personal representative, and you to the extent possible, we determine that you need

nursing care, you may be temporarily or permanently assigned to The Meadows. We will provide you with semiprivate nursing care services to the extent authorized by our license on the following terms:

**6.1 First 90 Days of Nursing Care.**

We will provide semiprivate nursing care services in The Meadows without extra charge for 90 cumulative days for you (90 days for each of you if there are two of you, but the allowance cannot be combined and used by only one of you), except that you will pay the extra charges for meals not covered by the Monthly Service Fee and for any additional health services as described in Sections 6.5 and 6.6. The Monthly Service Fee for your Residence will continue as before. After you have used the 90 cumulative days, you may choose to release or retain your Residence as described in Sections 6.2 and 6.3.

**6.2 More Than 90 Days of Nursing Care When There is One of You.** When there is one of you, and you require nursing care beyond the 90 cumulative days and you relocate to The Meadows, your Monthly Service Fee will depend upon whether you choose to release your Residence:

**6.2.1 Release Residence.** If you choose to release your Residence for occupancy by someone else, the Monthly Service Fee for your Residence will cease. The monthly charges for your semiprivate nursing care services in The Meadows will be equal to the then current Monthly Service Fee you were paying for your Residence. In addition, you will pay the extra charges for the extra meals not covered by the Monthly Service Fee and for any additional health services as described in Sections 6.5 and 6.6

**6.2.2 Retain Residence.** If you choose not to release your Residence for occupancy by someone else, you will continue to be charged the Monthly Service Fee for your Residence. You will also pay a separate monthly charge for your semiprivate nursing care services in The Meadows equal to the then current Monthly Service Fee you were paying for your Residence. In addition, you will pay the extra charges the extra meals not covered by the Monthly Service Fee and for any additional health services as described in Sections 6.5 and 6.6.

**6.3 More Than 90 Days of Nursing Care When There are Two of You.** When there are two of you, and only one of you requires nursing care beyond the 90 cumulative days and such Resident relocates to The Meadows, the monthly charge for the second person semiprivate nursing care services in The Meadows will be equal to the then current first person Monthly Service Fee you are paying for your residence. In addition, you will pay the extra charges for the extra meals not covered by the Monthly Service Fee and for any additional health services as described in Sections 6.5 and 6.6. The first person Monthly Service Fee for your residence will continue as before. If both of you require nursing care beyond the 90 cumulative days and both of you relocate to The Meadows, your Monthly Service Fee will depend upon whether you choose to release your Residence.

**6.3.1 Release Residence.** If you choose to release your Residence for occupancy by someone else, the Monthly Service Fee for your Residence, including the second person Monthly Service Fee will stop. The monthly charge for each of your semiprivate nursing care services in The Meadows will be equal to the then current

first person Monthly Service Fee you were paying for your Residence (i.e. if both of you relocate to the Meadows, you both will pay the first person Monthly Service Fee). In addition, you will pay for the extra charges for the extra meals not covered by the Monthly Service Fee and for any additional health services as described in Sections 6.5 and 6.6.

**6.3.2 Retain Residence.** If you choose not to release your Residence for occupancy by someone else, the Monthly Service Fee for your Residence, including the second person Monthly Fee, will continue. You each will also pay for your semiprivate nursing care equal to the then current Monthly Fee, including second person Monthly Fee, you were paying for your Residence. In addition, you will pay the extra charges for the extra meals per day not covered by the Monthly Service Fee and for any additional health services as described in Sections 6.5 and 6.6.

**6.4 Return to Residence.** If you have released your Residence because you have moved to The Meadows, and if we determine in consultation with your attending physician that you are later able to return to a residence, we will provide you a residence of the same type as your Residence as soon as one becomes available. Upon reoccupying such Residence, your Monthly Service Fee will be based on the then current Monthly Service Fee for that Residence.

**6.5 Additional Health Services.** We may also provide additional services and supplies in The Meadows such as therapy, pharmaceutical supplies, offsite dry cleaning, and rental of equipment. These additional services and supplies are not included in the Monthly Service Fee for the Residence or semi-private nursing care in

The Meadows, but will be available for an extra charge. Extra charges from such additional services will be used by us only for purposes related to Edgewood.

**6.6 Medical Director.** We will designate a physician licensed to practice medicine in the Commonwealth of Massachusetts as medical director. The medical director may be available to perform services at your own expense. You have the right to choose your own attending physician. You may engage the services of your attending physician at any time at your own expense. We will not be responsible for the charges for medical treatment by the medical director or your attending physician, nor will we be responsible for the charges for medicine, drugs, prescribed therapy, nursing supplies and similar additional services and supplies. If we incur or advance charges for your medical treatment or for medicine, drugs, prescribed therapy, nursing supplies and similar additional services and supplies (even though such medical care is given at the direction of your attending physician or the medical director without your prior approval), you will promptly reimburse us for such charges.

**6.7 Supplemental Insurance.** You will maintain Medicare Part A, Medicare Part B, and one supplemental health insurance policy or equivalent insurance coverage acceptable to us to assure your ability to fully cover a Medicare-qualified stay in The Meadows, and shall furnish to us such evidence of coverage as we may from time to time request. Such supplemental insurance should cover Medicare co-insurance and deductibles. Should your supplemental health insurance or equivalent coverage not fully cover a Medicare-qualified stay in The Meadows, or should you fail to purchase supplemental

health insurance or equivalent coverage to fully cover a Medicare-qualified stay in The Meadows, you shall be financially responsible for paying deductibles, co-insurance amounts, and any other charges for each Medicare-qualified admission and stay in The Meadows. If failure to maintain Medicare Part A, Medicare Part B, or supplemental health insurance causes depletion of your resources and impairs your ability to meet your financial obligations, we need not defer your financial obligations to us and we retain the right to revoke your right to reside at Edgewood and cancel this Agreement as provided in Section 8.

**6.8 Managed Care.** If you have chosen to participate in a managed care program as an alternative to Medicare Part A, Medicare Part B, and supplemental insurance coverage, then the terms governing nursing care in The Meadows will be as follows:

**6.8.1 Participating Provider.** If The Meadows is a participating provider with your managed care program and your stay is a Medicare-qualified stay, we agree to accept, as full payment, reimbursement at the rate negotiated with your managed care program. Such a managed care stay in The Meadows will not reduce the number of days of care that you are eligible to receive without extra charge pursuant to Section 6.1.

**6.8.2 Not a Participating Provider.** If The Meadows is not a participating provider with your managed care program and you choose to receive health care services at a managed care participating provider, during a Medicare-qualified stay, then you agree that you must relocate for as long as necessary for those services to be provided, and be responsible for all charges for those health care services. In addition,

while receiving health care services at the managed care participating provider, you agree that unless this Agreement is cancelled, you will continue to pay the Monthly Service Fee for your Residence. Such a Medicare-qualified stay at a managed care participating provider other than The Meadows will not reduce the number of cumulative days of care that you are eligible to receive without extra charge pursuant to Section 6.1.

**6.8.3 Negotiated Managed Care Rate.**

If The Meadows is not a participating provider in your managed care program and your stay is a Medicare-qualified stay, we will attempt to negotiate an acceptable reimbursement rate with your managed care program. If we are able to negotiate an acceptable rate, we agree to accept as full payment the rate provided by your managed care program. Such a managed care stay in The Meadows will not reduce the number of cumulative days of care that you are eligible to receive without extra charge pursuant to Section 6.1.

**6.8.4 No Negotiated Managed Care Rate.**

If The Meadows is not a participating provider in your managed care program and a negotiated rate is not agreed upon and you would still like to receive health care in The Meadows during a Medicare-qualified stay, then each day of your stay in The Meadows will reduce by one day the number of cumulative days of care that you are eligible to receive without extra charge pursuant to Section 6.1. During any such Medicare-qualified stay in The Meadows, you agree that you will continue to pay the Monthly Service Fee for your Residence and that you will also pay the extra charges for extra meals not covered by the Monthly Service Fee and the charges for medicine, drugs, prescribed therapy, medical treatment by

physicians, nursing supplies, and other medical and miscellaneous supplies and services associated with medical treatment. If at any time during any such Medicare-qualified stay in The Meadows you are no longer eligible to receive any of the cumulative days of care provided for in Section 6.1, then you agree to pay the per diem rate for your care in The Meadows, the charges for medicine, drugs, prescribed therapy, medical treatment by physicians, nursing supplies, and other medical and miscellaneous supplies and services associated with medical treatment, in addition to continuing to pay the Monthly Service Fee for your Residence.

**6.8.5 Post Medicare-Qualified Stay.**

At the conclusion of each such Medicare-qualified stay, you will be entitled to health care in The Meadows in accordance with the terms of this Agreement other than as provided in this Section 6.8, as adjusted to reflect any reduction during such stay in the number of cumulative days of care that you are eligible to receive without extra charge as provided in Section 6.1.

**6.9 Alternate Accommodations.**

Should you need nursing care, this care shall be provided in The Meadows. In the event The Meadows is fully occupied, you will be provided nursing care in another nursing care facility. Such health care accommodations may be provided in a semiprivate room unless a private room is medically necessary. Whether a private room qualifies as a medical necessity will be determined by us, in consultation with your attending physician, your family or your personal representative, and you to the extent possible. Upon your relocation, you will continue to be responsible for the charges set forth in Section 6 herein. To the extent we would be liable for your care and accommodations in The Meadows under this Agreement; we will be responsible for



the charges associated with the alternate nursing care accommodations (unless your stay in the alternate facility is a Medicare qualified stay). You agree to relocate to The Meadows when a bed becomes available.

**6.10 Absence from Edgewood.** In the event you are absent from Edgewood or you choose to receive care at another health care facility not designated by Edgewood, we shall not be responsible for health care charges incurred or credits provided for your care at that facility.

**6.11 Health Center Admission Agreement.** If you require nursing care in The Meadows, you agree to execute a separate Health Center Admission Agreement to be signed by you and us.

**6.12 Nonresident Use of The Meadows.** We intend to offer nursing services in The Meadows to qualified nonresidents for a fee to the extent beds are available. Residents will be given priority over nonresidents for admissions to The Meadows, and our policy will be to reserve beds for resident emergencies. Fees from qualified nonresidents will be used only for purposes related to Edgewood.

**6.13 Reimbursement of Entrance Fee.** If you (or both of you, if there are two of you) are permanently assigned to The Meadows, this does not qualify you for immediate reimbursement of your Entrance Fee. Repayment of your Entrance Fee will be as outlined in Section 2.2 of this Agreement.

## **7. YOUR CANCELLATION RIGHTS.**

**7.1 Prior to Occupancy.** You may cancel this Agreement for any reason at any time by giving us written notice of cancellation signed by you (both of you if

there are two of you). If you give such notice prior to your occupancy of Edgewood, the cancellation will be effective and your Down Payment will be handled as described in Section 2.1 above.

**7.2 After Occupancy.** After you assume occupancy, you may cancel this Agreement at any time by giving us 120 days' advance written notice signed by you (both of you, if there are two of you). You will continue to pay your Monthly Service Fee until the later of (i) the expiration of such 120 day notice period, or (ii) your vacancy of the Residence or The Meadows, and removal of all your furniture and other property from the Residence. If removal of your furniture and other property is not accomplished, we may remove and store your furniture and other property at the expense and risk of you or your estate. This Agreement will cancel on the later of (i) 120 days following the date you give us written notice of cancellation or (ii) the date you vacate your Residence or The Meadows and remove all your furniture and other property. Your Entrance Payment will be repaid in accordance with Section 2.2 above.

Upon your death (if there are two of you, the death of the survivor), you will continue to pay your Monthly Service Fee until the later of (i) your death (if there are two of you, the death of the survivor) or (ii) your vacancy of the Residence or The Meadows, and the removal of all your furniture and other property. If removal of your furniture and other property is not accomplished within 30 days of your death (or the death of the survivor, if there are two of you), we may remove and store your furniture and other property at the expense and risk of you or your estate. This Agreement will cancel on the later of (i) your death (if there are two of you, the death of the survivor) or (ii) the date you

vacate your Residence, or The Meadows and remove all your furniture and other property. Your Entrance Payment will be repaid in accordance with Section 2.2 above.

## **8. OUR CANCELLATION RIGHTS.**

**8.1 Just Cause.** After we have accepted you for residency, we will not cancel this Agreement except for just cause. Just cause is defined as:

**8.1.1 Nonpayment.** Except as set forth below, nonpayment of fees or charges;

**8.1.2 Threat to Health or Safety.** Health status or behavior which constitutes a threat to the health or safety of yourself, other residents, or others including your refusal to consent to relocation, or which would result in physical damage to the property of others;

**8.1.3 Change in Condition.** There is a major change in your physical or mental condition and your condition cannot be cared for in The Meadows within the limits of our license; or

**8.1.4 Noncompliance.** You do not comply with the terms of this Agreement or the published operating procedures, covenants, rules, regulations, and policies now existing or later adopted by us.

**8.2 Financial Difficulty.** If after you have paid the Entrance Payment and one-time Capital Reserve Fee you encounter financial difficulties making it impossible for you to pay the full Monthly Fee and extra charges appropriate for the Residence or for nursing care in The Meadows, then:

**8.2.1 Modification of Monthly Fee.** You will be permitted to remain at Edgewood for 120 days after the date of

failure to pay, during which time you shall continue to pay a reduced Monthly Service Fee based on your current income so long as (i) you establish facts to justify deferral of the usual charges, (ii) deferment of such charges can, in our sole discretion, be granted without impairing our ability to operate Edgewood on a sound financial basis for the benefit of other residents, and (iii) you have not impaired your ability to meet your financial obligations as described in Section 8.2.2; and

**8.2.2 Terms of Stay.** Because it is and shall be our declared policy to operate as a nonprofit organization, we will not cancel your residency solely because of your financial inability to pay the full Monthly Fee. You shall be permitted to remain at Edgewood at a reduced Monthly Service Fee based on your ability to pay for so long as you establish facts to justify deferral of the usual charges, and when deferment of such charges can, in our sole discretion, be granted without impairing our ability to operate Edgewood on a sound financial basis for the benefit of other residents. This provision shall not apply if you have impaired your ability to meet your financial obligations hereunder by making unapproved gifts or other transfers. To evidence these agreements based on the circumstances at the time, you agree to enter into a special hardship agreement with us at the time of any such deferrals, to reflect the reduced charges currently payable and the interest rate to be applied to the deferrals, and to provide us with a perfected first security interest in your repayment rights. Any payments otherwise due to you from us, including your repayment rights, will be offset against any such deferred charges.

**8.3 Notice of Cancellation.** Prior to any cancellation of this Agreement by us, we will give you notice in writing of the

reasons. You will have 30 days after this notice within which the problem may be corrected. If we determine that the problem is not corrected within such time, you must leave Edgewood within 30 days after we notify you of our determination. You will continue to pay the Monthly Service Fee and any extra charges you incur until removal of your furniture and other property from the Residence has occurred. If removal of your furniture and other property is not accomplished within 30 days, we may remove and store your furniture and other property at the expense and risk of you or your estate. This Agreement will cancel upon removal of your furniture and other property from the Residence. Your Entrance Payment will be repaid in the amount and in the manner described in Section 2.2 above.

#### **8.4 Emergency Cancellation.**

Notwithstanding the above, if we or the medical director determine that either the giving of notice or the waiting period described above might be detrimental to you or others, then such notice and/or waiting period shall not be required before relocation to an appropriate hospital or other appropriate facility. Under such circumstances, we are expressly authorized to transfer you to a hospital or other appropriate facility, and we will promptly notify your family or your personal representative and your attending physician. After transferring you to such hospital or other facility, we will provide you with a notice of cancellation if you will be unable to return to The Meadows or to Edgewood.

We are not responsible for any charges related to such transfer or relocation. You will continue to pay the Monthly Service Fee and any extra charges you incur until removal of your furniture and other property. If removal of your furniture and other property is not accomplished, we may

remove and store your furniture and other property at the expense and risk of you or your estate. This Agreement will cancel upon the removal of your furniture and other property from the Residence. Your Entrance Payment will be repaid in accordance with Section 2.2 above.

If there are two of you under this Agreement and one of you is transferred to a hospital or other appropriate facility under the circumstances described in this section, the other of you may continue to occupy the Residence or The Meadows under the terms of this Agreement.

### **9. MISCELLANEOUS PROVISIONS WITH RESPECT TO YOUR RESIDENCE.**

**9.1 License for Use of the Residence.** The Residence is for living only and shall not be used for carrying on any business or profession, nor in any manner which violates zoning or other land use restrictions. This Agreement is not a lease, and grants you only a license to the lifetime use of the Residence and other amenities of Edgewood and to available services, subject to the terms and conditions of this Agreement.

**9.2 Duration of Your Right to Occupy the Residence.** You may reside in your Residence for as long as you (or either of you, if there are two of you) live, unless you (or both of you) are not capable of independent living as set forth in our Admissions Policy, or this Agreement is cancelled by you or by us. If after consultation with our medical director, your attending physician, your family or your personal representative, and you to the extent possible, we determine that your physical or mental health requires that you require nursing care, you agree to relocate

to The Meadows where we are licensed to provide such care or to alternate accommodations as provided in Section 6.

### **9.3 Occupants of the Residence.**

Except as hereinafter provided, no person other than you (or both of you, if there are two of you) may occupy the Residence except with our express written approval. In the event that a second person who is not a party to this Agreement wishes to be accepted for residency under this Agreement after the date we sign this Agreement (said acceptance to be in accordance with our then current Admissions Policy), you shall pay the then current second person Entrance Payment as determined by us, and each month thereafter you shall pay the then current additional Monthly Service Fee for second persons. If such second person does not meet the requirements for residency, such second person will not be permitted to live in the Residence for more than 30 days (except with our express written approval), and you may cancel this Agreement as provided in Section 7.

**9.4 Emergency Entry and Relocation.** We may enter your Residence should it be necessary in an emergency to protect your health, safety or property of yourself or other residents. If it is necessary to modify facilities to meet requirements of any applicable law or regulation that necessitates temporary vacation of your Residence, we will provide alternate facilities for you without extra charge within or outside Edgewood. Further, if relocation is recommended by the medical director or your attending physician, we will request that you relocate to another residence within Edgewood or to The Meadows for the protection of your health and safety, or the health or safety of the other residents of Edgewood.

**9.5 Furnishings.** Furnishings within the Residence will not be provided by us except as stated in Section 4. Furnishings provided by you shall not be such as to interfere with the health, safety or general welfare of yourself, other residents, or others.

**9.6 Alterations by You.** You may not undertake any alterations to your Residence without our prior written approval.

**9.7 Refurbishment.** Customary and normal refurbishment charges for your Residence will be borne by all residents of Edgewood. Any necessary refurbishment charges beyond those that are customary and normal will be paid by you.

**9.8 Guests.** No one other than you (both of you, if there are two of you) shall have a right of occupancy in the Residence without the prior consent of the President and CEO, unless otherwise permitted pursuant to guest policies established by us. The intent of the policies is to permit stays of short duration by your guests where such stays shall not, in the opinion of the President and CEO, adversely affect the operation of Edgewood or be inconsistent with the welfare of other residents.

## **10. AMENDMENTS.**

**10.1 This Agreement.** This Agreement may be amended by agreement of the parties to this Agreement. No amendment of this Agreement shall be valid unless in writing and signed by you and us.

**10.2 Compliance with Laws.** This Agreement may be modified unilaterally by us at any time in order to comply with applicable laws or regulations.

## **11. MISCELLANEOUS LEGAL PROVISIONS.**

**11.1 Governing Law.** This Agreement will be governed, interpreted, and construed according to the laws of the Commonwealth of Massachusetts and will become effective upon acceptance and execution by us. The Glossary, which sets forth the definitions of certain terms used in this Agreement, is by this reference incorporated herein and made a part of this Agreement.

**11.2 Separability.** The invalidity of any restriction, condition, or other provision of this Agreement, or any part of the same, shall not impair or affect in any way the validity or enforceability of the rest of this Agreement.

**11.3 Capacity.** This Agreement has been executed on our behalf by our duly authorized agent, and no officer, director, agent, or employee shall have any personal liability to you hereunder under any circumstances. This Agreement will become effective upon acceptance and execution by us.

**11.4 Resident.** When Resident consists of more than one person, the rights and obligations of each are joint and several, except as the context otherwise requires.

**11.5 Nature of Rights.** You understand and agree that (i) this Agreement or your rights (including the use of the Residence) may not be assigned and no rights or benefits under this Agreement shall inure to the benefit of your heirs, legatees, assignees, or representatives, except for your repayment rights; (ii) this Agreement and your contractual right to occupy the Residence shall exist and continue to exist during your lifetime unless cancelled as provided herein; (iii) this Agreement grants you a revocable

license to occupy and use space in Edgewood but does not give you exclusive possession of the Residence as against us, and you shall not be entitled to any rights of specific performance but shall be limited to such remedies as set forth herein; (iv) this Agreement is not a lease or easement and does not transfer or grant you any interest in real property; and (v) this Agreement grants to us complete decision-making authority regarding the management and operation of Edgewood and in the determination of the Monthly Fee, Entrance Payment and other charges.

**11.6 Release.** We are not responsible for loss of or damage to your personal property, and you hereby release us from any such liability. You may want to obtain at your own expense insurance to protect against such losses.

**11.7 Indemnity.** We will not be liable for, and you agree to indemnify, defend, and hold us harmless from claims, damages, and expenses, including attorneys' fees and court charges, resulting from any injury or death to persons and any damages to property to the extent caused by, resulting from, attributable to, or in any way connected with your negligent or intentional act or omission, or that of your guests.

**11.8 Entire Agreement.** This Agreement and any addenda or exhibits hereto contain our entire understanding with respect to your residency.

**11.9 Non-Waiver.** If we fail to insist in any instance upon performance of any of the terms, covenants, or conditions of this Agreement, it shall not be construed as a waiver or relinquishment of the future performance of any such terms, covenants, or conditions, but your obligations with

respect to such future performances shall continue in full force and effect.

**11.10 Subordination.** You agree that all your rights under this Agreement shall at all times be subordinate and junior to the lien of all mortgages or other documents creating liens encumbering Edgewood, which have been or will be executed by us. Upon request, you agree to execute, acknowledge and deliver to such lender or lenders such further written evidence of such subordination as such lenders may reasonably require. Except to the extent of your obligations to pay the Entrance Payment, Monthly Fee, extra charges, or any other charges under this Agreement, you will not be liable for any such indebtedness.

**11.11 Residents' Association.** Residents shall have the right to organize and operate a Residents' Association at Edgewood and to meet privately to conduct business of the Residents' Association. It is our policy to encourage the organization and operation of a Residents' Association.

**11.12 Reimbursement of Charges.** You agree to reimburse us for any charges we incur to collect any unpaid amounts you owe to us under this Agreement.

**11.13 Arbitration.** You agree that any dispute, claim, or controversy of any kind between you and us arising out of, in connection with, or relating to this Agreement and any amendment hereof, or the breach hereof, which cannot be resolved by mutual agreement or in small claims court, will be submitted to and determined by arbitration in North Andover, Massachusetts in accordance with the Federal Arbitration Act and the then current commercial arbitration rules of the Federal Arbitration Act. You and we will jointly agree on an arbitrator and the arbitrator will

be selected according to the procedure set forth in state law, if applicable. In reaching a decision, the arbitrator shall prepare findings of fact and conclusions of law. Any direct arbitration costs incurred by you will be borne by you. Costs of arbitration, including our legal costs and attorneys' fees, arbitrators' fees, and similar costs, will be borne by all residents of Edgewood provided that the arbitrator may choose to award the costs of arbitration against us if the arbitrator determines that the proposed resolution urged by us was not reasonable. If the issue affects more than one resident, we may elect to join all affected residents into a single arbitration proceeding, and you hereby consent to such joinder.

You may withdraw your agreement to arbitrate within 30 days after signing this Agreement by giving written notice of your withdrawal to us. This arbitration clause binds all parties to this Agreement and their spouses, heirs, representatives, executors, administrators, successors, and assigns, as applicable. After cancellation of this Agreement, this arbitration clause shall remain in effect for the resolution of all claims and disputes that are unresolved as of that date.

**11.14 Your Representations.** By executing this Agreement you represent and warrant to us the following:

**11.14.1** You will be at least 62 years of age, or will be residing with a resident of Edgewood who is at least 62 years of age;

**11.14.2** You are capable of living in a residence as defined in our Admissions Policy;

**11.14.3** You have assets and income which are sufficient under foreseeable circumstances and after provision for

payment of your obligations under this Agreement to meet your ordinary and customary living expenses after you move into Edgewood (this is a requirement of entrance, unless waived by us in writing and after full disclosure by you of the circumstances);

**11.14.4** All written representations made to us with respect to such matters by you or on your behalf on the Confidential Data Application, and all facts stated by you in your application for residency or otherwise are true and complete; and

**11.14.5** You have not made any gift of your property in contemplation of signing this Agreement.

**11.15 Our Representations.** We represent and warrant to you that we are a nonprofit corporation organized for the purpose of owning and operating Edgewood.

**11.16 Reserve Account.** To provide reserve funding and security to enable us to fully perform our obligations under this Agreement, we have established a Capital Reserve Account pursuant to Section 1.2, and we will establish any other reserves required by law as it may be amended from time to time. The reserves are invested under our control and direction in investments that are dedicated to the support and financial security of Edgewood. Upon the advice of Edgewood's professional registered investment advisor, which currently is Prime Buchholz & Associates, the amounts in the reserve account will be invested in accordance with Edgewood's investment policy, which presently requires at least 70% of its investments to be in fixed debt obligations of the United States or its agencies (or in shares of a registered investment company which holds a portfolio of such securities) in such certificates of

deposit, commercial paper, U.S. government paper, or other similar investments, and the remaining 30% or less in equities.

**11.17 Adjustments for Absences.** No fee adjustments for your absences from Edgewood will be made, except at our sole discretion.

**11.18 Personal Representative.** You agree to execute and deliver to us at or before assuming residency in your Residence a Durable Power of Attorney, trust documents, or other documentation naming a personal representative for personal and financial decision-making. These documents should be drafted to remain effective notwithstanding your incompetence or disability, in form acceptable to us. You shall keep such instrument in effect as long as this Agreement is in effect. The person named as your representative shall not be a person employed by us or any other entity engaged in the management of Edgewood.

**11.19 Private Employees of Resident.** If you need additional services, you can obtain these needed services from a private employee, an independent contractor, or through an agency ("Personal Service Provider"). In such instances, we strongly advise you to obtain these needed services from a licensed and/or certified home health agency. In any event, you must comply with our policy regarding Personal Service Providers and ensure that your private employee, independent contractor, or person you employ through an agency complies with our policies and rules of conduct set forth in a personal service provider policy. If you fail to follow or enforce the policies and rules set forth in the policy, then we may elect at our sole option to terminate this Agreement.

**11.20 Notices.** Any notice required to be given to us under this Agreement shall be in writing and sent certified mail or hand-delivered to the President and CEO of Edgewood at 575 Osgood Street, North Andover, Massachusetts 01845.

**11.21 Transfers.** We may sell or transfer our interest in Edgewood provided the buyer shall agree to assume this Agreement and all other existing residency agreements. Upon the assumption of this Agreement by a buyer of Edgewood and buyer's agreement to perform this Agreement and all other agreements, we will have no further obligation hereunder. Your signature hereto constitutes your consent and approval of any such future transaction.

**11.22 Survival of Representations and Obligations.** Your representations and obligations under this Agreement, including but not limited to, your obligation to pay all sums owed by you to us, and your agreement to indemnify us as set forth in Section 11.7, and our representations and obligations under this Agreement, shall survive any cancellation or termination of your residency in Edgewood, regardless of the reason for such cancellation or termination and regardless of whether it is initiated by you or by us.

**11.23 Acknowledge of Receipt of Documents.** You certify that you received a copy of this Agreement and a copy of our most current Disclosure Statement, and had an opportunity to discuss it with your family and/or advisors, prior to signing this Agreement.

Executed at North Andover, Massachusetts  
this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

\_\_\_\_\_  
**RESIDENT**

\_\_\_\_\_  
Witness

\_\_\_\_\_  
**RESIDENT**

\_\_\_\_\_  
Witness

**EDGEWOOD RETIREMENT  
COMMUNITY, INC.  
d/b/a Edgewood**

By \_\_\_\_\_  
Authorized Representative

Residence Type: \_\_\_\_\_  
Residence Number: # \_\_\_\_\_  
Down Payment: \$ \_\_\_\_\_  
Balance Payment: \$ \_\_\_\_\_  
Monthly Fee: \$ \_\_\_\_\_



5/3/16  
ROC Residency Agreement (Apartment/House) (05-03-16)



**EXHIBIT C: CERTIFIED FINANCIAL STATEMENTS**

**YEARS ENDING DECEMBER 31 - 2015/2014, 2012/13**

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# **Edgewood Retirement Community, Inc.**

Financial Report  
December 31, 2015

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USLLP

## Independent Auditor's Report

Board of Trustees  
Edgewood Retirement Community, Inc.  
North Andover, Massachusetts

### Report on the Financial Statements

We have audited the accompanying financial statements of Edgewood Retirement Community, Inc. (the "Community") which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in net assets (deficit), 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.

### 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 Community'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 Community'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 Edgewood Retirement Community, Inc. as of December 31, 2015 and 2014, and the changes in its net assets 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*

Boston, Massachusetts  
March 28, 2016

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**Edgewood Retirement Community, Inc.**

**Balance Sheets**

**December 31, 2015 and 2014**

	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,236,888	\$ 4,294,521
Accounts receivable- Health Center, net (Note 3)	1,221,086	1,369,674
Accounts receivable - residents	387,483	390,860
Accounts receivable - other	1,393	42,873
Prepaid expenses	282,955	477,808
Supplies inventory	69,831	62,644
<b>Total current assets</b>	<b>8,199,636</b>	<b>6,638,380</b>
Long-term assets:		
Investments (Note 2)	18,233,490	14,946,642
Assets limited as to use (Note 4)	140,329	2,469,386
Property and equipment, net (Note 6)	76,185,095	75,802,100
Deferred expenses, net (Notes 5 and 7)	1,286,906	1,554,167
<b>Total long-term assets</b>	<b>95,845,820</b>	<b>94,772,295</b>
<b>Total assets</b>	<b>\$ 104,045,456</b>	<b>\$ 101,410,675</b>
<b>Liabilities and Net Assets (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 533,424	\$ 537,630
Accrued liabilities:		
Payroll and compensated absences	933,807	822,179
Interest	40,085	40,402
Other	241,414	269,391
Current portion of bonds payable (Note 8)	1,039,000	1,004,000
Refundable deposits (Note 10)	944,268	625,118
Deferred revenue - Health Center	64,090	31,934
<b>Total current liabilities</b>	<b>3,796,088</b>	<b>3,330,654</b>
Long-term liabilities:		
Entrance fee liabilities:		
Health Center- permanently assigned residents	5,093,940	4,452,834
Refundable entrance fees	81,088,034	77,641,883
Deferred entrance fees	7,306,987	6,796,054
Total long-term entrance fee liabilities	93,488,961	88,890,771
Interest rate swap instrument (Notes 2 and 9)	919,006	985,017
Bonds payable, net of current portion (Note 8)	36,971,000	38,010,000
<b>Total long-term liabilities</b>	<b>131,378,967</b>	<b>127,885,788</b>
<b>Total liabilities</b>	<b>135,175,055</b>	<b>131,216,442</b>
Commitment (Note 16)		
Unrestricted net deficit	(31,203,925)	(29,856,357)
Temporarily restricted net assets (Note 12)	71,676	47,940
Permanently restricted net assets (Notes 13 and 14)	2,650	2,650
<b>Total net deficit</b>	<b>(31,129,599)</b>	<b>(29,805,767)</b>
<b>Total liabilities and net deficit</b>	<b>\$ 104,045,456</b>	<b>\$ 101,410,675</b>

See notes to financial statements.

Edgewood Retirement Community, Inc.

Statements of Operations

Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted revenues and other support:		
Net resident service revenue, independent living unit	\$ 14,964,985	\$ 13,603,003
Entrance fees earned and cancellation penalties	1,250,617	1,061,085
Net resident service revenue, Health Center fees	5,774,071	5,912,554
Net assets released from restrictions (Note 15)	<u>189,818</u>	<u>178,407</u>
Total unrestricted revenues and other support	<u>22,179,491</u>	<u>20,755,049</u>
Expenses (Notes 5, 11 and 17):		
General and administrative	3,894,750	4,000,832
Plant operations	2,893,107	2,756,348
Environmental services	898,533	877,112
Culinary services	3,115,531	3,063,593
Nursing	4,878,490	4,473,290
Resident care services	2,663,670	2,526,677
Wellness	277,601	326,885
Depreciation	3,362,315	3,319,827
Amortization	267,261	227,315
Interest	<u>1,244,553</u>	<u>1,275,098</u>
Total expenses	<u>23,495,811</u>	<u>22,846,977</u>
Loss from operations	(1,316,320)	(2,091,928)
Unrestricted nonoperating gains (losses):		
Investment income	274,410	238,996
Gain on disposal of fixed assets		4,609
Realized gains on investments	90,932	205,534
Gain (loss) on interest rate swap instrument (Note 9)	66,011	(208,324)
Other income		<u>225,186</u>
Total unrestricted nonoperating gains	<u>431,353</u>	<u>466,001</u>
Deficit of revenues over expenses	(884,967)	(1,625,927)
Other changes in unrestricted net assets:		
Unrealized losses on investments	(462,601)	(42,303)
Change in unrestricted net assets	\$ (1,347,568)	\$ (1,668,230)

See notes to financial statements.

Edgewood Retirement Community, Inc.

Statements of Changes in Net Assets (Deficit)  
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted net assets:		
Loss from operations	\$ (1,316,320)	\$ (2,091,928)
Unrestricted nonoperating gains	431,353	466,001
Other changes in unrestricted net assets	(462,601)	(42,303)
Decrease in unrestricted net assets	<u>(1,347,568)</u>	<u>(1,668,230)</u>
Temporarily restricted net assets:		
Contributions	213,554	188,251
Net assets released from restrictions (Note 15)	<u>(189,181)</u>	<u>(178,140)</u>
Increase in temporarily restricted net assets	<u>23,736</u>	<u>9,844</u>
Change in net assets	(1,323,832)	(1,658,386)
Net deficit at beginning of year	<u>(29,805,767)</u>	(28,147,381)
Net deficit at end of year	<u>\$ (31,129,599)</u>	<u>\$ (29,805,767)</u>

See notes to financial statements.



Edgewood Retirement Community, Inc.

**Statements of Cash Flows**

**Years Ended December 31, 2015 and 2014**

	2015	2014
Cash flows from operating activities:		
Change in net assets	<u>\$ (1,323,832)</u>	<u>\$ (1,658,386)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,629,576	3,547,142
Gain on disposal of fixed assets		(4,609)
Net unrealized and realized losses (gains) on investments	371,669	(163,231)
(Gain) loss on interest rate swap instruments	(66,011)	208,324
Amortization of entrance fees	(1,250,617)	(1,061,085)
Proceeds from nonrefundable entrance fees	1,761,300	1,444,818
Change in accounts receivable	193,445	50,013
Change in prepaid expenses	194,853	(187,407)
Change in supplies inventory	(7,187)	3,230
Change in accounts payable	(46,454)	77,247
Change in accrued liabilities	83,334	117,596
Change in deferred revenue	32,156	(3,622)
<b>Total adjustments</b>	<u>4,896,064</u>	<u>4,028,416</u>
<b>Net cash provided by operating activities</b>	<u>3,572,232</u>	<u>2,370,030</u>
Cash flows from investing activities:		
Net change in assets limited as to use	234,690	4,631
Purchase of investments	(4,548,421)	(13,624,945)
Proceeds from investments	889,904	14,784,458
Proceeds from sale of property and equipment		19,500
Purchase of property and equipment	(1,608,695)	(1,951,921)
<b>Net cash used in investing activities</b>	<u>(5,032,522)</u>	<u>(768,277)</u>
Cash flows from financing activities:		
Repayments of bonds	(1,004,000)	(986,000)
Net change in entrance fee refunds payable		(679,582)
Refunds of refundable entrance fees	(7,507,193)	(8,227,081)
Proceeds from refundable entrance fees and deferred fees	11,594,700	9,745,362
Refunds of wait list deposits	(69,250)	(55,500)
Proceeds from wait list deposits	388,400	364,718
<b>Net cash provided by financing activities</b>	<u>3,402,657</u>	<u>161,917</u>
<b>Change in cash and cash equivalents</b>	<u>1,942,367</u>	<u>1,763,670</u>
Cash and cash equivalents at beginning of year	<u>4,294,521</u>	<u>2,530,851</u>
Cash and cash equivalents at end of year	<u>\$ 6,236,888</u>	<u>\$ 4,294,521</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 1,244.870	\$ 1,266,690
Non-cash operating and investing activities - property and equipment in accounts payable	<u>\$ 42,248</u>	<u>\$</u>
Non-cash investing activities - property and equipment purchased with assets limited as to use	<u>\$ 2,094,367</u>	<u>\$</u>

See notes to financial statements.

Notes to Financial Statements

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Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Edgewood Retirement Community, Inc. (the "Community") is a not-for-profit corporation organized and existing under the laws of The Commonwealth of Massachusetts. The Community was incorporated in 1993 to provide housing, health care and other related services to the elderly through the construction and operation of the life care community known as Edgewood in North Andover, Massachusetts.

The Community consists of 219 residential units, 24 cottage homes, common space, and 60 nursing care beds (the "Health Center"). The Community operates under the "life care" concept in which residents enter into a residency agreement, which requires payment of a one-time entrance fee and monthly service fees. These payments entitle residents to the use and privileges of the Community for life. The residents do not acquire an interest in the real estate and property.

A summary of the Community's significant accounting policies follows:

Classification and reporting of net assets: The Community's financial statement presentation follows the requirements of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 958, "Financial Statements of Not-for-Profit Organizations". Under FASB ASC 958, the Community is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets represent the portion of net assets of the Community that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations or time restrictions. Unrestricted net assets include expendable funds available for support of the Community, as well as funds invested in plant including building and equipment.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Community is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Community pursuant to those stipulations.
- Permanently restricted net assets represent contributions subject to donor-imposed restrictions requiring the principal to be invested in perpetuity. Investment income is classified as temporarily restricted revenue until those amounts are appropriated for expenditures by the Community in a manner consistent with the standard of prudence prescribed by the Massachusetts Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. This standard also requires disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds).

The Board of Trustees (the "Board") has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets, and interest and dividends earned to be retained in a restricted net asset classification until appropriated by the Board and expended. The Community has adopted a formal spending policy and investment policy for endowment funds. The Community has not made any appropriations during 2015 and 2014 and believes spending would not be prudent at this time. At December 31, 2015 and 2014, donor restricted endowment funds of \$2,650 are included in cash and cash equivalents.

Edgewood Retirement Community, Inc.

Notes to Financial Statements

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Note 1. Nature of Activities and Significant Accounting Policies {Continued}

Massachusetts General Laws allows the Board to appropriate for expenditure or accumulate so much of an endowment fund as the Community determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making a determination to appropriate or accumulate, the Community shall act on good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the endowment fund; the purposes of the Community and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Community; and the investment policy of the Community.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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.

Cash and cash equivalents: The Community maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Community has not experienced any losses in such accounts. The Community believes it is not exposed to any significant credit risks on cash.

For purposes of reporting cash flows, the Community defines cash equivalents as short-term, highly liquid investments with original maturities of three months or less.

Assets limited as to use: Assets limited as to use include assets held by trustees under indenture agreements and construction funds for future projects.

Accounts receivable: Resident accounts receivable, where a third party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third party payors.

Resident accounts receivable due directly from the residents are carried at the original charge for the service provided less amounts covered by third party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Resident receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation and amortization of property and equipment are provided over the estimated useful lives of the respective assets on the straight-line basis as follows:

	<u>Years</u>
Buildings	40
Buildings and land improvements	8-20
Furnishings and equipment	3-15
Vehicles	3-5

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

Notes to Financial Statements

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Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Community follows FASB ASC 410, "Asset Retirement and Environmental Obligations". This standard requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of December 31, 2015 and 2014, the Community is unaware of any such obligations. The Community will recognize a liability in the period in which it becomes aware of such liability and sufficient information is available to reasonably estimate the fair value.

Assessment of long-lived assets: The Community follows FASB ASC 360, "Property Plant and Equipment", as it relates to the accounting for impairment or disposal of long-lived assets, which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of December 31, 2015 and 2014, the Community has not identified any impairment indicators.

Deferred expenses: Deferred expenses represent sales and promotional costs incurred to market the facility to initial residents and financing costs related to the bonds. The deferred sales and promotional costs are being amortized on a straight-line basis over the estimated average life expectancy of the Community's initial residents, and the bond acquisition costs over the term of the bonds using the effective interest method.

Derivative financial instruments: Derivative financial instruments are recognized as either assets or liabilities at their fair value in the balance sheet with the changes in the fair value reported in other changes in unrestricted net assets. The instruments are classified on the balance sheet as interest rate swap instrument.

Investments: Investments are recorded at fair value. Investment income is included in unrestricted revenue and other support. Changes in fair value are reflected in the statement of operations as realized gains (losses) on investments or unrealized gains (losses) on investments.

Other than temporary impairments: The Community reviews its investments to identify those that have a fair value that is below cost. The Community makes a determination as to whether the investment should be considered other than temporarily impaired based on guidelines established in the FASB ASC 320, "Investments- Debt and Equity Securities". At December 31, 2015 and 2014, no losses have been recognized.

Fair value of financial instruments: The estimated fair values of the Community's financial instruments, including cash, cash equivalents, accounts receivables, accounts payables, and accrued liabilities arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. Rates currently available to the Community for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. When quoted market prices are not available, fair value of long-term debt is estimated using an expected present value technique.

Operating activities: The statement of operations reflects a subtotal for the income from operations. This subtotal reflects revenues that the Community received for operating purposes. Non-operating activity reflects all other activity, including but not limited to investment income, gain on disposal of assets, realized gains on investments, gain (loss) on interest rate swap instrument, and other income.

Deficit of revenues over expenses: The statement of operations includes deficit of revenues over expenses. Changes in unrestricted net assets which are excluded from deficit of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities.

Notes to Financial Statements

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Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Deferred entrance fees: The Community currently has three different residency agreements in force. The following summarizes each type of agreement:

*Traditional agreement:* Upon death or voluntary withdrawal and reoccupancy of the vacated unit by another resident, the resident or the resident's estate receives a refund of the entrance fee, less 1% per month of occupancy. This contract has not been issued since November 1997 and is not currently marketed. As of December 31, 2015 and 2014, 2 such contracts were still in existence.

*50% return of capital agreement:* Upon death or voluntary withdrawal and reoccupancy of the vacated unit by another resident, the resident or the resident's estate receives a refund of the entrance fee, less the lesser of 50% of the entrance fee or 1% per month of occupancy. As of December 31, 2015 and 2014, 3 and 2, respectively, of such contracts were still in existence.

*90% return of capital agreement:* Upon death or voluntary withdrawal and reoccupancy of the vacated unit by another resident, the resident or the resident's estate receives a refund of the entrance fee, less the lesser of 10% of the entrance fee or 1% per month of occupancy. This is the standard contract in force at the Community, and all other contracts other than those documented above take this form as of December 31, 2015 and 2014.

Under the Community's return-of-capital residency plan, a portion of the entrance fee (10%) is nonrefundable and is recorded as deferred revenue. This deferred revenue is recognized as revenue earned on a straight-line basis over the estimated remaining life, actuarially adjusted annually, of each resident beginning with the date of each resident's occupancy. Any unrecognized deferred entrance fee at the date of death or termination of occupancy of the respective resident is recorded as income in the period in which death or termination of occupancy occurs. The remaining amount of the entrance fee represents that portion of the entrance fee, less unreimbursed fees and expenses, which is refunded to the resident or the resident's estate upon termination of occupancy after receipt of a new entrance fee from a successor resident and is recorded as refundable entrance fees.

The gross amount of contractual refund obligations under existing contracts at December 31, 2015 and 2014 was \$86,181,974 and \$82,094,717, respectively.

*Obligation to provide future services:* The Community annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from deferred entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from deferred entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at a rate based on the current tax exempt non-investment grade borrowing rate of 3.2% and 5.5% at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the comparison between the estimated future costs to serve residents and the revenues from those residents that were parties to a resident agreement resulted in a surplus. Accordingly, there was no obligation to provide future services to residents at December 31, 2015 and 2014.

*Revenue recognition:* Service revenue is reported at the estimated net realizable amounts from residents, third-party payors, patients and others for services rendered. As of December 31, 2015 and 2014, approximately 11% and 10%, respectively of operating revenues is received from Medicare funding sources as third-party reimbursement of costs.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in either operations or unrestricted non-operating gains (losses) depending on the nature of the settlement in the year of settlement.

Notes to Financial Statements

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Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Contributions:** Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

**Advertising costs:** The Community follows the policy of charging the production costs of advertising expense, as incurred, except for direct-response advertising which is capitalized as incurred and amortized over its expected period of future benefits. Direct-response advertising consists primarily of the costs to produce direct mail advertising, newspaper advertising, and radio advertising. The capitalized production costs are amortized over the average estimated life expectancy of the Community's residents.

**Income tax status:** The Community is qualified under Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and state income taxes.

**Uncertainty of income taxes:** The Community follows FASB ASC 740, "Income Taxes", which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Community recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management evaluated the Community's tax positions and concluded that the Community had no material uncertainties in income taxes as of December 31, 2015 and 2014. The Community is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2012. The Community will account for interest and penalties related to uncertain tax positions, if any, as part of tax expense.

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), 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. In August 2015, the FASB issued 2015-14, "Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date" and voted to delay the effective date of the proposed standard. The updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Community has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material effect on the Community's financial statements or disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Interest -Imputation of Interest (Subtopic 835-30) simplifying the Presentation of Debt Issuance Costs." The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments are effective for years beginning after December 31, 2015. The adoption of ASU 2015-03 is not expected to have a material effect on the Community's financial statements or disclosures.

Notes to Financial Statements

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Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The guidance in this ASU supersedes the leasing guidance in Topic 840, "Leases". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of ASU 2016-02 is not expected to have a material effect on the Community's financial statements or disclosures.

Note 2. Fair Value Measurements

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Community uses various methods including market, income and cost approaches. Based on these approaches, the Community often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Community utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Community is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the inputs are based on the lowest level of input that is significant to the fair value measurement.

The Community has various processes and controls in place to ensure that fair value is reasonably estimated.

While the Community believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Edgewood Retirement Community, Inc.

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

During the years ended December 31, 2015 and 2014, there were no changes to the Community's valuation techniques that had, or are expected to have, a material impact on its balance sheets or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value:

*Domestic equity mutual funds, international equity mutual funds, fixed income mutual funds, and inflation hedging securities fund:* The fair value of domestic equity mutual funds, international equity mutual funds, fixed income mutual funds, and inflation hedging securities fund is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

*Derivative instruments:* Derivatives are fair valued according to their classification as over-the-counter ("OTC"). OTC derivatives consist of interest rate swaps. These derivatives are fair valued under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve), counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Community as appropriate to the total expected exposure of the derivative.

The following tables are a summary of assets and liabilities that the Community measures at fair value on a recurring basis, by level, within the fair value hierarchy at December 31:

2015	Level1	Level2	Level3	Total
<b>Assets:</b>				
Investments:				
Domestic equity mutual funds	\$ 4,739,504	\$ -	\$ -	\$ 4,739,504
International equity mutual funds	2,612,896			2,612,896
Fixed income mutual funds	8,343,535			8,343,535
Inflation hedging securities fund	2,537,555			2,537,555
	<u>\$ 18,233,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,233,490</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swap instrument	\$ -	\$ 919,006	\$ -	\$ 919,006
2014	Level1	Level2	Level3	Total
<b>Assets:</b>				
Investments:				
Domestic equity mutual funds	\$ 3,569,646	\$ -	\$ -	\$ 3,569,646
International equity mutual funds	2,221,700			2,221,700
Fixed income mutual funds	6,016,010			6,016,010
Inflation hedging securities fund	3,139,286			3,139,286
	<u>\$ 14,946,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,946,642</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swap instrument	\$ -	\$ (985,017)	\$ -	\$ (985,017)



Edgewood Retirement Community, Inc.

Notes to Financial Statements

Note 3. Accounts Receivable • Health Center

The Community grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2015 and 2014 follows:

	2015	2014
Medicare	\$ 516,966	\$ 694,695
Private patients	280,331	242,332
Other third-party payors	647,038	571,055
	1,444,335	1,508,082
Allowance	(223,249)	(138,408)
	<u>\$ 1,221,086</u>	<u>\$ 1,369,674</u>

Note 4. Assets Limited as to Use

Assets limited as to use include funds that are required under the terms of the Community's bonds and trust indenture agreements and construction funds for future projects. These assets are comprised of cash at December 31, 2015 and 2014.

Under the terms of the trust indenture, the Community is required to maintain a debt service reserve fund for the purpose of paying the annual bond principal payments.

The following summarizes the carrying values of assets limited as to use at December 31:

	2015	2014
Under bond agreement- debt service reserve fund	\$ 45,409	\$ 280,099
Construction fund	94,920	2,189,287
	<u>\$ 140,329</u>	<u>\$ 2,469,386</u>

Note 5. Advertising

As of December 31, 2015 and 2014, advertising, net of accumulated amortization, was \$643,262 and \$811,983, respectively, and included with deferred expenses in the accompanying balance sheets. Advertising expense for the years ended December 31, 2015 and 2014 was \$575,750 and \$552,720, respectively.

Note 6. Property and Equipment

The following is a summary of property and equipment at December 31:

	2015	2014
Buildings and building improvements	\$100,979,611	\$ 97,517,640
Land and land improvements	6,756,683	6,735,783
Furnishings and equipment	5,501,064	5,277,900
Vehicles	558,784	555,587
Total cost	113,796,142	110,086,910
Less accumulated depreciation and amortization	37,861,744	34,512,583
	75,934,398	75,574,327
Construction in progress	250,697	227,773
	<u>\$ 76,185,095</u>	<u>\$ 75,802,100</u>

Edgewood Retirement Community, Inc.

Notes to Financial Statements

Note 6. Property and Equipment (Continued)

Construction in progress as of December 31, 2015 includes costs associated with refurbishing resident apartments as well as costs associated with the purchase of land. The refurbishing of the apartments will be completed in March 2016 and cost approximately \$36,000 to complete. The land was purchased in January 2016 for \$650,000.

Construction in progress as of December 31, 2014 represented costs associated with refurbishing resident apartments and various remodeling projects including the fitness center and front entrance expansion. These projects were completed and placed into service during the year ended December 31, 2015.

Note 7. Deferred Expenses

The following is a summary of deferred expenses at December 31:

	2015	2014
Direct response advertising costs	\$ 8,173,544	\$ 8,173,544
Deferred financing costs	1,302,097	1,302,097
Accumulated amortization	{8,188,735}	{7,921,474}
	<u>\$ 1,286,906</u>	<u>\$ 1,554,167</u>

Note 8. Bonds Payable

	2015	2014
Series 2013B Massachusetts Development Finance Agency Fixed Rate Demand Bonds are comprised of \$26,960,000 of bonds at a fixed rate of 2.95%, with maturity dates ranging from January 15, 2014 through May 15, 2039.	\$ 25,955,000	\$ 26,454,000
Series 2013A Massachusetts Development Finance Agency Variable Rate Demand Revenue Refunding Bonds are comprised of \$13,040,000 of bonds at a variable rate, with maturity dates ranging from May 15, 2014 through May 15, 2030. The interest rate at December 31, 2015 and 2014 was 1.44% and 1.26%, respectively.	12,055,000	12,560,000
Bonds payable	<u>38,010,000</u>	<u>39,014,000</u>
Less current portion	<u>{1,039,000}</u>	<u>(1,004,000)</u>
Bonds payable net of current portion	<u>\$ 36,971,000</u>	<u>\$ 38,010,000</u>

The 2013A and 2013B bonds are subject to optional redemption in whole or in part at any time at a redemption price of 100% of the principle amount redeemed, plus interest accrued to the redemption date. The bonds are secured by a mortgage encumbering the real estate owned by the Community.

In conjunction with the Community's financing agreements the Community must adhere to certain financial covenants, such as debt service coverage ratio, liquidity ratio, and non-financial covenants. As of December 31, 2015 and 2014, the Community was in compliance with these covenants.

**Edgewood Retirement Community, Inc.****Notes to Financial Statements****Note 8. Bonds Payable (Continued)**

Estimated maturities of the bonds payable for years ending December 31 are as follows:

2016	\$ 1,039,000
2017	1,075,000
2018	1,112,000
2019	1,151,000
2020	1,191,000
Thereafter	32,442,000
	<b>\$ 38,010,000</b>

As of December 31, 2015 and 2014, the carrying amount of the bonds approximated fair value.

**Note 9. Interest Rate Swap Instrument**

The Community maintains an interest rate-risk management strategy that uses derivative instruments to minimize significant, unanticipated cash flow fluctuations caused by interest rate volatility. The Community's specific goal is to lower (where possible) the costs of its borrowed funds.

The Community has an interest rate swap agreement to pay a fixed rate of interest of 2.59% as of December 31, 2015 and 2014 and receive a variable rate of 68% of LIBOR (.19% and .17% at December 31, 2015 and 2014, respectively). This swap is utilized to manage interest rate exposure. The differential to be paid or received on the swap agreement is accrued as interest rates change and is recognized over the life of the agreement in interest expense. The swap agreement expires in 2022. The notional amount is \$12,055,000 and \$12,560,000 as of December 31, 2015 and 2014, respectively.

**Fair Value of Interest Rate Swaps on the Balance Sheets as of December 31:**

Derivative	Balance Sheet Location	Fair Value 2015	Fair Value 2014
Interest rate contracts	Liabilities	<u>\$ 919,006</u>	<u>\$ 985,017</u>

**The Effect of Derivative Instruments on the Statements of Operations for the Years Ended December 31:**

Derivative	Location of Gain (Loss) Recognized in Unrestricted Non-operating Gains (Losses) on Derivative	Amount of Gain (Loss) Recognized in Unrestricted Non-operating Gains (Losses) on Derivative 2015	2014
Interest rate contracts	Gain (loss) on interest rate swap instrument	<u>\$ 66,011</u>	<u>\$ (208,324)</u>

**Note 10. Refundable Entrance Fee Deposits**

When a residency agreement is signed, a deposit of approximately 10% of the entrance fee is collected. The balance of the entrance fee is payable fifteen days following the date occupancy is offered to the resident. Generally, depositors may cancel their residency agreements at any time prior to admission and receive at least a partial refund of the entrance fee deposit. At December 31, 2015 and 2014, deposits of \$944,268 and \$625,118, respectively, had been received from future residents who have signed residency agreements.

Edgewood Retirement Community, Inc.

Notes to Financial Statements

Note 11. Retirement Plan

The Community participates in a tax deferred annuity plan as described in IRS code section 401(k) covering all eligible employees beginning after their first full year of service. The Community makes safe harbor matching contributions to participants in accordance with the Plan Document. During the years ended December 31, 2015 and 2014, the Community contributed \$154,875 and \$73,080 to the Plan.

Note 12. Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of December 31:

	2015	2014
For the benefit of employees	\$ 18,696	\$ 15,110
Music fund	27,880	12,730
For the benefit of residents	18,800	13,800
Current event speakers fund	4,300	4,300
Transportation fund	1,300	1,300
Garden fund	500	500
Education fund	200	200
	<u>\$ 71,676</u>	<u>\$ 47,940</u>

Note 13. Permanently Restricted Net Assets

The following is a summary of permanently restricted net assets as of December 31:

	2015	2014
Endowment fund	\$ 2,650	\$ 2,650

Note 14. Endowment Net Assets

The following is a summary of endowment net asset composition by type of fund at December 31:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment funds	\$ -	\$ -	\$ 2,650	\$ 2,650

  

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment Funds	\$ -	\$ -	\$ 2,650	\$ 2,650

Endowment net assets are currently being held in the Community's operating cash account. There was no endowment activity during the years ended December 31, 2015 and 2014.

Edgewood Retirement Community, Inc.

Notes to Financial Statements

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Note 15. Net Assets Released from Restrictions

During the years ended December 31, 2015 and 2014, net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

The following is a summary of net assets released from restrictions during the year ended December 31:

	2015	2014
For the benefit of employees	\$ 184,968	\$ 167,812
Music fund	4,850	10,595
	<u>\$ 189,818</u>	<u>\$ 178,407</u>

Note 16. Medical Malpractice Claims

The Community purchases professional and general liability insurance to cover medical malpractice claims through an occurrence basis policy effective June 30, 2014. Prior to June 30, 2014, the professional and general liability insurance covering medical malpractice claims was a claims-made basis policy. The Company purchased tail coverage relative to the period prior to June 30, 2014 which expires on June 10, 2019. There are no known claims and incidents that may result in the assertion of additional claims, as well as no claims from unknown incidents that may be asserted arising from services provided to patients. Based on historical evidence, the Community believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the financial statements as of December 31, 2015 and 2014.

Note 17. Functional Expenses

The functional classification of expenses for the Community was as follows for the years ended December 31:

	2015	2014
Administrative and general	\$ 3,931,891	\$ 4,036,111
Program services	19,563,920	18,810,866
	<u>\$ 23,495,811</u>	<u>\$ 22,846,977</u>

Note 18. Subsequent Events

In preparing these financial statements, the Community has evaluated events and transactions for potential recognition or disclosure through March 28, 2016, the date the financial statements were available to be issued.

On January 13, 2016, the Community formed an entity, which purchased approximately 20 acres of land that borders the Community's property in North Andover, Massachusetts for \$650,000. The purchase and sales agreement relating to this transaction was signed on August 31, 2015 and all capital costs incurred prior to December 31, 2015 relating to this transaction, including the \$50,000 deposit made, were included in construction in progress at year end.

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# **Edgewood Retirement Community, Inc.**

## Financial Statements

Years Ended December 31, 2013 and 2012

# Edgewood Retirement Community, Inc.

## FINANCIAL STATEMENTS Years Ended December 31, 2013 and 2012

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Edgewood Retirement Community, Inc.  
North Andover, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Edgewood Retirement Community, Inc. (the "Community") which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, change in net assets (deficit), 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.

### **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 of 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 Community'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 Community'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 Edgewood Retirement Community, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 19 to the financial statements, in 2013, the Community adopted new accounting guidance Financial Accounting Standards Board Update Number 2012-01, "Health Care Entities (Topic 954): Continuing Care Retirement Communities- Refundable Advance Fees". Our opinion is not modified with respect to this matter.

*McGladrey LLP*

Boston, Massachusetts  
April 17, 2014

# Edgewood Retirement Community, Inc.

## Balance Sheets

December 31, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,530,851	\$ 4,295,510
Assets limited as to use (Notes 2 and 4)	2,474,017	1,790,174
Accounts receivable - Health Center, net (Note 3)	1,441,106	979,811
Accounts receivable - residents	389,134	426,878
Accounts receivable - other	23,180	37,352
Prepaid expenses	290,401	255,897
Supplies inventory	65,874	53,289
Investments (Note 2)	15,942,924	15,364,771
Property and equipment, net (Note 6)	77,184,895	78,746,125
Deferred expenses, net (Notes 5 and 7)	1,781,484	2,485,745
Total assets	<u>\$ 102,123,866</u>	<u>\$ 104,435,552</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
Accounts payable	\$ 460,383	\$ 420,210
Accrued liabilities:		
Payroll and compensated absences	791,282	684,639
Interest	31,994	36,923
Other	191,100	194,000
Entrance fee refunds payable	679,582	
Bonds payable (Note 8)	40,000,000	39,755,000
Refundable deposits (Note 10)	315,900	101,668
Deferred revenue - Health Center	35,556	67,025
Health Center - permanently assigned residents	4,703,733	4,657,665
Refundable entrance fees	75,873,703	74,850,059
Deferred entrance fees	6,411,321	6,554,051
Interest rate swap instrument (Note 2 and 9)	776,693	1,746,655
Obligation to provide future services	6,083,444	7,834,609
Total liabilities	<u>136,354,691</u>	<u>136,902,504</u>
Commitment (Note 11)		
Unrestricted net assets (deficit)	(34,271,571)	(32,512,529)
Temporarily restricted net assets (Note 13)	38,096	42,927
Permanently restricted net assets (Notes 14 and 15)	2,650	2,650
Total net assets (deficit)	<u>(34,230,825)</u>	<u>(32,466,952)</u>
Total liabilities and net assets (deficit)	<u>\$ 102,123,866</u>	<u>\$ 104,435,552</u>

See notes to financial statements.

# Edgewood Retirement Community, Inc.

## Statements of Operations

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted revenues and other support:		
Net resident service revenue, independent living unit	\$ 12,982,696	\$ 12,543,434
Entrance fees earned and cancellation penalties	1,270,928	1,098,426
Net resident service revenue, Health Center fees	5,517,583	6,004,208
Net assets released from restrictions (Note 16)	<u>185,932</u>	<u>164,181</u>
Total unrestricted revenues and other support	<u>19,957,139</u>	<u>19,810,249</u>
Expenses (Note 5, 12 and 18):		
General and administrative	4,951,413	4,138,535
Plant operations	2,582,605	2,313,349
Environmental services	878,628	951,194
Culinary services	3,052,032	2,981,928
Nursing	4,613,965	4,806,641
Resident care services	2,561,089	2,302,578
Depreciation	3,140,293	3,186,128
Amortization	932,101	290,185
Interest	<u>536,966</u>	<u>824,913</u>
Total expenses	<u>23,249,092</u>	<u>21,795,451</u>
Loss from operations	<u>{3,291,953}</u>	<u>(1,985,202)</u>
Unrestricted nonoperating (losses) gains:		
Investment Income	259,752	323,384
Gain on disposal of fixed assets		10,911
Realized gain on investments	24,194	97,347
Gain on interest rate swap instruments (Note 9)	969,962	243,533
Change in obligation to provide future services	1,751,165	(5,426,027)
Third party payment (Note 20)	<u>{1,769,438}</u>	
Total unrestricted nonoperating gains (losses)	<u>1,235,635</u>	<u>(4,750,852)</u>
Deficit of revenues over expenses	(2,056,318)	(6,736,054)
Other changes in unrestricted net assets:		
Unrealized gains on investments	<u>297,276</u>	<u>529,253</u>
Change in unrestricted net assets	\$ <u>{1,759,042}</u>	\$ <u>6,206,801</u>

See notes to financial statements.

# Edgewood Retirement Community, Inc.

Statements of Changes in Net Assets (Deficit)

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Loss from operations	\$ (3,291,953)	\$ (1,985,202)
Unrestricted nonoperating gains (losses)	1,235,635	(4,750,852)
Other changes in unrestricted net assets	297,276	529,253
Decrease in unrestricted net assets	(1,759,042)	(6,206,801)
Temporarily restricted net assets:		
Contributions	181,101	168,771
Net assets released from restrictions (Note 16)	{ 185,932 }	(164,181)
(Decrease) increase in temporarily restricted net assets	(4,831)	4,590
Change in net assets	(1,763,873)	(6,202,211)
Net deficit at beginning of year	(32,466,952)	(26,264,741)
Net deficit at end of year	\$ p4,230,8251	\$ (32,466,952)

See notes to financial statements.

# Edgewood Retirement Community, Inc.

## Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	<u>\$ (1,763,873)</u>	<u>\$ (6,202,211)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,072,394	3,476,313
Gain on disposal of fixed assets		(10,911)
Net unrealized and realized gain on investment	(321,470)	(626,600)
Gain on interest rate swap instruments	(969,962)	(243,533)
Change in obligation to provide future services	(1,751,165)	5,426,027
Amortization of entrance fees	(1,270,928)	(1,098,426)
Proceeds from nonrefundable entrance fees	1,121,121	1,339,723
Change in accounts receivable	(409,379)	(350,596)
Change in prepaid expenses	(34,504)	7,797
Change in supplies inventory	(12,585)	622
Change in accounts payable	40,173	74,580
Change in accrued liabilities	98,814	193,876
Change in deferred revenue	{ 31,469 }	67,025
Total adjustments	531,040	<u>8,255,897</u>
Net cash provided by (used in) operating activities	(1,232,833)	<u>2,053,686</u>
Cash flows from investing activities:		
Net increase in assets limited as to use	(683,843)	(36,655)
Purchase of investments	(4,351,676)	(1,921,758)
Proceeds from investments	4,094,993	
Proceeds from sale of property and equipment		10,911
Purchase of property and equipment	(1,579,063)	(831,813)
Net cash used in investing activities	(2,519,589)	<u>(2,779,315)</u>
Cash flows from financing activities:		
Repayments of bonds	(900,000)	(845,000)
Proceeds from bonds	1,145,000	
Payment of bond issuance costs	(227,840)	
Net change in entrance fee refunds payable	679,582	(3,360)
Refunds of refundable entrance fees	(7126,900)	(5,717,757)
Proceeds from refundable entrance fees and deferred fees	8,203,689	9,292,706
Refunds of wait list deposits	(71,668)	(172,894)
Proceeds from wait list deposits	285,900	82,800
Net cash provided by financing activities	1,987,763	<u>2,636,495</u>
Change in cash and cash equivalents	(1,764,659)	1,910,866
Cash and cash equivalents at beginning of year	<u>4,295,510</u>	<u>2,384,644</u>
Cash and cash equivalents at end of year	<u>\$ 2,530,851</u>	<u>\$ 4,295,510</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 541,895	<u>\$ 825,365</u>

See notes to financial statements.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

Edgewood Retirement Community, Inc. (the "Community") is a not-for-profit corporation organized and existing under the laws of The Commonwealth of Massachusetts. The Community was incorporated in 1993 to provide housing, health care and other related services to the elderly through the construction and operation of the life care community known as Edgewood in North Andover, Massachusetts.

The Community consists of 219 residential units, 24 cottage homes, common space, and 60 nursing care beds (the "Health Center"). The Community operates under the "life care" concept in which residents enter into a residency agreement, which requires payment of a one-time entrance fee and monthly service fees. These payments entitle residents to the use and privileges of the Community for life. The residents do not acquire an interest in the real estate and property.

A summary of the Community's significant accounting policies follows:

#### Classification and Reporting of Net Assets

The Community's financial statement presentation follows the requirements of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 958, "Financial Statements of Not-for-Profit Organizations". Under FASB ASC 958, the Community is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets represent the portion of net assets of the Community that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations or time restrictions. Unrestricted net assets include expendable funds available for support of the Community, as well as funds invested in plant including building and equipment.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Community is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Community pursuant to those stipulations.
- Permanently restricted net assets represent contributions subject to donor-imposed restrictions requiring the principal to be invested in perpetuity. Investment income is classified as temporarily restricted revenue until those amounts are appropriated for expenditures by the Community in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

The Community follows FASB ASC 958, "Financial Statements of Not-for-Profit Organizations" as it relates to net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This standard also requires disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds).

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

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### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

#### Classification and Reporting of Net Assets...continued

The Board of Trustees (the "Board") has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets, and interest and dividends earned to be retained in a restricted net asset classification until appropriated by the Board and expended. The Community has adopted a formal spending policy and investment policy for endowment funds. The Community has not made any appropriations during 2013 or 2012 as it has just begun to receive donor funds designated for endowment and believes spending would not be prudent at this time. At December 31, 2013 and 2012, donor restricted endowment funds of \$2,650 are included in cash and cash equivalents.

Massachusetts General Laws allows the Board to appropriate for expenditure or accumulate so much of an endowment fund as the Community determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making a determination to appropriate or accumulate, the Community shall act on good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: The duration and preservation of the endowment fund; the purposes of the Community and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Community; and the investment policy of the Community.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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.

#### Cash and Cash Equivalents

The Community maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Community has not experienced any losses in such accounts. The Community believes it is not exposed to any significant credit risks on cash.

For purposes of reporting cash flows, the Community defines cash equivalents as short-term, highly liquid investments with original maturities of three months or less.

#### Assets Limited as to Use

Assets limited as to use include assets set aside in accordance with residence agreements, for patient funds held in trust, and assets held by trustees under indenture agreements.

#### Accounts Receivable

Resident accounts receivable, where a third party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third party payors.



## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

#### Accounts Receivable...continued

Resident accounts receivable due directly from the residents are carried at the original charge for the service provided less amounts covered by third party payers and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Resident receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

#### Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation and amortization of property and equipment are provided over the estimated useful lives of the respective assets on the straight-line basis as follows:

	<u>Years</u>
Buildings	40
Buildings and land improvements	8-20
Furnishings and equipment	3-15
Vehicles	3-5

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

The Community follows FASB ASC 410, "Asset Retirement and Environmental Obligations". This standard requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of December 31, 2013 and 2012, the Community is unaware of any such obligations. The Community will recognize a liability in the period in which it becomes aware of such liability and sufficient information is available to reasonably estimate the fair value.

#### Assessment of Long-Lived Assets

The Community follows FASB ASC 360, "Property Plant and Equipment", as it relates to the accounting for impairment or disposal of long-lived assets, which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of December 31, 2013 and 2012, the Community has not recognized any reduction in the carrying value of its property when considering this standard.

#### Deferred Expenses

Deferred expenses represent sales and promotional costs incurred to market the facility to initial residents and financing costs related to the bonds. The deferred sales and promotional costs are being amortized on a straight-line basis over the estimated average life expectancy of the Community's initial residents, and the bond acquisition costs over the term of the bonds.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

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### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

#### Derivative Financial Instruments

Derivative financial instruments are recognized as either assets or liabilities at their fair value in the balance sheet with the changes in the fair value reported in other changes in unrestricted net assets. The instruments are classified on the balance sheet as interest rate swap instruments.

#### Investments and Investment Income

Investments are recorded at fair value. Investment income is included in unrestricted revenue and other support.

#### Other than Temporary Impairments

The Community reviews its investments to identify those that have a fair value that is below cost. The Community makes a determination as to whether the investment should be considered other than temporarily impaired based on guidelines established in the FASB ASC 320, "Investments-Debt and Equity Securities Accounting". At December 31, 2013 and 2012, no losses have been recognized.

#### Fair Value of Financial Instruments

The estimated fair values of the Community's financial instruments, including cash, cash equivalents, accounts receivables, accounts payables, and accrued liabilities arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. Rates currently available to the Community for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. The Community uses quoted market prices for its long-term debt when traded as an asset in an active market. When quoted market prices are not available, fair value of long-term debt is estimated using an expected present value technique.

#### Operating Activities

The statements of operations reflect a subtotal for the income from operations. This subtotal reflects revenues that the Community received for operating purposes. Non-operating activity reflects all other activity, including but not limited to investment income, gain (loss) on disposal of assets, realized gain (loss) on investments, gain (loss) on interest rate swap instrument, change in obligation to provide future services, and third party payment.

#### Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

#### Deferred Entrance Fees

The Community currently has three different residency agreements in force. The following summarizes each type of agreement:

#### Traditional Agreement

Upon death or voluntary withdrawal and reoccupancy of the vacated unit by another resident, the resident or the resident's estate receives a refund of the entrance fee, less 1% per month of occupancy. This contract has not been issued since November 1997 and is not currently marketed. As of December 31, 2013 and 2012, 3 and 6, respectively of such contracts were still in existence.

#### 50% Return of Capital Agreement

Upon death or voluntary withdrawal and reoccupancy of the vacated unit by another resident, the resident or the resident's estate receives a refund of the entrance fee, less the lesser of 50% or 1% per month of occupancy. This contract has not been issued since 1998 and is not currently marketed. As of December 31, 2013 and 2012, 2 and 4, respectively of such contracts were still in existence.

#### 90% Return of Capital Agreement

Upon death or voluntary withdrawal and reoccupancy of the vacated unit by another resident, the resident or the resident's estate receives a refund of the entrance fee, less the lesser of 10% or 1% per month of occupancy. This is the standard contract in force at the Community, and all other contracts other than those documented above take this form as of December 31, 2013 and 2012.

Under the Community's return-of-capital residency plan, a portion of the entrance fee (10%) is nonrefundable and is recorded as deferred revenue. This deferred revenue is recognized as revenue earned on a straight-line basis over the estimated remaining life, actuarially adjusted annually, of each resident beginning with the date of each resident's occupancy. Any unrecognized deferred entrance fee at the date of death or termination of occupancy of the respective resident is recorded as income in the period in which death or termination of occupancy occurs. The remaining amount of the entrance fee represents that portion of the entrance fee, less unreimbursed fees and expenses, which is refunded to the resident or the resident's estate upon termination of occupancy after receipt of a new entrance fee from a successor resident.

The gross amount of contractual refund obligations under existing contracts at December 31, 2013 and 2012 was \$80,577,436 and \$79,507,724, respectively.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

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### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

#### Obligation to Provide Future Services

The Community annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from deferred entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from deferred entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at a rate based on the current tax exempt non-investment grade borrowing rate of 5.5% at December 31, 2013 and 2012. At December 31, 2013 and 2012, the comparison between the estimated future costs to serve residents and the revenues from those residents that were parties to a resident agreement resulted in a deficit. Accordingly, the obligation to provide future services to residents in the amount of \$6,083,444 and \$7,834,609 is accrued at December 31, 2013 and 2012.

#### Revenue Recognition

Service revenue is reported at the estimated net realizable amounts from residents, third-party payors, patients and others for services rendered. As of December 31, 2013 and 2012, approximately 10% of operating revenues is received from Medicare funding sources as third-party reimbursement of costs.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in either operations or unrestricted non-operating gains (losses) depending on the nature of the settlement in the year of settlement.

#### Contributions

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

#### Advertising Costs

The Community follows the policy of charging the production costs of advertising expense, as incurred, except for direct-response advertising which is capitalized as incurred and amortized over its expected period of future benefits. Direct-response advertising consists primarily of the costs to produce direct mail advertising, newspaper advertising, and radio advertising. The capitalized production costs are amortized over the average estimated life expectancy of the Community's residents.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

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### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

#### Income Tax Status

The Community is qualified under Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and state income taxes.

#### Uncertainty of Income Taxes

The Community follows FASB ASC 740, "Income Taxes", which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Community recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management evaluated the Community's tax positions and concluded that the Community had no material uncertainties in income taxes as of December 31, 2013 and 2012. The Community is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010. The Community will account for interest and penalties related to uncertain tax positions, if any, as part of tax expense.

#### Recently Issued Accounting Pronouncements

In October 2012, the FASB issued guidance which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The adoption of this guidance is not expected to have a material impact on the Community's financial statements.

### 2. FAIR VALUE MEASUREMENTS

Under the FASS's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Community uses various methods including market, income and cost approaches. Based on these approaches, the Community often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Community utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Community is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 2. FAIR VALUE MEASUREMENTS...continued

Level 1 - Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 - Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the inputs are based on the lowest level of input that is significant to the fair value measurement.

The Community has various processes and controls in place to ensure that fair value is reasonably estimated.

While the Community believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended December 31, 2013 and 2012, there were no changes to the Community's valuation techniques that had, or are expected to have, a material impact on its balance sheets or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Cash Equivalents, Domestic Equity Mutual Fund, International Equity Mutual Fund, Fixed Income Mutual Fund, and Inflation Hedging Securities Fund

The fair value of cash equivalents, domestic equity mutual funds, international equity mutual funds, fixed income mutual funds, and inflation hedging securities fund is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 2. FAIR VALUE MEASUREMENTS...continued

#### Derivative Instruments

Derivatives are fair valued according to their classification as over-the-counter ("OTC"). OTC derivatives consist of interest rate swaps. These derivatives are fair valued under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve), counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Community as appropriate to the total expected exposure of the derivative.

The following tables are a summary of assets and liabilities that the Community measures at fair value on a recurring basis, by level, within the fair value hierarchy at December 31:

2013	Level1	Level2	Level3	Total
<b>Assets:</b>				
Investments:				
Domestic equity mutual funds	\$ 3,703,891	\$ -	\$ -	\$ 3,703,891
International equity mutual funds	2,216,519			2,216,519
International fixed income funds	1,385,618			1,385,618
Fixed income mutual funds	5,909,093			5,909,093
Inflation hedging securities fund	<u>2,727,803</u>			<u>2,727,803</u>
	15,942,924			15,942,924
Assets limited as to use:				
Cash equivalents	2,474,017			2,474,017
	<u>\$ 18,416,941</u>	<u>-</u>	<u>-</u>	<u>18,416,941</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swap	\$ -	\$ (Z:Z6 693)	\$ -	\$ (ZZ6 693)
2012	Level1	Level2	Level3	Total
<b>Assets:</b>				
Investments:				
Domestic equity mutual funds	\$ 1,840,789	\$ -	\$ -	\$ 1,840,789
International equity mutual funds	1,544,342			1,544,342
International fixed income funds	1,498,937			1,498,937
Fixed income mutual funds	7,487,618			7,487,618
Inflation hedging securities fund	<u>2,993,085</u>			<u>2,993,085</u>
	15,364,771			15,364,771
Assets limited as to use:				
Cash equivalents	1,790,174			1,790,174
	<u>\$ 17,154,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,154,945</u>
<b>Liabilities:</b>				
Derivatives:				
Interest rate swaps	\$ -	\$ (1 746 655)	\$ -	\$ (1 Z46 655)

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 3. ACCOUNTS RECEIVABLE-HEALTH CENTER

The Community grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 744,063	\$ 470,476
Private patients	388,346	329,377
Other third-party payors	<u>421,844</u>	<u>270,846</u>
	1,554,253	1,070,699
Allowance	<u>(113,147)</u>	<u>(90,888)</u>
	<u>\$ 1,441,106</u>	<u>\$ 979,811</u>

### 4. ASSETS LIMITED AS TO USE

Assets limited as to use are required under the terms of the Community's bonds and trust indenture agreements and are comprised of cash, cash equivalents and short-term investments at December 31, 2013 and December 31, 2012.

Under the terms of the trust indenture, the Community is required to maintain a debt service reserve fund equal to the maximum annual debt service on the Series 2013A and Series 2013B bonds. This requirement was also in place under the Series 2000 and Series 2008 bonds for 2012.

The following summarizes the carrying values of assets limited as to use at December 31:

	<u>2013</u>	<u>2012</u>
Under Bond Agreement- Held by Trustee		
Bond Fund	\$ 2,468,343	\$ 1,784,500
Project Fund	5674	5,674
	<u>\$ 2,474,017</u>	<u>\$ 1,790,174</u>

### 5. ADVERTISING

As of December 31, 2013 and 2012, advertising, net of accumulated amortization, was \$610,393 and \$718,100, respectively, and included with deferred expenses in the accompanying balance sheets. Advertising expense for the years ended December 31, 2013 and 2012 was \$466,803 and \$437,089, respectively.



## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 6. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31:

	<u>2013</u>	<u>2012</u>
Buildings and improvements	\$ 96,122,022	\$ 95,012,726
Land and land improvements	6,725,833	6,714,718
Furnishings and equipment	4,992,191	4,521,073
Vehicles	<u>544,510</u>	<u>544,510</u>
Total cost	108,384,556	106,793,027
Less - accumulated depreciation and amortization	<u>31,221,673</u>	<u>28,081,380</u>
	77,162,883	78,711,647
Construction in progress	<u>22,012</u>	<u>34,478</u>
	<u>\$ 77,184,895</u>	<u>\$ 78,746,125</u>

Construction in progress as of December 31, 2013 includes costs associated with refurbishing resident apartments as well as costs associated with various remodeling projects including the bistro and a sound system for the auditorium. The refurbishing of the apartments was completed in March 2014 and cost approximately \$123,550 to complete. The remodeling projects are expected to be completed in 2014 and cost approximately \$63,000.

Construction in progress as of December 31, 2012, consisted of costs associated with refurbishing apartments as well as costs associated with various remodeling projects. These projects were completed and placed into service in 2013.

### 7. DEFERRED EXPENSES

The following is a summary of deferred expenses:

	<u>2013</u>	<u>2012</u>
Deferred expenses	\$ 9,475,642	\$ 10,329,144
Accumulated amortization	(7,694,158)	(7,843,399)
	<u>\$ 1,781,484</u>	<u>\$ 2,485,745</u>

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 8. BONDS PAYABLE

	<u>2013</u>	<u>2012</u>
Series 2013B Massachusetts Development Finance Agency Fixed Rate Demand Bonds are comprised of \$26,960,000 of bonds at a fixed rate of 2.95%, with maturity dates ranging from January 15, 2014 through May 15, 2039.	\$ 26,960,000	\$
Series 2013A Massachusetts Development Finance Agency Variable Rate Demand Revenue Refunding Bonds are comprised of \$13,040,000 of bonds at a variable rate, with maturity dates ranging from May 15, 2014 through May 15, 2030. The interest rate at December 31, 2013 was .06%.	13,040,000	
Series 2008 Massachusetts Development Finance Agency Variable Rate Demand Bonds are comprised of \$41,080,000 of bonds at a variable rate, with maturity dates ranging from May 15, 2010 through May 15, 2039. The average interest rate for the year ended December 31, 2013 was .08% (.19% at December 31, 2012). The Series 2008 Bonds were refinanced during the year ended December 31, 2013.		26,265,000
Series 2000A Massachusetts Development Finance Agency Variable Rate Demand Revenue Refunding Bonds are comprised of \$16,880,000 of bonds at a variable rate, with maturity dates from May 15, 2003 through May 15, 2030. The average interest rate for the year ended December 31, 2013 was .08% (.19% at December 31, 2012). The Series 2000A Bonds were refinanced during the year ended December 31, 2013.	<u>                    </u>	13,490,000
Bonds payable	\$ 40 000 000	\$ 39 755 000

The 2013A and 2013B bonds are subject to optional redemption in whole or in part at any time at a redemption price of 100% of the principle amount redeemed, plus interest accrued to the redemption date. The bonds are secured by a mortgage encumbering the real estate owned by the Community.

Concurrent with the issuance of the 2008 and 2000A bonds, a letter of credit reimbursement agreement was executed with Bank of America for \$41,699,014 and \$15,286,000, respectively. Pursuant to the reimbursement agreement, the trustee issued an irrevocable direct-pay letter of credit in amounts sufficient to pay the aggregate principal of the Bonds and up to fifty five days interest on the Bonds. Under the reimbursement agreement, the Community would reimburse the trustee for draws under the letter of credit. The Community's obligation under the reimbursement agreement was secured by a mortgage encumbering the real estate owned by the Community. The letter of credit expired on November 21, 2013.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 8. BONDS PAYABLE...continued

In conjunction with the Community's financing agreements the Community must adhere to certain financial covenants, such as debt service coverage ratio, liquidity ratio, and non-financial covenants. As of December 31, 2013 and 2012, the Community was in compliance with these covenants.

Estimated maturities of the bonds payable for years ending December 31 are as follows:

2014	\$ 986,000
2015	1,004,000
2016	1,039,000
2017	1,075,000
2018	1,112,000
Thereafter	34,784,000
	<u>\$ 40,000,000</u>

As of December 31, 2013 and 2012, the carrying amount of the bonds approximated fair value.

### 9. INTEREST RATE SWAPS

The Community maintains an interest rate-risk management strategy that uses derivative instruments to minimize significant, unanticipated cash flow fluctuations caused by interest rate volatility. The Community's specific goal is to lower (where possible) the costs of its borrowed funds.

The Community has an interest rate swap agreement to pay a fixed rate of interest of 2.59% as of December 31, 2013 and 2012 and receive a variable rate of 68% of LIBOR (.17% and .21% at December 31, 2013 and 2012, respectively). This swap is utilized to manage interest rate exposure. The differential to be paid or received on the swap agreement is accrued as interest rates change and is recognized over the life of the agreement in interest expense. The swap agreement expires in 2022. The notional amount is \$13,040,000 and \$13,490,000 as of December 31, 2013 and 2012, respectively.

The Community had an interest rate swap agreement to pay a fixed rate of interest of 1.76% as of December 31, 2012 and received a variable interest rate of 68% of the one-month London Interbank Rate ("LIBOR"), (.21% at December 31, 2012). The swap was utilized to manage interest rate exposure. The differential to be paid or received on the swap agreement was accrued as interest rates changed and was recognized over the life of the agreement in interest expense. The swap agreement expired in 2013. The notional amount was \$26,265,000 as of December 31, 2012.

#### Fair Value of Interest Rate Swaps on the Balance Sheet as of December 31:

Derivative	Balance Sheet Location	Fair Value 2013	Balance Sheet Location	Fair Value 2012
Interest rate contracts	Liabilities	\$ 1,746,655	Liabilities	\$ 1,746,655

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 9. INTEREST RATE SWAPS...continued

The Effect of Derivative Instruments on the Statements of Operations  
For the Years Ended December 31:

Derivative	Location of Gain or Recognized In Unrestricted Non-Operating Income on Derivative	Amount of Gain Recognized Unrestricted Non-Operating Income on Derivative	
		2013	2012
Interest rate contracts	Gain on interest rate swap instruments	\$ 969,962	\$ 2,043,533

### 10. REFUNDABLE ENTRANCE FEE DEPOSITS

When a residency agreement is signed, a deposit of approximately 10% of the entrance fee is collected. The balance of the entrance fee is payable fifteen days following the date occupancy is offered to the resident. Generally, depositors may cancel their residency agreements at any time prior to admission and receive at least a partial refund of the entrance fee deposit. At December 31, 2013 and 2012, deposits of \$285,900 and \$82,800, respectively had been received from future residents who have signed residency agreements.

### 11. COMMITMENT

Life Care Services Corporation "LCS", an unrelated management and development company, has contracted with the Community to supervise all phases of the Community's development, which include: (1) project planning and development; (2) supervising the occupancy development program; (3) arranging for project financing; and (4) overseeing design and construction activities.

In addition, LCS manages the operation of the Community for a monthly fee, which is subject to future annual adjustments based on changes in the Consumer Price Index, not to exceed three percent in any year. The agreement expires in June 2014.

### 12. RETIREMENT PLAN

The Community participates in a tax deferred annuity plan as described in IRS code section 401(k) covering all eligible employees beginning after their first full year of service. The plan allows the Community to make discretionary contributions, as determined by the Board of Trustees, subject to IRS limitations. During the years ended December 31, 2013 and 2012, the Community contributed \$78,592 and \$78,476, respectively.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 13. TEMPORARILY RESTRICTED NET ASSETS

The following is a summary of temporary restricted net assets as of December 31:

	<u>2013</u>	<u>2012</u>
For the benefit of employees	\$ 4,871	\$ 15,407
Music fund	13,125	12,965
For the benefit of residents	13,800	7,750
Current event speakers fund	4,300	4,300
Aquarium fund		505
Transportation fund	1,300	1,300
Garden fund	500	500
Education fund	<u>200</u>	<u>200</u>
	\$ 38,096	42,927

### 14. PERMANENTLY RESTRICTED NET ASSETS

The following is a summary of permanently restricted net assets as of December 31:

	<u>2013</u>	<u>2012</u>
Endowment fund	\$ 2 650	\$ 2 650

### 15. ENDOWMENT NET ASSETS

The following is a summary of endowment net asset composition by type of fund at December 31:

	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor restricted endowment Funds	\$ -	\$ -	\$ 2 650Q	\$ 2 650Q
	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor restricted endowment Funds	-	-	2,650	2,650

Endowment net assets are currently being held in the Community's operating cash account. There was no endowment activity during the years ended December 31, 2013 and 2012.

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 16. NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended December 31, 2013 and 2012, net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

The following is a summary of net assets released from restrictions during the years ended December 31:

	<u>2013</u>	<u>2012</u>
For the benefit of employees	\$ 179,887	\$ 164,181
Music fund	5,540	
Fish Aquarium	505	
	<u>\$ 185,932</u>	<u>\$ 164,181</u>

### 17. MEDICAL MALPRACTICE CLAIMS

The Community purchases professional and general liability insurance to cover medical malpractice claims through a claims-made basis policy. There are no known claims and incidents that may result in the assertion of additional claims, as well as no claims from unknown incidents that may be asserted arising from services provided to patients. Based on historical evidence, the Community believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the financial statements as of December 31, 2013 and 2012.

### 18. FUNCTIONAL EXPENSES

The functional classification of expenses for the Community was as follows:

	<u>2013</u>	<u>2012</u>
Administrative and general	\$ 4,985,097	\$ 4,173,118
Program services	18,263,995	17,622,333
	<u>\$ 23,249,092</u>	<u>\$ 21,795,451</u>

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 19. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2013, the Community adopted FASB ASU No. 2012-01, "Health Care Entities (Topic 954): Continuing Care Retirement Communities- Refundable Advance Fees" (ASU 2012-01). 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. The Community does not limit refundable advance fees to the proceeds of reoccupancy which resulted in a loss reported as a cumulative effect of accounting change. The financial statements of prior years have been adjusted to apply the new method retrospectively in accordance with ASU 2012-01. The following table illustrates the financial statement line items for fiscal years 2012 and 2013 were affected by the change in accounting principle.

Balance Sheet			
As of December 31, 2013			
	Under Previous Method	Under ASU 2012-01	Effect of Change
Total assets	:1Q2:123 866	:1Q2 :123 866	
Refundable entrance fees	\$ 53,848,354	\$ 75,873,703	\$ 22,025,349
Obligation to provide future services		6,083,444	6,083,444
Other liabilities	<u>54,397,544</u>	<u>54,397,544</u>	
Total liabilities	108,245,898	136,354,691	28,108,793
Unrestricted net assets (deficit)	(6,162,778)	(34,271,571)	(28,108,793)
Temporarily restricted net assets	38,096	38,096	
Permanently restricted net assets	<u>2,650</u>	<u>2,650</u>	
Total net assets (deficit)	(6,122,032)	(34,230,825)	(28,108,793)
Total liabilities and net assets	<u>102,123,866</u>	<u>102,123,866</u>	

# Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

## 19. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE...continued

	Balance Sheet As of December 31, 2012		
	Under Previous Method	Under ASU 2012-01	Effect of Change
Total assets	\$jQ4 435 552	\$jQ4 435 552	\$
Refundable entrance fees	\$ 54,734,710	\$ 74,850,059	\$ 20,115,349
Obligation to provide future services		7,834,609	7,834,609
Other liabilities	<u>54,217,836</u>	<u>54,217,836</u>	
Total liabilities	108,952,546	136,902,504	27,949,958
Unrestricted net assets (deficit)	(4,562,571)	(32,512,529)	(27,949,958)
Temporarily restricted net assets	42,927	42,927	
Permanently restricted net assets	<u>2,650</u>	<u>2,650</u>	
Total net assets (deficit)	(4,516,994)	(32,466,952)	(27,949,958)
Total liabilities and net assets	104,435,155	104,435,152	

	Statement of Operations Year Ended December 31, 2013		
	Under Previous Method	Under ASU 2012-01	Effect of Change
Entrance fees earned and cancellation penalties	\$ 3,180,928	\$ 1,270,928	\$ (1,910,000)
Other unrestricted revenues and support	<u>18,686,211</u>	<u>18,686,211</u>	
Total unrestricted revenues and other support	21,867,139	19,957,139	(1,910,000)
Total expenses	<u>23,249,092</u>	<u>23,249,092</u>	
Loss from operations	(1,381,953)	(3,291,953)	(1,910,000)
Change in obligation to provide future services		1,751,165	1,751,165
Other unrestricted nonoperating gain (losses)	<u>(515,530)</u>	<u>(515,530)</u>	
Total unrestricted nonoperating gain (losses)	(515,530)	1,235,635	1,751,165
Deficit of revenues over expenses	(1,897,483)	(2,056,318)	(158,835)
Other changes in unrestricted net assets	297,276	297,276	
Change in unrestricted net assets	<u>(i 000 201)</u>	<u>\$ (i 159 042)</u>	<u>\$ (i58 835)</u>



# Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

## 19. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE...continued

Statement of Operations Year Ended December 31, 2012			
	Under Previous Method	Under ASU 2012-01	Effect of Change
Entrance fees earned and cancellation penalties	\$ 3,103,815	\$ 1,098,426	\$ (2,005,389)
Other unrestricted revenues and support	<u>18,711,823</u>	<u>18,711,823</u>	
Total unrestricted revenues and other support	21,815,638	19,810,249	(2,005,389)
Total expenses	<u>21,795,451</u>	<u>21,795,451</u>	
Income (loss) from operations	20,187	(1,985,202)	(2,005,389)
Change in obligation to provide future services		(5,426,027)	(5,426,027)
Other unrestricted nonoperating gain (losses)	<u>675,175</u>	<u>675,175</u>	
Total unrestricted nonoperating gain (losses)	675,175	(4,750,852)	(5,426,027)
Excess (deficit) of revenues over expenses	695,362	(6,736,054)	(7,431,416)
Other changes in unrestricted net assets	529,253	529,253	
Change in unrestricted net assets	<u>1,224,615</u>	<u>(6,206,801)</u>	<u>(7,431,416)</u>
Statement of Changes in Net Assets (Deficit) Year Ended December 31, 2013			
	Under Previous Method	Under ASU 2012-01	Effect of Change
Loss from operations	\$ (1,381,953)	\$ (3,291,953)	\$ (1,910,000)
Unrestricted nonoperating losses	(515,530)	1,235,635	1,751,165
Other changes in unrestricted net assets	<u>297,276</u>	<u>297,276</u>	
Decrease in unrestricted net assets	(1,600,207)	(1,759,042)	(158,835)
Decrease in temporarily restricted net assets	(4,831)	(4,831)	
Change in net assets	(1,605,038)	(1,763,873)	(158,835)
Net deficit at beginning of year	(4,516,994)	(32,466,952)	(27,949,958)
Net deficit at end of year	<u>\$ (6,122,032)</u>	<u>\$ (34,230,825)</u>	<u>\$ (28,108,793)</u>

# Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

## 19. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE...continued

Statement of Changes in Net Assets (Deficit) Year Ended December 31, 2012			
	Under Previous Method	Under ASU 2012-01	Effect of Change
Income from operations	\$ 20,187	\$ (1,985,202)	\$ (2,005,389)
Unrestricted nonoperating gains	675,175	(4,750,852)	(5,426,027)
Other changes in unrestricted net assets	<u>529,253</u>	<u>529,253</u>	
Increase (decrease) in unrestricted net assets	<u>1,224,615</u>	<u>(6,206,801)</u>	(7,431,416)
Increase in temporarily restricted net assets	<u>4,590</u>	<u>4,590</u>	
Change in net assets	1,229,205	(6,202,211)	(7,431,416)
Net deficit at beginning of year	(5,746,199)	(26,264,741)	(20,518,542)
Net deficit at end of year	<u>\$ (4,516,994)</u>	<u>\$ (32,466,952)</u>	<u>\$ (27,949,958)</u>

As a result of the accounting change, the net deficit as of January 1, 2012 increased from \$5,746,199 as originally reported, to \$26,264,741 under ASU 2012-01.

Statement of Cash Flows Year Ended December 31, 2013			
	Under Previous Method	Under ASU 2012-01	Effect of Change
Change in net assets	<u>\$ (1,605,038)</u>	\$ (1,763,873)	\$ (158,835)
Amortization of entrance fees	(3,180,928)	(1,270,928)	1,910,000
Change in obligation to provide future services		(1,751,165)	(1,751,165)
Other adjustments	<u>3,553,133</u>	<u>3,553,133</u>	
Total adjustments	<u>372,205</u>	<u>531,040</u>	158,835
Net cash used in operating activities	(1,232,833)	(1,232,833)	
Net cash used in investing activities	(2,519,589)	(2,519,589)	
Net cash provided by financing activities	1,987,763	1,987,763	
Change in cash and cash equivalents	(1,764,659)	(1,764,659)	
Cash and cash equivalents at beginning of year	4,295,510	4,295,510	
Cash and cash equivalents at end of year	<u>\$ 2,530,851</u>	<u>2,530,851</u>	

## Edgewood Retirement Community, Inc.

Notes to Financial Statements

Years Ended December 31, 2013 and 2012

### 19. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE...continued

	Statement of Cash Flows Year Ended December 31, 2012		
	Under Previous Method	Under ASU 2012-01	Effect of Change
Change in net assets	\$ 1,229,205	\$ (6,202,211)	\$ <u>(7,431,416)</u>
Amortization of entrance fees	(3,103,815)	(1,098,426)	2,005,389
Change in obligation to provide future services		5,426,027	5,426,027
Other adjustments	<u>3,928,296</u>	<u>3,928,296</u>	
Total adjustments	824,481	8,255,897	<u>7,431,416</u>
Net cash provided by operating activities	2,053,686	2,053,686	
Net cash used in investing activities	<u>(2,779,315)</u>	<u>(2,779,315)</u>	
Net cash provided by financing activities	<u>2,636,495</u>	<u>2,636,495</u>	
Change in cash and cash equivalents	1,910,866	1,910,866	
Cash and cash equivalents at beginning of year	<u>2,384,644</u>	<u>2,384,644</u>	
Cash and cash equivalents at end of year	\$ 4,295,510	\$ 4,295,510	\$

### 20. THIRD PARTY PAYMENT

During the year ended December 31, 2013, the Community became aware of billing errors for therapy services provided by a third party service provider. The Community performed an investigation of the matter and submitted a voluntary corrective payment of \$1,769,438 to Medicare. The Community is considering pursuing legal action against the third party service provider who provided the services in question to the Community's residents.

### 21. SUBSEQUENT EVENTS

In preparing these financial statements, the Community has evaluated events and transactions for potential recognition or disclosure through April 17, 2014, the date the financial statements were issued.

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**EXHIBIT D: UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**as of 3/31/2016**

**Edgewood Retirement Community, Inc.**  
**Income Statement Consolidated**  
**For the Period Ending March 31, 2016**

	Prior Year Actual	Year to Date Budget	Year to date Actual	Variance
Revenue				
Independent Revenue	14,935,221	3,830,421	3,722,024	108,398
Health Center	5,774,070	1,486,175	1,446,288	39,887
Total Revenue	\$ 20,709,291 =====	\$ 5,316,596 =====	\$ 5,168,311 =====	\$ (148,285) =====
Expense				
General and Administration	3,881,555	1,052,099	941,485	(110,614)
Wellness:-- Maintenance Environmental	274,635	79,476	68,431	(11,045)
Services Food Service	2,877,261	818,895	703,326	(115,569)
Resident Services	877,007	228,447	212,135	(16,312)
Health Center	3,076,555	798,652	814,038	15,386
	2,618,133	614,764	572,083	(42,681)
	4,824,461	1,234,239	1,198,266	(35,973)
Total Expense	\$ 18,429,607	\$ 4,826,572	\$ 4,509,764	\$ 316,808
Net Operating Income	2,279,684	490,024	658,547	168,523
Other Income	=====	=====	=====	=====
Entrance Fee Amortization				
Interest Income	1,250,616	276,588	246,471	30,117
Future Service Obligations	274,410	100,566	41,322	59,244
Realized / Unrealized Gains	25,000	0	0	0
	(371,669)	0	(603)	603
Total Other Income	1,178,357	377,154	287,190	(89,964)
Other Expenses				
Amortization/Depreciation				
Interest & Professional Fees	3,629,576	893,571	961,018	67,447
Miscellaneous Expense	1,244,732	314,340	323,851	9,511
	0	0	0	0
Other Expenses before Unrealized Loss	(4,874,308)	(1,207,911)	(1,284,869)	(76,958)
Net Income before Unrealized Gain / loss	(1,416,266)	(340,733)	(339,131)	1,602
Unrealized Gain / Loss Derivatives	66,011	0	0	0
Net Income/ (Loss)	=====	=====	=====	=====
	(1,350,256)	(340,733)	(339,131)	1,602

**Edgewood Retirement Community, Inc.**  
**Balance Sheet Summary**  
**For the Period Ending March 31, 2016**

	<u>Prior Year End</u>	Current Month	<u>Variance</u>
Assets			
Cash	6,236,888	6,861,207	624,319
Investments	18,233,490	18,274,711	41,220
Debt Service	45,409	360,180	314,771
Construction Fund	94,920	94,927	7
Accounts Receivable	1,516,109	1,682,431	166,322
Inventory	69,831	112,539	42,708
Prepaid	268,934	292,782	23,848
Fixed Assets (NET)	76,185,098	75,830,680	(354,418)
Other Assets	1,286,907	1,238,135	(48,772)
Total Assets	\$103,937,587 =====	\$104,747,591 =====	\$ 810,005 =====
Liabilities			
Accts Payable	533,424	822,766	(289,342)
Accrued Payroll	933,806	1,085,532	(151,726)
Accrued Expenses	40,085	40,297	(212)
Other Current	7,310,712	7,643,467	(332,756)
Long Term (Includes Bonds)	37,880,563	37,750,879	129,684
Refundable Fees	81,088,034	81,677,115	(589,081)
Deferred Entrance Fees	7,306,986	7,218,516	88,471
Future Service Obligations	0	0	0
Total Liabilities	\$135,093,610 =====	\$136,238,572 =====	\$ (1,144,962) =====
Equity			
Retained Earnings (Loss)	(31,156,023)	(31,495,155)	339,131
Total Equity and Liabilities	\$103,937,587 =====	\$104,743,418 =====	\$ (805,831) =====