

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.

ROUTE 646, 132 LANCASTER DRIVE

IRVINGTON, VIRGINIA 22480

DISCLOSURE STATEMENT

The filing of this Disclosure Statement with the State Corporation Commission does not constitute approval, recommendation or endorsement of Rappahannock Westminster-Canterbury, Inc. by the State Corporation Commission.

FILED
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance

August 3, 2017

Commissioner of Insurance

BY:

Nataliya I. Kaplan

Summary of Financial Information

Rappahannock Westminster-Canterbury, Inc.
For The Years Ended March 31,

	<u>2017</u>	<u>2016</u>
Total Assets	\$43,156,461	\$39,178,676
Total Liabilities	\$49,259,046	\$45,259,508
Total Net Assets	\$(6,102,585)	\$ (6,080,832)
Total Revenues	\$17,003,169	\$16,210,283
Total Expenses	\$17,890,343	\$16,918,916
Operating Income (Loss)	\$ (887,174)	\$ (708,633)
Net Income (Loss)	\$ 41,845	\$ (867,191)

Narrative of financial condition:

The fiscal year ended March 31, 2017 concluded with a net income of \$41,845 resulting in addition to total net assets. Operating revenue reflects an increased number of new resident move-ins to Independent Living resulting in year-end occupancy of 93%. Health Center revenue was strong throughout the year. Other areas of revenue reflected less than budgeted numbers due to timing, census mix and staffing challenges. Expenses exceeded budget in the areas of supplies, and facilities costs. These costs were impacted by market adjustments and maintenance/preventative maintenance steps. Interest savings on the 2012 refinancing continue to accrue for future principal retirement strengthening the investment position. Internal financing was provided for 45% of the Life Enrichment Center and cash ended the year in a strengthened position due to new resident activity.

Occupancy Information:	Capacity of Units	Year End Occupancy	Year End Percentage Occupancy
Independent Living	153	142	93%
Assisted Living	38	36	95%
Nursing	42	39	93%

Continuing Care Provider

Rappahannock Westminster-Canterbury, Inc., which is referred to in the following as "RWC" or "Corporation", is a nonstock, nonprofit Virginia Corporation organized under the laws of the

Commonwealth of Virginia. RWC was issued a certificate of incorporation by the State Corporation Commission, Commonwealth of Virginia, on September 26, 1980. It is located on Route 646 in Lancaster County, with a mailing address of 132 Lancaster Drive, Irvington, Virginia 22480.

Officers, Directors, Trustees, Managing and General Partners, and Certain Persons Who Hold Equity or Beneficial Interests

BOARD OF TRUSTEES

<u>BOARD MEMBER</u>	<u>PRINCIPAL BUSINESS AFFILIATION AND ADDRESS</u>
John E. Byers	Headmaster, Christchurch School 49 Seahorse Lane Christchurch, VA 23031
Jeffrey Joy Vice Chairman	Retired, IlliniCare Health Plan 87 Talon CT Lancaster, VA 22503
The Very Rev. David May Chairman	Minister, Grace Episcopal Church 303 South Main Street P.O. Box 1059 Kilmarnock, VA 22482
Brandon Rohr Louisell	Retired, Insurance Executive RWC 132 Lancaster Dr. Irvington, VA 22480
Kathy Vesley-Massey	President, Bay Aging P.O. Box 610 Urbanna, VA 23175
Dr. Merthia Haynie	Owner, Abilities Abound Physical Therapy P.O. Box 197 Callao, VA 22435
Dwight Clarke	Partner, Dehnert, Clarke & Co., P.C. P.O. Box 420 Irvington, VA 22480
Rev. Judy Thomson	Retired Presbyterian Pastor 458 Newton RD White Stone, VA 222578
Nancy O'Shaughnessy	Community Volunteer/Retired Teacher 170 Deep Water DR

White Stone, VA 22478

William Reisner	President, Kilmarnock New Horizons, Inc. P.O. Box 248 Wicomico Church, VA 22579
Norman Faulkner	President, NWP Energy Company P.O. Box 556 Irvington, VA 22480
Rebecca Foster	Senior Vice President, CFO & Corporate Secretary Chesapeake Bank P.O. Box 1419 Kilmarnock, VA 22482

OFFICERS

Stuart A. Bunting	President, CEO and Secretary
John C. Fitch	Executive Vice President
Penny K. Smith	Vice President, CFO and Treasurer
Phillip Williams	Vice President Operations
LuAnne Davis	Vice President Marketing & Development
Bernard P. Lockstampfor, Jr.	Assistant Secretary/Treasurer

The Board of Trustees is composed of unpaid volunteers who are elected for three-year terms. Approximately one-third of the board membership is elected at each annual meeting. No member of the board or any other person has an equity or beneficial interest in the Corporation.

Business Experience of; Acquisition of Goods and Services from; and Criminal, Civil and Regulatory Proceedings Against the Provider; its Officers, Directors, Trustees, Managing and General Partners, Certain Persons Who Hold Equity or Beneficial Interests; and the Management

- a. Give a description of any specific business experience in the operation or management of similar facilities.

Stuart A. Bunting, age 48, joined RWC in 1999 as Director of Administrative and Financial Services. He was appointed Senior Vice President and CFO in 2001. He was

appointed President and CEO on August 18, 2004. Prior to joining RWC, he was a Program Administrator at Newport News Shipbuilding from 1997-1999. He was formerly Assistant Vice President and Securities Operations Manager for Wachovia Operational Services Corporation. He holds a BBA in Trust Management from Campbell University and a MBA from University of North Carolina-Greensboro. He is a Certified Financial Planner designee and a Certified Aging Services Professional (CASP). He is active in LeadingAge Virginia (formerly the Virginia Association of Non-Profit Homes for the Aging) and formerly served on its Board of Directors and as Treasurer. He is a member of the Northern Neck Advisory Board of Chesapeake Bank and a past member of the Board of Directors of the Lancaster County Chamber of Commerce. He is currently licensed as a nursing home administrator and preceptor.

John C. Fitch, Executive Vice President, age 77, holds a PhD. in Organizational and Behavioral Psychology and a MBA in Finance from Case Western Reserve University (formerly Western Reserve University), Cleveland, Ohio. Fitch has 55 years of relevant healthcare and health care related experience to include Administrative Manager to the Dean of the Medical School (Case Western Reserve University); Director of Personnel & Assistant Administrator (Lakewood Hospital); Chief Financial Officer, Chief Operating Officer, and Executive Director (St. John Hospital); Treasurer (St. John and St. John Westshore Corporation); President, (St. John and St. John Westshore Hospitals); President & CEO (Wyandotte Hospital); Senior Vice President (Henry Ford Health System) and President of John C. Fitch & Associates, Inc. (Management Consulting Firm). Fitch had held several civic and professional association offices; has been a featured speaker at several seminars and conferences; held several academic visiting lectureship appointments; is a retired Board Member of ONEIKA Insurance and Heritage Federal Savings Bank; and is a Life Fellow American College of Healthcare Executives.

Penny Smith, age 47, joined RWC in September 2003. In December 2003, she was promoted to Finance and Accounting Manager and in February 2012, she was appointed Vice President, CFO and Treasurer. Her prior work experience included the areas of credit, receivables and taxes. She holds a BS in Accounting from Christopher Newport University, Masters in Taxation from Virginia Commonwealth University and a Certified Public Accountant license.

Phillip Lee Williams, age 51, joined RWC in 2010 as Director of Operations. He was appointed Vice President of Operations in 2016. He holds a Nursing Home Administrator's license, 2013; MBA from the University of Maryland, 1996; and BA from Hampden-Sydney College, 1989. He is a member of the Wiley Foundation Board, Steamboat Era Museum Board and the Lancaster by the Bay Chamber of Commerce board.

LuAnne Davis, 57, joined RWC in September 2015. In December 2016, she was promoted to Vice President – Marketing and Development. Her prior work experience includes over 35 years in healthcare to include hospice, home health, hospital and long-term care marketing and development experience. Davis was the previous Regional Marketing Manager for Hospice of Virginia, Director of Marketing and Development for Rappahannock General Hospital (now Bon Secours RGH). Working as a consultant for Van Scoyoc Associates of Alexandria, VA, Davis was a member of the project development and management team for several start-up CCRC communities, including RWC. She attended Blue Ridge Community College and James Madison University and

is a graduate of the National Planned Giving Institute and completed Grant Writing courses through the UVA School of Continuing Education. She is a current member of the Lancaster By the Bay Chamber of Commerce, Hospice Support Services of the Northern Neck, and a founding Board member of the Northern Neck YMCA.

Overall management of the Corporation is provided by Rappahannock Westminster-Canterbury, Inc.

- b. Give the name and address of any professional service, firm, association, foundation, trust, partnership or corporation or any other business or legal entity in which such person has, or which has in such person, a ten percent or greater direct or indirect interest and which it is presently intended will or may provide goods, leases or services to the provider of a value of \$500 or more, within any year, including:
- (1) A description of the goods, leases or services and the probable or anticipated cost thereof to the provider;
 - (2) The process by which the contract was awarded;
 - (3) Any additional offers that were received; and
 - (4) Any additional information requested by the Commission detailing how and why a contract was awarded.

Rebecca Foster is Senior Vice President, CFO & Corporate Secretary at Chesapeake Bank. RWC maintains the following accounts with Chesapeake Bank: operating checking (accounts payable), payroll, general fund, reservation fee escrow account, HRA and fellowship fund (this account is used to meet monthly demands on the fund and is not a primary investment vehicle). The criteria used in selecting a bank included convenience, availability of management, quality of service, and return on interest-bearing accounts. While Chesapeake Bank benefits with the flow of additional funds through its accounts, there is minimal cost to RWC as a result of its association with this bank. Chesapeake Bank also operates a branch bank within RWC. This bank serves the residents, employees and others.

Three banks were invited to offer proposals for the providing of bank services within the facility. Chesapeake Bank was the only institution to respond with a formal proposal.

Neither Rappahannock Westminster-Canterbury, Inc., nor the Administrators have a direct or indirect interest in a business or legal entity in which it is presently intended will or may provide goods, leases or services to RWC.

- c. Give a description of any matter in which such person:
- (1) Has been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable or enjoined in a civil action by final judgment if the felony or civil action involved fraud, embezzlement, fraudulent conversion or misappropriation of property; or
 - (2) Is subject to an injunctive or restrictive order of a court of record, or within

the past five years had any state or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, arising out of or relating to business activity or health care, including without limitation actions affecting a license to operate a foster care facility, nursing home, retirement home, home for the aged or facility registered under this chapter or similar laws in another state; or

- (3) Is currently the subject of any state or federal prosecution, or administrative investigation involving allegations of fraud, embezzlement, fraudulent conversion, or misappropriation of property.

None of the matters listed above apply to Rappahannock Westminster-Canterbury, Inc., or to any officer or trustee of the Corporation as evidenced by a signed statement from each member of the Board of Trustees and each officer. The referenced statements are maintained on file in the administrative office of RWC.

Ownership of Real Property

All real property is owned by Rappahannock Westminster-Canterbury, Inc., a nonprofit, nonstock corporation.

Location and Description of Real Property

Rappahannock Westminster-Canterbury is located on a 165-acre site on Route 646 in Lancaster County. The facility consists of 78 cottages grouped in clusters and connected to the main service building by a covered walkway; 40 free-standing cottages; a three story apartment building containing 37 apartments which is connected to the main service building by an enclosed walkway; an indoor heated swimming pool; a main service building which contains administrative offices, activity areas, the central dining areas, the main food preparation kitchen, in-house laundry, storage rooms, a 42-bed health care facility (Westbury Center), 38-bed assisted living center (Westbury Court), office space for supportive services, a branch bank, a beauty shop, a resident clinic and an exercise room. Other amenities include a fishing lake, a nature trail and a bird sanctuary.

Capital expansion of a new Health and Wellness Center was approved by the RWC Board of Trustees at the October 2015 meeting. The 18,000 square foot center includes fitness classrooms, a new pool, and creative arts space. Since its inception in 2003, the wellness program has grown steadily to the current level of greater than 80% resident participation. The new facility is designed to accommodate current demand while allowing room for growth to meet future demand. The completion date was May 2017.

Linden and Willow Free-standing Homes - At the February 2017 meeting, the Board of Trustees approved expansion of Independent Living residences with the addition of six new free-standing cottages. Currently, there is a waiting list for this type of unit with little chance of turnover. The expansion will proceed based on presale and at a minimum of two per phase. Four units are under construction with projected completion dates of September and October.

Affiliations with Religious, Charitable or Other Nonprofit Organizations; Tax Status of Provider

Give a statement as to:

- a. Whether the provider is or ever has been affiliated with a religious, charitable or other nonprofit organization, the nature of any such affiliation, and the extent to which the affiliate organization is or will be responsible for the financial and contractual obligation of the provider.

Rappahannock Westminster-Canterbury, Inc, was organized and created by Episcopalians and Presbyterians located in the vicinity of Lancaster County, Virginia. This group of local citizens was assisted in the development of RWC by Virginia Diocesan Homes and Westminster Presbyterian Homes, Inc. These two Virginia Corporations were organized, respectively, by the Episcopal Diocese of Virginia and the Presbyterian Synod of the Mid-Atlantic for the purpose of acting on the behalf of the Diocese and Synod in their ministry to the aging to establish residential homes for aged men, women, and couples.

While RWC is the result of a joint planning effort undertaken by Episcopalians and Presbyterians, the Corporation is not an agent of the Episcopal Diocese of Virginia or the Presbyterian Synod of the Mid-Atlantic, or any of their affiliated entities, and the liability for the performance of RWC's obligations is limited to Rappahannock Westminster-Canterbury, Inc. RWC is totally independent of comparable facilities in Virginia and other states which are similarly organized and operated and use the name "Westminster-Canterbury" because of a church relationship.

- b. Any provision of the Federal Internal Revenue Code under which the provider is exempt from the payment of income tax.

RWC is exempt from federal income tax under section 501(c) (3) of the Internal Revenue Code.

Services Provided Under Continuing Care Contracts

The Rappahannock Westminster-Canterbury Residence and Services Agreement is attached to and made a part of this Disclosure Statement as Attachment I. A description of the services provided by RWC is contained on pages 2-5 of the Residence and Services Agreement. Services provided by RWC include the following: occupancy of a living unit; three meals per day billed according to the meal plan selected; use of social and recreational facilities, and common areas such as dining areas, pub and lounges; an indoor heated swimming pool; computer room; utilities such as water, heating, electricity, air conditioning, trash removal, and high speed internet access; major housekeeping services; lawn and maintenance services; basic cable; centrally located washers and dryers; a private mail box; storage space; parking space; security; use of the resident health clinic; adult day care, assisted living, nursing care and skilled nursing care on a permanent or temporary basis.

Other services and facilities are available through RWC for an additional charge and include the following: meals and lodgings for guests; transportation; personal laundry; medicine, drugs,

vitamins and food supplements; private room surcharges; high speed internet service; propane or LP gas; physical therapy, occupational therapy, speech therapy; massage therapy; podiatrist, or other health professionals; certain services at the resident health clinic, temporary care in the residence; manicures and pedicures; personal fitness training; special recreational, entertainment, or arts and crafts events; concierge services; and home care services.

Fees Required of Residents

An initial reservation deposit of One Thousand Dollars (\$1,000) is required upon execution of the Reservation Agreement or the Future Residency Agreement. An amount equal to Ten Percent (10%) of the total Entrance Fee Option selected, less the One Thousand Dollar (\$1,000) Reservation Deposit or Future Residency Fee is due and payable within ten (10) days of receipt of written notice of acceptance by the Admissions Committee and upon execution of the Residence and Services Agreement. The balance of Ninety Percent (90%) of the total Entrance Fee for the Entrance Fee Option selected is due and payable at the earlier of the date of occupancy or within ninety (90) days of the letter of written notice of acceptance by the Admissions Committee unless otherwise agreed to in writing by RWC.

Generally, residency is open to any person 65 years of age or older who is ambulatory and in satisfactory health. An individual aged 60 to 64 may be accepted upon payment of an additional four percent of the Entrance Fee for each year under the age of 65.

Residents of RWC are responsible for two basic financial requirements, both of which are based on the size of the living unit occupied. The Entrance Fee is a one time, lump sum payment, which is actuarially determined to provide for future health care, and shall not be increased or changed during the duration of the Residence & Services Agreement except for changes required by state or federal programs. The monthly fee is payable in advance on the first day of each month beginning with the effective date of the Residence & Services Agreement. The basic monthly fee will not increase should the resident require care in a semi-private room in the Westbury Center on a temporary or permanent basis, unless Entrance Fee Options II or IV is selected. Provisions for each option are detailed on Page 16 of this Disclosure Statement and included in the revised "Residence and Services Agreement" [Attachment I]. Residents will be invoiced monthly for any services and supplies provided that RWC is not obligated to provide, and those invoices are to be paid within thirty days after receipt.

The Entrance Fees and monthly fees may be adjusted by RWC upon thirty days written notification. RWC will endeavor to maintain the fees at the lowest possible rate consistent with sound financial practice and the maintenance of the quality of services including health care services. The fees may be adjusted only by the Board of Trustees of the Corporation. While the fees can be adjusted at any time, such action is most likely to occur at the beginning of the fiscal year (April 1) and is based on the annual operating budget adopted by the Board of Trustees. It is anticipated that the fees will be increased annually.

To date, RWC has not accepted reservation fees on unavailable cottage or apartment units. Reservation fees for cottages and apartments are being accepted only on units that are immediately available. These reservation fees are not being escrowed but are being maintained in a separate account at Chesapeake Bank, Kilmarnock, Virginia until the unit is occupied or the contract

start date applies. The interest earnings on the deposited reservation fees are retained by RWC and deposited to the operating account of RWC.

Fees will be accepted on free-standing cottage units that are under construction and not immediately available. A reservation fee for free-standing cottages in excess of the One Thousand (\$1,000.00) dollars is placed in an escrow account with Chesapeake Bank. The escrowed funds will be maintained in an account separate and apart from RWC's business accounts. The funds deposited in the escrow account shall remain the property of the prospective resident until that resident moves to RWC. Upon receipt of a certificate of occupancy, the fees received from the resident shall be released from the escrow account to RWC. In the event of cancellation of the reservation agreement prior to move-in, the fees will be returned to the resident as soon as reasonable from the date of such cancellation. The earnings on the escrowed funds are payable to RWC and are deposited to the operating account of RWC.

In April of 1995, RWC developed a priority reservation program for those who would like to become residents of this community at some time in the future. This Future Residency Program allows the future resident to secure a priority to become a resident and offers a host of membership privileges while waiting to move in. The fee for the Future Residency Program is One Thousand (\$1,000.00) dollars. The fee will apply toward the fees which will be paid to RWC upon occupancy and is refundable should the agreement be terminated prior to occupancy.

Membership privileges in the Future Residency Program include: meals in the dining areas, use of the common areas and amenities with prior arrangements, and participation in planned activities.

In April of 1993, RWC expanded the entrance fee option offerings with two refundable entrance fee options in addition to the full lifecare option. In November of 1995, RWC again expanded the entrance fee options by offering a new type titled "365-Day Deductible", that lowers the entrance fee for residents but increases the monthly fee for health care services received during the first 365 days, cumulative not consecutive, to the current per diem rate. After the 365-day deductible is met, the monthly fee reverts to the current monthly fee charged for the living unit that is, or had been, occupied by the resident.

The schedules that follow reflect the changes that have occurred in the Entrance Fee and the Monthly Fee, and include the current fee schedule. The monthly fee schedule for independent living units applies to all four options.

Note: Throughout this Disclosure Statement and Residence Agreement the use of the terms Founder's Fee and Entrance Fee are synonymous.

Note: The inventory of cottages/apartments remains the same for this fiscal year. The fees differ because of the square footage of the living units.

Entrance Fee 04/01/2013

Unit Type		Option I	Option II	Option II	Option I
COTTAGES	#Persons				
Aster Studio	1	134,200	161,100	174,500	120,800
Aster Deluxe Studio	1 2	157,800	189,300	205,100	142,000
Birch 1 Bdrm	1	167,400	200,800	217,700	150,700
Birch Deluxe 1 Bdrm	1 2	214,500	257,400	278,900	193,100
Cedar 2Bdrm 1 Bath	1 2	217,600	261,100	282,800	195,800
Cedar Deluxe 2 Bdrm/1.5Ba	1 2	233,800	280,500	303,900	210,300
Dogwood 2 Bdrm/2 Ba	1 2	234,000	280,800	304,300	210,600
Dogwood Dlx 2 Bdrm/2 Ba	1 2	278,800	334,500	362,400	250,900
Holly 3 Bdrm/3ba	1 2	404,600	485,500	526,000	N/A
Laurel 2 Bdrm/2 Ba	1 2	331,000	397,200	430,200	297,800
APARTMENTS					
Elm Studio	1 2	124,800	149,700	162,300	112,300
Franklinia 1 Bdrm	1 2	167,200	200,600	217,400	150,500
Gardenia 2 Bdrm/1 Ba	1 2	220,900	265,100	287,200	198,800
Hydrangea 2 Bdrm/2 Ba	1 2	231,600	278,100	301,200	208,500
Juniper 2 Bdrm/2 Ba	1	307,800	369,300	400,100	277,000
Ivy 2Bdrm/2Ba	1	343,400	412,200	446,500	309,100
2ND Person Fee		49,000	58,800	63,700	44,100
FREE-STANDING					
Azalea 2 Bdrm/2 Ba	1 2	420,100	504,200	546,200	N/A
Boxwood 2 Bdrm/2 Ba	1 2	467,400	560,800	607,500	N/A
Camelia 3 Bdrm/3 Ba	1 2	483,000	579,600	627,900	N/A

2ND Person Fee		49,000	58,800	63,700	N/A

Entrance Fee 04/01/2014

Unit Type		Option I	Option II	Option II	Option IV
COTTAGES	#Persons				
Aster Studio	1	134,200	161,100	174,500	120,800
Aster Deluxe Studio	1 2	157,800	189,300	205,100	142,000
Birch 1 Bdrm	1	167,400	200,800	217,700	150,700
Birch Deluxe 1 Bdrm	1 2	214,500	257,400	278,900	193,100
Cedar 2Bdrm 1 Bath	1 2	217,600	261,100	282,800	195,800
Cedar Deluxe 2 Bdrm/1.5Ba	1 2	233,800	280,500	303,900	210,300
Dogwood 2 Bdrm/2 Ba	1 2	234,000	280,800	304,300	210,600
Dogwood Dlx 2 Bdrm/2 Ba	1 2	278,800	334,500	362,400	250,900
Holly 3 Bdrm/3ba	1 2	404,600	485,500	526,000	N/A
Laurel 2 Bdrm/2 Ba	1 2	331,000	397,200	430,200	297,800
APARTMENTS					
Elm Studio	1 2	124,800	149,700	162,300	112,300
Franklinia 1 Bdrm	1 2	167,200	200,600	217,400	150,500
Gardenia 2 Bdrm/1 Ba	1 2	220,900	265,100	287,200	198,800
Hydrangea 2 Bdrm/2 Ba	1 2	231,600	278,100	301,200	208,500
Juniper 2 Bdrm/2 Ba	1	307,800	369,300	400,100	277,000
Ivy 2Bdrm/2Ba	1	343,400	412,200	446,500	309,100
2ND Person Fee		49,000	58,800	63,700	44,100
FREE-STANDING					
Azalea 2 Bdrm/2 Ba	1 2	420,100	504,200	546,200	N/A
Boxwood 2 Bdrm/2 Ba	1 2	467,400	560,800	607,500	N/A
Camelia	1	483,000	579,600	627,900	N/A

3 Bdrm/3 Ba	2				
2ND Person Fee		49,000	58,800	63,700	N/A

Entrance Fee 04/01/2015

Unit Type		Option I	Option II	Option II	Option IV
COTTAGES	#Persons				
Aster Studio	1	135,542	162,711	176,245	122,008
Aster Deluxe Studio	1 2	159,378	191,193	207,151	143,420
Birch 1 Bdrm	1	169,074	202,808	219,877	152,207
Birch Deluxe 1 Bdrm	1 2	216,645	259,974	281,689	195,031
Cedar 2Bdrm 1 Bath	1 2	219,776	263,711	285,628	197,758
Cedar Deluxe 2 Bdrm/1.5Ba	1 2	236,138	283,305	306,939	212,403
Dogwood 2 Bdrm/2 Ba	1 2	236,340	283,608	307,343	212,706
Dogwood Dlx 2 Bdrm/2 Ba	1 2	278,800	334,500	362,400	250,900
Holly 3 Bdrm/3ba	1 2	404,600	485,500	526,000	N/A
Laurel 2 Bdrm/2 Ba	1 2	331,000	397,200	430,200	297,800
APARTMENTS					
Elm Studio	1 2	126,048	151,197	163,923	113,423
Franklinia 1 Bdrm	1 2	168,872	202,606	219,574	152,005
Gardenia 2 Bdrm/1 Ba	1 2	223,109	267,751	290,072	200,788
Hydrangea 2 Bdrm/2 Ba	1 2	233,916	280,881	304,212	210,585
Juniper 2 Bdrm/2 Ba	1	307,800	369,300	400,100	277,000
Ivy 2Bdrm/2Ba	1	343,400	412,200	446,500	309,100
2ND Person Fee		49,000	58,800	63,700	44,100
FREE-STANDING					
Azalea 2 Bdrm/2 Ba	1 2	420,100	504,200	546,200	N/A
Boxwood 2 Bdrm/2 Ba	1 2	467,400	560,800	607,500	N/A
Camelia	1	483,000	579,600	627,900	N/A

3 Bdrm/3 Ba	2				
2ND Person Fee		49,000	58,800	63,700	N/A

Entrance Fee 04/01/2016

Unit Type		Option I	Option II	Option III	Option IV
COTTAGES	#Persons				
Aster Studio	1	138,253	165,965	179,770	124,448
Aster Deluxe Studio	1 2	162,566	195,017	211,294	146,288
Birch 1 Bdrm	1	172,455	206,864	224,275	155,251
Birch Deluxe 1 Bdrm	1 2	220,978	265,173	287,323	198,932
Cedar 2Bdrm 1 Bath	1 2	224,172	268,985	291,341	201,713
Cedar Deluxe 2 Bdrm/1.5Ba	1 2	240,861	288,971	313,078	216,651
Dogwood 2 Bdrm/2 Ba	1 2	241,067	289,280	313,490	216,960
Dogwood Dlx 2 Bdrm/2 Ba	1 2	284,376	341,190	369,648	255,918
Holly 3 Bdrm/3ba	1 2	412,692	495,210	536,520	N/A
Laurel 2 Bdrm/2 Ba	1 2	337,620	405,144	438,804	303,756
APARTMENTS					
Elm Studio	1 2	128,569	154,221	167,201	115,691
Franklinia 1 Bdrm	1 2	172,249	206,658	223,965	155,045
Gardenia 2 Bdrm/1 Ba	1 2	227,571	273,106	295,873	204,804
Hydrangea 2 Bdrm/2 Ba	1 2	238,594	286,499	310,296	214,797
Juniper 2 Bdrm/2 Ba	1	313,956	376,686	408,102	282,540
Ivy 2Bdrm/2Ba	1	350,268	420,444	455,430	315,282
2ND Person Fee		49,980	59,976	64,974	44,982
FREE-STANDING					
Azalea 2 Bdrm/2 Ba	1 2	428,502	514,284	557,124	N/A
Boxwood 2 Bdrm/2 Ba	1 2	476,748	572,016	619,650	N/A

Camelia	1	492,600	591,192	640,458	N/A
3 Bdrm/3 Ba	2				
2ND Person Fee		49,980	59,976	64,974	N/A

Entrance Fee 04/01/2017

Unit Type		Option I	Option II	Option III	Option IV
COTTAGES	#Persons				
Aster Studio	1	142,401	170,944	185,163	128,181
Aster Deluxe Studio	1 2	167,443	200,868	217,633	150,677
Birch 1 Bdrm	1	177,629	213,070	231,003	159,909
Birch Deluxe 1 Bdrm	1 2	227,607	273,128	295,943	204,900
Cedar 2Bdrm 1 Bath	1 2	230,897	277,055	300,081	207,764
Cedar Deluxe 2 Bdrm/1.5Ba	1 2	248,087	297,640	322,470	223,151
Dogwood 2 Bdrm/2 Ba	1 2	248,299	297,958	322,895	223,469
Dogwood Dlx 2 Bdrm/2 Ba	1 2	292,907	351,426	380,737	263,596
Holly 3 Bdrm/3ba	1 2	425,073	510,066	552,616	N/A
Laurel 2 bdrm/2 Ba	1 2	347,749	417,298	451,968	312,869
APARTMENTS					
Elm Studio	1 2	132,426	158,848	172,217	119,162
Franklinia 1 Bdrm	1 2	177,416	212,858	230,684	159,696
Gardenia 2 Bdrm/1 Ba	1 2	234,398	281,299	304,749	210,948
Hydrangea 2 Bdrm/2 Ba	1 2	245,752	295,094	319,605	221,241
Juniper 2 Bdrm/2 Ba	1	323,375	387,987	420,345	291,016
Ivy 2Bdrm/2Ba	1	360,776	433,057	469,093	324,740
2ND Person Fee		51,479	61,775	66,923	46,331
FREE-STANDING					
Azalea 2 Bdrm/2 Ba	1 2	441,357	529,713	573,838	N/A
Boxwood 2 Bdrm/2 Ba	1 2	491,050	589,176	638,240	N/A

Camelia	1	507,440	608,928	659,672	N/A
3 Bdrm/3 Ba	2				
2ND Person Fee		51,479	61,775	66,923	N/A

Monthly Fee

Unit Type		4/1/2013	4/1/2014	4/1/2015	4/1/2016	4/1/2017
COTTAGES	#Persons					
Aster Studio	1	2,885	2,972	3,046	3,130	3,193
Aster Deluxe Studio	1	3,139	3,233	3,314	3,405	3,473
Birch 1 Bdrm	1	3,390	3,492	3,579	3,677	3,751
Birch Deluxe 1 Bdrm	1 2	3,647	3,756	3,850	3,956	4,035
Cedar 2Bdrm 1 Bath	1 2	3,908	4,025	4,126	4,239	4,324
Cedar Deluxe 2 Bdrm/1.5Ba	1 2	4,199	4,325	4,203	4,319	4,405
Dogwood 2 Bdrm/2 Ba	1 2	4,199	4,325	4,356	4,476	4,566
Dogwood Dlx 2 Bdrm/2 Ba	1 2	4,199	4,325	4,433	4,555	4,646
Holly 3 Bdrm/3ba	1 2	4,728	4,870	4,992	5,129	5,232
Laurel 2 Bdrm/2 Ba	1 2	4,468	4,602	4,717	4,847	4,944
APARTMENTS						
Elm Studio	1 2	2,778	2,861	2,933	3,014	3,074
Franklinia 1 Bdrm	1 2	3,356	3,457	3,543	3,640	3,713
Gardenia 2 Bdrm/1 Ba	1 2	3,727	3,839	3,935	4,043	4,124
Hydrangea 2 Bdrm/2 Ba	1 2	3,922	4,040	4,141	4,255	4,340
Juniper 2 Bdrm/2 Ba	1	4,275	4,403	4,513	4,637	4,730
Ivy 2Bdrm/2Ba	1 +	4,349	4,479	4,591	4,717	4,811
FREE-STANDING						
Azalea 2 Bdrm/2 Ba	1 2	4,538	4,674	4,791	4,923	5,021
Boxwood 2 Bdrm/2 Ba	1 2	4,952	5,101	5,229	5,373	5,480

Camelia	1	5,226	5,383	5,518	5,670	5,783
3 Bdrm/3 Ba	2					
2ND Person Fee		1,376	1,417	1,452	1,492	1,522

The average dollar amount of increase in monthly fees from 04/01/13 to 04/01/14 was \$129; 04/01/14 to 04/01/15 was \$81.00; 4/01/15 to 04/01/16 was \$111 and 04/01/16 to 04/01/17 was \$109.

Reference is made to the RWC Residence & Services Agreement which is a part of this Disclosure Statement as Attachment I. Additional information concerning the fee structure is found in this agreement. The Residence and Services Agreement also details the refund policies. Entrance Fee Option I is the original contract; the monthly fee will not increase when the resident moves from independent living to a higher level of care. If death or withdrawal occurs within the first 50 months of residence, the entrance fee is returned less 2% for each month of residence.

Entrance Fee Option II guarantees a minimum refund of 50% of the entrance fee paid for a slightly higher entrance fee as compared to Entrance Fee Option I. The Entrance Fee Option II contains a 25-month refund provision of 2% of the entrance fee being refunded if a resident's death or withdrawal occurs within the first 24 months. After that the refund is 50% of the entrance fee paid, indefinitely. The refund can be applied to cover the health care costs in the event the resident moves to a higher level of care on a temporary or permanent basis. When health services are needed, the resident is charged the per diem rate currently in effect for that level of care.

Entrance Fee Option III is identical to Option I in that the monthly fee will not increase when the resident moves from independent living to a higher level of care. In addition, it offers a guaranteed refund provision. The resident or resident's estate will be guaranteed a minimum refund of 50% of the entrance fee regardless of when death or withdrawal occurs. The 25-month refund provision is in effect initially. The refund declines at the rate of 2% per month of residence, and then stabilizes at 50%. There is a higher entrance fee associated with this option than the others.

Entrance Fee Option IV offers the lifecare benefit for long term health care but the resident assumes the short-term risk. This option is referred to as the 365-Day Deductible. With this option, the resident is charged the current per diem rate for any needed health care during the first 365-days (cumulative not consecutive). After the 365-Day Deductible is met, the rate reverts to the monthly fee then in effect for the independent living unit that is, or had been, occupied by the resident. The refund provision for this option is the same as with Entrance Fee Option I, decreasing 2% per month and reaching zero in the 50th month. This option is not available to residents living in the free-standing cottages.

BOND REFINANCING

On June 15, 1996, Rappahannock Westminster-Canterbury issued \$19,385,000 of Residential Care Facility Refunding Revenue Bonds (Series 1996) through the Lancaster County Industrial Development Authority.

The Board of Trustees of Rappahannock Westminster-Canterbury approved the refinancing plan as a means for improving the overall financial structure of RWC. The primary benefits of the refinancing were (1) reduction of interest rates, (2) increased flexibility under the terms and conditions of the

refunding agreement and the indenture of trust, and (3) selection of a Bond Trustee in Virginia.

The proceeds of the Series 1996 Bonds along with available funds held to secure the Series 1989 Bonds, were used to (1) refund the Series 1989 and 1995 Bonds, (2) pay accrued interest on the Series 1996 Bonds from June 15, 1996 until the date of issuance, (3) create a Debt Service Reserve fund in an amount equal to the maximum annual debt service on the Series 1996 Bonds and (4) pay a portion of the costs of issuance of the Series 1996 Bonds.

In March 2002, Rappahannock Westminster-Canterbury issued \$21,810,000 of Residential Care Facility Mortgage Revenue Bonds (Series 2002) through the Industrial Development Authority of Lancaster County. The Board of Trustees approved the refinancing to refund a portion of the Series 1996 Bonds to (1) take advantage of lower interest rates, (2) provide funds for certain improvements, and (3) increase flexibility under the terms and conditions of the refunding agreement and indenture of trust.

In December 2012, Rappahannock Westminster-Canterbury issued \$17,105,000 of Residential Care Facility Mortgage Revenue Refunding Bonds through the Industrial Development Authority of Middlesex County. The bonds were issued pursuant to a Bond Purchase and Loan Agreement between the Industrial Development Authority, Rappahannock Westminster-Canterbury, Union First Market Bank (Series 2012A) and Chesapeake Bank (Series 2012B) in a private placement. The Board of Trustees approved the refinancing of the Series 2002 Bonds to reduce borrowing costs and therefore the costs of providing for the residence and care of senior adults on a not-for-profit basis. The Series 2002 Bonds were fully defeased on December 27, 2012 and redeemed on January 3, 2013.

RESERVE FUNDING

The Debt Service Reserve Fund of \$1,623,500, funded by the Series 2002 Bonds and held by U S Bank, trustee, was released December 27, 2012. These funds were used in redemption of the Series 2002 Bonds and issuance of the Series 2012A and 2012B Bonds for reduction of principal. A Debt Reserve Fund is not required for the Series 2012A and 2012B Bonds.

RWC FOUNDATION/FELLOWSHIP FUND

The Rappahannock Westminster-Canterbury Foundation was formed in 1985 as a separate not-for-profit corporation, to operate exclusively for the benefit of RWC and to foster its operations and functions. The purpose of the Foundation is to solicit contributions and gifts to provide financial assistance to those individuals whose resources do not cover the full cost of their care at RWC.

CERTIFIED FINANCIAL STATEMENTS

The certified financial statements for Fiscal Years 2017 and 2016 presenting the combined operations of the Corporation and Foundation are attached hereto as Attachment II and made a part of this Disclosure Statement.

PRO FORMA INCOME STATEMENT

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.

Pro Forma Statement of Revenues & Expenses

Period: April 1, 2017 – March 31, 2018

Revenue:

Monthly Fees Income	\$8,361,677
Health Care Revenues (Net of Contractual Allowances)	4,158,994
Earned Founder's Fees	3,636,532
Other Income (Guest Meals, Catering, Pharmacy Medical Supplies, Home Care Serv, etc.)	2,409,843
Investment Income	<u>133,494</u>
Total Revenue	\$18,700,540

Operating Expenses:

Administrative (includes depreciation/amortization)	\$4,764,406
Home Services	1,293,448
Marketing	549,614
Development	3,670
Resident Services	377,174
Home Solutions	97,272
Housekeeping	923,566
Laundry	97,567
Dining Services	2,271,313
Buildings & Maintenance	1,498,627
Grounds Maintenance	566,307
Waste Water Treatment Plant	160,532
Westbury Center	3,161,208
Resident Clinic	430,559
Westbury Court/Club	1,149,381
Health Services Activities	306,612
Social Services	165,637
Health and Wellness	<u>151,411</u>

Total Operating Expenses (Before Interest Expense) \$17,968,304

Revenue over Expense \$ 732,236
Interest Expense \$ 592,278

Surplus of Revenue Over Expense \$ 139,958

The following assumptions relate to budgeted income:

MAJOR ASSUMPTIONS RELATING TO PRO FORMA INCOME AND EXPENSE STATEMENT FOR FY 2018

Monthly Fees: Monthly fees income was forecasted assuming an average occupancy of 95% in independent living throughout the year resulting in a total of 145 units occupied as of March 31, 2018. The forecasted revenues include additional income from second person fees in the same unit as well as an allowance for meal credits.

Health Care Revenues: Health Care Revenues reflect anticipated income from private-paying community patients, life care contract patients who have taken permanent residence in the Westbury Center and Westbury Court, as well as Medicare and Medicaid covered stays in the Westbury Center net of contractual allowances. Total budgeted inpatient days for FY 2018 is 27,241 which is broken down into 21,167 temporary and permanent resident days and 6,074 private-paying community, Medicare, and Medicaid patient days.

Earned Founder's Fees: RWC's method of amortizing founder's fees complies with the American Institute of Certified Accountants Statement of Position 90-8. The requirement states that amortization of founder's fees should be calculated annually based on the actuarially determined remaining life expectancy of each resident. For FY 2018 RWC has projected that it will record as income from founder's fees \$3,636,532 using the individual life expectancy amortization method.

Ancillary Income: Ancillary income is comprised of income generated by private duty services, guest meals, guest lodging, catering services, application fees, barber and beauty services, pharmaceutical and medical supplies, al laundry services, etc. It was calculated using prior year's statistics plus anticipated increases and decreases reflecting changing occupancy levels and usage by residents and guests.

Investment Income: Investment income reflects the anticipated interest and dividend earnings on all interest-bearing accounts within RWC's operating account. An overall average rate of return of approximately 6.5% was assumed on the average balances within the funds during the year.

Operating Expenses: Departmental operating expenses are calculated using historical costs in conjunction with anticipated inflationary factors, wage and salary adjustments, and program enhancements. The major operating departments are: Administration, RWC At Home, Marketing, Community Relations, Resident Life, Home Solutions, Housekeeping, Laundry, Dining Service, Building Maintenance, Grounds, Westbury Center, Resident Clinic and Health and Wellness.

Administrative Expense includes two major expense categories that are worthy of note.

- Depreciation Expense on all fixed assets and equipment is depreciated using the straight-line method and useful lives ranging from 4 to 35 years. Depreciation expense for FY 2018 is projected to be \$2,546,101.
- Amortization Expense reflects the charge over an accounting period of a portion of the refinancing costs. Amortization expense for FY 2018 is projected to be \$0.

Admission of New Residents

Residents moving into a cottage or apartment living unit must be physically and mentally capable of

living independently. The definition of independent living generally includes being able to perform all normal activities of daily living, including responding appropriately to emergency situations. A resident entering the Westbury Court may be assisted in the activities of daily living. However, that individual must not need what would generally be defined as nursing care.

RWC is open to any 65 years of age and older, except with a couple, in which case one may be under the age of 65. Neither religion, nor race, nor color, nor sex, nor national origin has any bearing upon a resident's acceptance or rejection for admission.

Additional information concerning the criteria for becoming or remaining a resident of RWC is contained in the Residence and Services Agreement which is made a part of this Disclosure Statement as Attachment I, especially Section II located on page 6.

Access to Facility by Nonresidents

In general, the services of RWC are intended for the use of residents, not for nonresidents. RWC provides services to non-resident clients in their ~~at~~ homes on a fee-for-service basis. These services include limited access to RWC facilities on a fee-for-service basis.

Residents are free to invite guests to their apartment or cottage for daily and overnight visits. Guest rooms are available at a reasonable rate for occasional overnight stays by residents' guests who may also purchase meals in the dining room at prevailing rates.

The RWC Westbury Center offers three levels of care to the residents of RWC. Those levels include skilled, intermediate, and assisted living care. To the extent that bed space is available, community residents are admitted directly to the Westbury Center. Community residents will pay a daily rate based on the services received, a rate established by the Board of Trustees. Additionally, the Board has adopted the following policy concerning access to RWC by nonresidents:

Policy:

RWC, a private institution whose mission is to serve its residents, may, as a community service, grant permission to outside groups for use of grounds, buildings, equipment or food service. Use by outside groups is not to interfere with comfort and well-being of residents nor unduly disrupt the daily activity of residents or staff. A charge may be made and will be communicated in advance based on an established fee schedule. Payment is expected upon delivery of service unless prior arrangements have been made. Generally, all food and beverages served in RWC common areas must be provided by the Dining Services department. Room reservations and catering arrangements canceled without sufficient notice to adjust food orders and/or staff is subject to a cancellation charge. Anyone using RWC grounds, buildings, equipment, or food service is responsible for any damage.

The Resident Life Coordinator is responsible for ensuring global issues are considered and this policy enforced. The President has authority to grant permission for new groups to utilize RWC facilities and services. RWC reserves the right to accept advance reservations from outside groups with the understanding they may be subject to change if RWC's needs change. Reservations by outside groups are not usually accepted more than 12 months in advance.

Procedure By Which A Resident May File A Complaint Or Disclose A Concern

Policy:

Rappahannock Westminster-Canterbury will endeavor to make the life of each resident as safe, comfortable, and pleasant as possible. At any time a resident has a concern, problem, or complaint, or if his or her responsible party has a concern, problem, or complaint, each is encouraged to make it known to the appropriate for resolution.

The resident has the right to voice and/or file grievances with the facility and to make recommendations for changes in the policies and services of the facility.

The resident is free from any form of coercion, discrimination, threats, or reprisal for having voiced or filed such grievances.

Procedure:

Independent Living:

1. Any resident or responsible party of a resident in the independent living units should direct his or her concern, problem, complaint, or suggestion to the Resident Life Coordinator.
2. If the problem is not resolved, it is referred to the President.
3. Any problem of sufficient magnitude that cannot be resolved by the steps outlined above may be brought to the attention of the Chairman of the Board of Trustees or his/her designee for resolution.
4. Residents are made aware that they may voice/file complaints with the Virginia Department of Social Services (Adult Care Residence section), or the Virginia Department of Health (Westbury Center). Telephone numbers are posted with "Resident Rights and Responsibilities".

Westbury Center:

1. Any resident or responsible party of a resident in the Westbury Center should direct his or her concern, problem, complaint, or suggestion to the Charge Nurse or the Director of Nursing or Resident Clinic Manager.
2. If the problem is not resolved, it will be referred to the Administrator.
3. If the problem is not resolved by the Administrator, it will be referred to the President.
4. Any problem of sufficient magnitude that cannot be resolved by the steps outlined above may be brought to the attention of the Chairman of the Board of Trustees or his/her designee for resolution.
5. Residents are made aware that they may voice/file complaints with the Virginia Department of Social Services (Adult Care Residence section), or the Virginia Department of Health (Westbury Center). Telephone numbers are posted with "Resident Rights and Responsibilities".

ATTACHMENT III

During fiscal year 1996, RWC adopted the provisions of the Financial Accounting Standards Board (FASB) Statement No. 116, which required the net assets and operations of the RWC Foundation be included in the RWC audited financial statements.

For the fiscal year ending March 31, 1997, RWC had to adopt FASB Statement No. 124 which required that investments in equity securities with readily determinable fair market values, and all investments in debt securities be reflected at fair market value in the balance sheet.

In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others, which revised the method of presentation of financial statements of two financially interrelated organizations. RWC has adopted the provisions of SFAS No. 136 in its 2000 financial statements and reclassified certain prior year amounts to conform to the current year's presentation. The implementation of SFAS had no effect on working capital or net assets for the years ended March 31, 2000 and 1999.

Variance between Pro Forma (budgeted) Income and Expenses and Actual Income and Expenses for the year ended March 31, 2017 based on audited financial statements.

REVENUES

1. Monthly Fees Income:

Budgeted	\$7,927,003
Actual	<u>7,290,156</u>
Difference	\$-636,847

Actual monthly fees income is less than budgeted due to occupancy, census mix and monthly fee move-in incentives; however, under FASB No. 116 rules there was \$325,805 of actual revenues from financial assistance given by the RWC Foundation which could not be recorded as income.

For budgetary comparison purposes, Monthly Fee Income was in excess of budget by \$311,043.

2. Health Care Revenues:

Budgeted	\$3,787,698
Actual	<u>4,148,014</u>
Difference	\$ +360,316

Actual Westbury Center revenues were over budget due to census mix variance.

3. Earned Founders Fees:

Budgeted	\$3,625,422
Actual	<u>3,297,852</u>
Difference	\$ -327,570

The actual founder's fees revenue recognized was below budget due to less than budgeted termination income.

4. Investment Income:

Budgeted	\$167,956
Actual	<u>127,409</u>
Difference	\$+40,547

The difference in investment income was primarily due to higher dividends than budgeted.

5. Other Income:

Budgeted	\$2,860,886
Actual	<u>2,139,735</u>
Difference	\$ -721,151

Actual Other Income was less than budget due to lower than anticipated revenues from resident services.

6. Contributions:

Budgeted	\$ 0
Actual	<u>673,022</u>
Difference	\$+673,022

Contributions represent funds received for fellowship assistance by the Foundation. They are being reported with RWC's revenues according to FASB No. 116.

7. Net Assets Released from Restrictions:

Budgeted	\$ 0
Actual	<u>256,000</u>
Difference	+256,000

Net Assets released from restrictions represents contributions to the Foundation for restricted purposes. With the adoption of FASB No. 116, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

EXPENSES

1. Administration (including Depreciation and Amortization, Bad Debt):

Budgeted	\$4,378,921
Actual	<u>4,529,801</u>
Difference	\$+150,880

Actual Administration expenses were budget in employment costs, facilities, licenses and taxes and offset by lower than anticipated supplies and fees expenses.

2. Marketing:

Budgeted	\$541,578
Actual	<u>542,375</u>
Difference	\$ +797

Marketing expenses were under budget in advertising and printing and offset by higher than anticipated employment costs, supplies, promotion and incentive expenses.

3. Community Relations:

Budgeted	\$ 3,720
Actual	<u>-16,546</u>
Difference	\$-20,266

Actual Community Relations expenses were under budget in employment costs and donations creating the year end variance.

4. Resident Services (including Home Solutions and Health & Wellness):

Budgeted	\$590,697
Actual	<u>576,859</u>
Difference	\$ -13,838

Actual Resident Services expenses were under budget in employment costs, supplies and facilities and over budget in other expenses.

5. Housekeeping and Laundry:

Budgeted	\$922,206
Actual	<u>899,664</u>
Difference	\$ -22,542

Actual expenses were under budget for employment costs, supplies, repairs and fees.

6. Dining Service:

Budgeted	\$2,275,280
Actual	<u>2,297,166</u>
Difference	\$ +21,886

Actual Dining Service expenses were over budget in supplies and partially offset by less than budgeted employment costs and facilities.

7. Building/Grounds (including Wastewater Treatment):

Budgeted	\$2,213,045
Actual	<u>2,356,277</u>
Difference	\$+143,232

Actual expenses were over budget in service contracts, employment costs, facilities and supplies expense.

8. Westbury Center (including Westbury Court/Club, Activities & Social Services):

Budgeted	\$4,701,384
Actual	<u>4,506,238</u>
Difference	\$ -195,146

Actual Westbury Center expenses were under budget in employment costs, and over budget in medical supplies expenses.

9. Resident Clinic:

Budgeted	\$ 438,177
Actual	<u>429,254</u>
Difference	\$ -8,923

Actual Resident Clinic expenses were over budget in employment costs and partially offset by lower than anticipated medical supplies expense.

10. Home Services:

Budgeted	\$1,696,630
Actual	<u>1,275,126</u>
Difference	\$ -421,504

Actual Home Services expenses were under budget in employment costs and supplies expense.

11. Interest Expense:

Budgeted	\$585,998
Actual	<u>494,123</u>
Difference	\$ -91,875

RESIDENCE AND SERVICES AGREEMENT

**RAPPAHANNOCK WESTMINSTER-CANTERBURY
IRVINGTON, VIRGINIA**

This Residence and Services Agreement (referred to as the "Agreement") is made this _____ day of _____, _____, between Rappahannock Westminster-Canterbury, Inc. (referred to as "RW-C") and _____ (referred to as "you" or "the Resident").

WHEREAS, RW-C owns and operates a Life Care Retirement Community on a 165-acre campus and is located at 132 Lancaster Drive in Irvington, in the Northern Neck area of Virginia; and

WHEREAS, RW-C consists of independent living houses, cottages and residential apartments in a mid-rise building, a Community Center with common areas and amenities, and an on-site Health Center providing skilled nursing care and assisted living care (referred to as the "Community"); and

WHEREAS, Resident desires to enter into this Agreement for an independent living residence in the Community;

NOW THEREFORE, Resident and RW-C agree as follows:

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I. RESIDENCE, COMMON AREAS AND AMENITIES, PROGRAMS AND SERVICES

- A. **Residence**. You will have a personal, exclusive, non-transferable right to reside, use, and enjoy residence number _____ a _____ type of residence located within the Community (referred to as the ("Residence")).
- B. **Furnishings in the Residence**. RW-C will provide flooring, emergency signal equipment, refrigerator, stove, oven, hood vent, cable TV access, microwave, dishwasher, and basic telephone service. In free-standing homes and cottages, where space permits, washers and dryers are provided. All other furniture, furnishings, decorations, and other personal property will be provided by you.
- C. **Maintenance and Repairs**. RW-C will maintain and keep in repair the Community's improvements, furnishings, and equipment.
- D. **Groundskeeping**. RW-C will furnish basic groundskeeping service, including lawn, tree, and shrubbery care. You may plant and maintain certain areas designated for such purpose by RW-C.
- E. **Meals**. RW-C will make available to Residents three (3) nutritionally well-balanced meals each day. The cost of one (1) meal each day will be included in the Monthly Fee.

RW-C will make optional meal plans available for you at rates then in effect. Guest meals and any meals taken by you beyond the meal plans will be paid for by you.

When you give notice that you are going to be away from the Community for more than seven (7) consecutive days, you may be credited for the missed meals, according to the schedule then in effect. Otherwise, credit will not be given for meals not taken.

- F. **Special Diets and Tray Service**. Special diets and tray service to the Residence will be provided during temporary illness or upon request by you, upon approval of authorized RW-C staff, at rates then in effect.
- G. **Common Areas and Amenities**. RW-C will provide common areas and amenities for the use and enjoyment by you and all Residents such as central dining area(s), multi-purpose room/auditorium, health and wellness facility, arts and

crafts room, computer room, den/lounge, guest accommodations, lobbies, a living room, card room, library, exercise room, bank, chapel, indoor and heated swimming pool, fishing lake, gazebo, gardening plots, exercise trails, woodland paths, biking roads, bird sanctuary, covered walkways, beauty/barber shop, laundries, clinic, and on-site Health Center with nursing care and assisted living care, and other common areas and amenities.

- H. **Parking**. RW-C will provide lighted and well maintained parking areas for your personal vehicle and parking for guests.
- I. **Utilities**. RW-C will provide utilities including water, electricity, heating, air-conditioning, sewerage, trash removal, municipal services, basic telephone service, basic cable television service access, and high speed internet access, to the extent such utilities are available to RW-C. If expansions or appliances which generate increased demand on energy are used by the Resident, there may be an additional charge. You are responsible for charges for long distance telephone service, extra cable television services, high speed internet service, and propane or LP gas, where applicable.
- J. **Laundry**. RW-C will provide washers and dryers for Resident laundry needs. You provide your own linens. Laundry service is available for an additional charge.
- K. **Housekeeping**. RW-C will maintain the Residence by providing housekeeping services including vacuum cleaning, dusting, cleaning of baths and kitchens on a weekly basis. The cost of weekly housekeeping will be included in the monthly fee. Other services such as window cleaning and other heavier housekeeping services are provided on a scheduled basis. An additional charge may apply to special or non-routine services. You agree to keep your residence clean and orderly and to perform usual day-to-day housekeeping tasks.
- L. **Mail**. A mail box for each Residence will be provided in a central location.
- M. **Guests, Access, and Use by Non-Resident**. You will be free to invite guests to your Residence for daily and overnight visits. Guest accommodations will be available at a reasonable rate for occasional overnight stays by your guests. You may purchase meals for your guests at prevailing guest meal rates. RW-C reserves the right to make rules regarding visits and guest behavior and may limit or terminate a visit at any time for reasons it deems appropriate. In general, the services of RW-C are intended for the use of Residents, not for non-residents.
- N. **Security**. RW-C will use reasonable care in providing security on the premises for you and your property, but RW-C will not be responsible for loss or damage to personal

property. You will have the responsibility of providing any insurance protection covering any such loss.

- O. **Transportation.** RW-C will arrange local transportation for Residents on a regular, scheduled basis without additional charge. An additional charge may be made for transportation for local doctor and medical appointments and special, personal, or group trips.
- P. **Activities.** RW-C will provide planned and scheduled social, recreational, spiritual, educational, and cultural activities, arts and crafts, exercise and health programs, and other special activities designed to meet the needs of the Residents. Some activities may be at an additional charge.
- Q. **Health Care and Nursing Facilities and Services.** RW-C will provide the following health care and nursing facilities and services:
 - 1. **The Resident Health Clinic.** RW-C will provide a Resident Health Clinic on the premises where Residents may be examined and treated as outpatients. Residents will be charged for office visits with physicians, visits with other health professionals, and certain services at the Resident Health Clinic.
 - 2. **Temporary Care In Your Residence.** Upon the approval of RW-C's Medical Director or Administrator, RW-C's health care personnel will be available to you in your Residence for certain supportive services that do not warrant Health Center care and for emergencies at any time. RW-C may impose a charge for such services.
 - 3. **Therapies and Other Health Professionals.** RW-C may make arrangements for the services of a physical therapist, occupational therapist, podiatrist, or other health professionals on the premises by appointment, but you are free to engage the services of health professionals of your choice at the Community or elsewhere off the premises at your expense.
 - 4. **Nursing Care and Assisted Living Care.** RW-C will provide nursing care and assisted living care on a short-term or long-term basis in the Health Center. The Health Center has the accommodations, equipment, facilities, and staffing necessary for such levels of care under appropriate state licensing requirements.
 - 5. **Medical Director and Administrator.** The overall coordination and supervision of the health care and nursing facilities and services are provided by a Medical Director who is a licensed physician selected by RW-C and by a licensed Administrator, who is a full-time employee of RW-C.

6. **Charges.** Charges for the use of health care and nursing facilities and services are set forth in Section II below.
7. **Personal Physician.** You may choose your own personal physician and you will be responsible for any physician charges.

II. FINANCIAL ARRANGEMENTS

- A. Entrance Fee Options.** You agree to pay to RW-C an Entrance Fee as a condition of becoming a Resident. The amount of the Entrance Fee varies in accordance with the health care benefits and amortization schedule for refunds chosen below and the amounts of the refunds which will be due upon termination as described in Section V of this Agreement. You shall choose one of the following options and amounts as to the Entrance Fee to be paid:

<u>Entrance Fee Option</u>	<u>Amount of Entrance Fee</u>
<u> </u> I. Declining Refund Life Care Entrance Fee	\$ <u> </u>
<u> </u> II. Refundable Continuing Care Entrance Fee	\$ <u> </u>
<u> </u> III. 50% Refund Life Care	\$ <u> </u>
<u> </u> IV. 365 Day Deductible	\$ <u> </u>

Entrance Fee
(Not available to The Woods' Edge Residents)

Resident will acknowledge the preferred Entrance Fee Option by initialing the line to the left of the Entrance Fee Option above.

Terminology.

The term "Life Care" generally means there is no increase in the Monthly Fee if and when the Resident is transferred to the Health Center for assisted living or nursing care, except for charges for the two (2) additional meals each day and ancillary costs. The Monthly Fee for "Life Care" is described in more detail in Section II E 1.

The term "365 Day Deductible" generally means that during the 365 Day Deductible period, the fee for the Resident in the Health Center will be increased to the then current published private-pay per diem rate for the appropriate level of care. If such care is temporary, you are responsible for both the independent living unit Monthly Fee and the Per Diem Nursing or Assisted Living Care charges. The Monthly Fees are

described in more detail in Section II E 3 below. After the Deductible Period is satisfied (of 365 cumulative but not necessarily consecutive days per Resident), there is no increase in the current Monthly Fee if and when the Resident is transferred to the Health Center for assisted living or nursing care, except for charges for the two (2) additional meals each day and ancillary costs.

The term "Continuing Care" generally means that the published per diem private pay rate is charged for assisted living and nursing care. If such care is temporary you are responsible for both the independent living unit Monthly Fee as well as the per diem nursing or assisted living care charges.

The term "per diem" generally means the then current private pay daily rate in the Health Center, for either assisted living or nursing care.

The Entrance Fee is a lump sum payment and shall not be increased or changed during the duration of this Agreement, except for changes required by state or federal programs. It is expressly understood and agreed that the Entrance Fee does not include the cost of any customized modifications to the Residence as directed by the Resident.

B. Terms of Payment of the Entrance Fee. The terms of payment of the Entrance Fee shall be as follows:

1. Reservation Deposit. An initial Reservation Deposit of One Thousand Dollars (\$1,000.00) will have been paid upon execution of the Reservation Agreement.
2. Ten Percent (10%) Deposit. An amount equal to Ten Percent (10%) of the total Entrance Fee Option selected, less the One Thousand Dollar (\$1,000.00) Reservation Deposit or Future Residency Fee, \$ _____, is due and payable within ten (10) days upon your having received a letter of written notice of acceptance by the Admissions Committee and upon execution of this Agreement.
3. Ninety Percent (90%) Balance of the Entrance Fee. The balance of Ninety Percent (90%) of the total Entrance Fee for the Entrance Fee Option selected by you will be due and payable at the earlier of the date of occupancy or within ninety (90) days of the date of the letter of written notice of acceptance by the Admission's Committee unless otherwise agreed to in writing by RW-C.

C. Monthly Fee. In addition to the Entrance Fee, you agree to pay a Monthly Fee during the term of this Agreement which shall be payable in advance on the first day of each month. As of the date of this Agreement, the Monthly Fee associated with the Residence is \$ _____ per month, and an additional \$ _____ per month if a second Resident occupies the Residence. The Monthly Fee may be adjusted by RW-C during the term of this Agreement as described.

You will be invoiced monthly for any services and supplies provided for you that RW-C is not obligated to provide, and those invoices are to be paid within thirty (30) days after receipt.

- D. **Adjustments in the Monthly Fee.** The Monthly Fee provides for the facilities, programs, and services described in this Agreement and is intended to meet the cost of the expenses associated with the operation and management of the Community. RW-C shall have the authority to adjust the Monthly Fee during the term of this Agreement as RW-C in its discretion deems necessary in order to reflect changes in costs of providing the facilities, programs, and services, including health care services, described herein consistent with operating on a sound financial basis and maintaining the quality of services called for herein. While the fees can be adjusted at any time, such action is most likely to occur at the beginning of the fiscal year (April 1) and is based on the annual operating budget as approved by the Board of Trustees. It is anticipated that the fees will be increased annually. Any such increases in the Monthly Fee or other charges or any reductions in the scope of the services may be made by RW-C upon thirty (30) days written notice to the Resident. RW-C will make every effort to maintain fees at the lowest possible rate consistent with sound financial practice and the maintenance of the quality of services including health care services.
- E. **Charges for Health Care and Nursing Facilities and Services.** The charges for the health care and nursing facilities and services vary according to the Entrance Fee Option selected and are described as follows:
1. **Continuance of Monthly Fee for Residents Selecting Entrance Fee Options I or III.** Should a Resident who has selected either the Declining Refund Life Care Entrance Fee, Option I, or the 50% Refund Life Care Entrance Fee, Option III, described in Section II A, need and qualify for either nursing care or assisted living care in the Health Center, the Resident will continue to be charged the amount equal to the current Monthly Fee in the Residence occupied by the Resident at the time of the transfer. In addition to the Monthly Fee, charges will be made for two (2) additional meals per day and other charges for ancillary services as more fully described in Section II E 4 below. The Monthly Fee is subject to periodic adjustments to reflect actual operating costs.
 2. **Increase of the Monthly Fee for Residents Selecting Entrance Fee Option II.** Should the Resident who has selected the Refundable Continuing Care Entrance Fee Option II described in Section II A above need and qualify for either nursing care or assisted living care in the Health Center, the resident will be charged the then current published private pay rate

for such care. If the Resident still has possession of the independent living unit while receiving such care, the Resident is also responsible for the then current Monthly Fee for that unit. In the case of double occupancy, if one resident resides in the independent living unit, that resident pays the single occupancy rate and the resident in nursing or assisted living care pays the full per diem charges. If both require care, both pay the per diem charges and if they still possess the independent living unit they pay the single person Monthly Fee for it, less meal charges. If such health care is required, the Resident may choose to have payment of health care fees delayed and deducted from the Entrance Fee Refund. The Resident, however, is responsible for Health Care costs that exceed the Amount of the refund.

3. **Increase of the Monthly Fee for 365 Days for Residents Selecting Entrance Fee Option IV.** During the first 365 cumulative days (not necessarily consecutive days) in either nursing care or assisted living care in the Health Center for each Resident, the fee for the Resident in the Health Center will be increased to the then current published private-pay rate ("per diem") for such levels of care. During the 365 Day Deductible period, if one (1) Resident of a couple remains in the Residence, the Resident remaining in the Residence will pay the Monthly Fee for one (1) Resident. If both residents require care, they both pay the per diem rate and, if they still possess the Residence, they also pay the single person Monthly Fee, less meal charges, for the independent living unit. If a single resident uses the Health Center or Assisted Living Center on a temporary basis, the resident is responsible for both the Residence Monthly Fee and the per diem health care charges.

After 365 cumulative days in the Nursing or Assisted Living Center, should the Resident who has selected the 365 Deductible Entrance Fee, Option IV, described in Section II A above, need and qualify for either nursing care or assisted living care, the Resident will be charged the amount equal to the current Monthly Fee in the Residence occupied at the time of the transfer, plus a charge for two (2) additional meals per day and other charges for ancillary services as more fully described in Section II E 4 below. The Monthly Fee is subject to periodic adjustments to reflect actual operating costs. In the case of double occupancy, the 365-day deductible applies to each person. If only one Resident has satisfied the deductible, there is no increase for use of the Health Center for that person who accumulated 365 days. If the other Resident needs use of the Health Center, he or she shall pay the then current per diem rate and the other person will pay the single person fee for the independent living unit.

4. **Additional Charges for Ancillary Health Care Services.**

Additional charges for health care services may be made by RW-C for ancillary services provided the Resident. Examples of such additional charges include, but are not limited to the cost of prescription and non-prescription medications, physical therapist, occupational therapist, podiatrist, physician services, nurse practitioner charges, dental work, equipment rental or purchases, supplies, private room surcharges, and other such health care services. Also, any professional services, health care related or otherwise, contracted by the Resident or on behalf of the Resident shall be billed directly to the Resident.

5. **Care in Another Facility.** Should the Resident need a level of care or health services beyond that licensed or provided by RW-C and requires transfer to another facility, all expenses which will result from such transfer, care, and services shall be borne entirely by the Resident.

F. **Subsidies and Benefits.** If the Resident qualifies for and is eligible to receive any subsidies, entitlements, or benefits from either government or private sources, the Resident agrees to apply for such and agrees to assign the benefits to RW-C.

G. **Long Term Care Insurance.** If a Resident qualifies for and is eligible to receive any benefits from a private long term insurance policy owned by the Resident, the Resident may receive such benefits or use such benefits to pay RW-C any fees or charges owed RW-C by the Resident.

H. **Financial Assistance.** RW-C does provide financial assistance to Residents who are in need of such assistance and under certain conditions and under certain policies and procedures established by the Board of Trustees to the extent funds are available for such assistance. Should financial assistance be needed by the Resident, the Resident will provide notice to RW-C. Any financial assistance provided to the Resident would be made under a separate Agreement.

III. **TERMS OF RESIDENCY**

A. **Policies and Procedures.** You agree to abide by the reasonable policies and procedures of RW-C and the reasonable changes to those rules, which may be adopted later.

B. **Property Rights.** You understand and agree that this is an agreement primarily for services. Though you are granted a right of occupancy, this agreement is not a lease and you

will have no title to any of the real or personal property of RW-C. Your rights under this Agreement are personal, and may not be assigned, transferred, inherited, or devised. Any rights, privileges, benefits, or interests created by or under this Agreement shall be subordinated to any mortgage, deed or trust, or other security interest created on any of the premises or interests in real estate of RW-C and to all amendments, modifications, replacements, or refunding thereof.

- C. **Right of Entry.** Authorized employees shall be permitted into your Residence at all reasonable times for inspection, housekeeping, and maintenance, and at any time in case of emergencies.
- D. **Changes in the Residence.** RW-C has the right to change the Residence to meet requirements of any applicable statutes, law, or regulation. The Residence may not be used in any manner in violation of any zoning ordinances or other governmental law or regulation.
- E. **Financial Disclosure.** RW-C will require the Resident to disclose and furnish current financial information on a periodic basis.
- F. **Medicare and Other Health Insurance Requirements.** The Resident shall maintain Medicare Part A, Medicare Part B, and one supplemental health insurance policy or equivalent insurance coverage acceptable to RW-C and shall furnish RW-C with evidence of such coverage upon request.
- G. **Occupancy by Two (2) Residents.** In the event that two (2) Residents occupy a Residence under the terms of this Agreement, upon the permanent transfer to nursing care or assisted living care in the Health Center or upon the death of one (1) of such Residents, or in the event of the termination of this Agreement with respect to one (1) of such Residents, the Agreement shall continue in effect as to the remaining or surviving Resident. The remaining or surviving Resident will thereafter pay the Monthly Fee associated with one (1) Resident for the Residence occupied by the Resident.
- H. **Marriage During Occupancy.** If you marry someone not then an RW-C resident, during occupancy, your new spouse shall apply for admission, shall meet all entrance requirements and execute a Residence and Services Agreement with RW-C upon such terms and conditions RW-C deems appropriate under the facts and circumstances. The Agreement will call for the payment of the then current Entrance Fee for a second Resident in the Residence and the then current Monthly Fee for a second Resident.

Should the new spouse be unable to meet all entrance requirements, the new spouse may not become a resident. You would then have the option of

terminating this Agreement under the terms described in Section V.

- I. **Representations Made by You in Connection With Application for Residency.** The application and the statements of your finances and health history filed with RW-C are incorporated into this agreement and all statements therein are deemed to be true as a basis for admission to RW-C. You agree to notify RW-C of any material changes in the information provided.
- J. **Durable General Power of Attorney and Will.** The Resident agrees to execute and provide RW-C a copy of a durable general power of attorney, valid under Virginia law, designating some competent person or institution as attorney-in-fact. The Resident agrees to execute a will.
- K. **Residents' Association.** All residents of RW-C are members of the Residents' Association. The administration of RW-C will confer regularly with representatives of the Association about matters of concern to residents.

IV. **TRANSFERS OR CHANGES IN LEVELS OF CARE**

- A. **Transfer to Assisted Living Care or Nursing Care.** The Resident agrees that RW-C shall have authority to determine that the Resident should be transferred from the Residence to Assisted Living or Nursing Care in the Health Center, or from one level of care to another level of care. Such determination shall be based on the professional opinion of the Administrator or the Medical Director of RW-C and shall be made only after consultation to the extent practical with the Resident, a representative of the Resident's family, and the Resident's attending physician.
- B. **Transfer to Hospital or Other Public or Private Facility.** If it is determined by RW-C that the Resident needs care beyond that which can be provided by RW-C, the Resident may be transferred to a hospital, center, or institution equipped to give such care. The cost of care will be borne by the Resident. Such transfer of the Resident will be made only after consultation to the extent possible with the Resident, or a representative of the Resident's family, and the Resident's attending physician. If such transfer is determined by RW-C to be permanent, RW-C may negate or rescind any contractual obligations pursuant to this agreement.
- C. **Surrender of Residence.** If a determination is made by RW-C that any transfer described in this Section IV is not temporary in nature, the Resident agrees to surrender the Residence or any other accommodation in the Community occupied by the Resident prior to such transfer.

V. TERMINATION AND REFUND PROVISIONS

- A. Right of Rescission and Seven (7) Day Rescission Period. This Agreement may be rescinded by the Resident by giving written notice of such Rescission to RW-C within seven (7) days following the date of execution of this Agreement by all parties. In the event of such Rescission, the Resident shall receive a full refund of the Entrance Fee or portion there of paid by the Resident. Such refund shall be paid by RW-C within sixty (60) days following the receipt of written notification of such termination. The Resident shall not be required to take occupancy of the Residence prior to the expiration of the Seven (7) Day Rescission Period.
- B. Termination by Resident After the Rescission Period but Prior to Occupancy. This Agreement may be terminated by the Resident for any reason after the Seven (7) Day Rescission Period but prior to occupancy by giving written notice to RW-C. If the Resident should die prior to occupancy or be precluded through illness, injury or incapacity from occupancy, this Agreement is automatically rescinded. In the event of such termination, the Resident or their legal representative shall receive a full refund of the Entrance Fee or portion there of paid by the Resident. Any such refund shall be paid by RW-C within sixty (60) days following receipt of written notification of such termination.
- C. Voluntary Termination After Occupancy By The Resident or Upon Death. At any time after occupancy, the Resident may voluntarily terminate this Agreement by giving written notice of such termination. This Agreement will terminate upon death of the Resident. If two (2) Residents occupy the Residence, this Agreement shall terminate upon the death of both Residents.

If the Resident has selected the Declining Refund Life Care Entrance Fee (Option I), or The 365 Day Deductible Entrance Fee (Option IV), the Resident shall receive a refund in an amount equal to the Entrance Fee as described in Section II A less two percent (2%) for each full or partial month of occupancy. No refund will be due after forty-nine (49) full or partial months of occupancy.

If the Resident has selected the Refundable Continuing Care Entrance Fee (Option II), or the 50% Refund Life Care Entrance Fee (Option III), the Resident shall receive a refund in the amount of the Entrance Fee described in Section II A less two percent (2%) for each month of occupancy or any portion of the month for up to twenty-five (25) months, and never less than fifty percent (50%) of the total Entrance Fee, except in the case of Entrance Fee Option II if assisted living or nursing care has been charged against the refund.

Any Entrance Fee refund due the Resident living in independent living at the time of termination will be made at such time as the Residence shall have been reserved by a substitute resident and such substitute resident shall have paid a full Entrance Fee, or within one (1) year from the date of termination, whichever first occurs.

Any Entrance Fee refund due the Resident living in Assisted Living or Health Center at the time of termination will be made within one (1) year from the date of termination.

- D. Termination by RW-C.** RW-C may terminate this Agreement at any time for good cause. Good cause is defined as: (i) proof that the resident is a danger to himself or others; (ii) nonpayment by the resident of a monthly or periodic fee; (iii) repeated conduct by the resident that interferes with other residents' quiet enjoyment of the facility; (iv) persistent refusal to comply with reasonable written rules and regulations of the facility; (v) a material misrepresentation made intentionally or recklessly by the resident in his application for residency, or related materials, regarding information which, if accurately provided, would have resulted in either a failure of the resident to qualify for residency or a material increase in the cost of providing to the resident the care and services provided under the contract; or (vi) material breach by the resident of the terms and conditions of the continuing care contract. In the event of termination of any of such causes, the refund of the Entrance Fee paid by the Resident shall be determined in the same manner described in Section V C above. RW-C shall give the Resident reasonable notice of the termination date in writing and a determination that the continued occupancy presents a threat to the safety of others or themselves shall be a factor in determining the reasonableness of that notice.
- E. Right of RW-C to Rescind Contract.** RW-C has the right to rescind this contract if a resident dies before occupying the facility, or is precluded through illness, injury or incapacity from becoming a resident under the terms of the continuing care contract, the contract is automatically rescinded and the resident or his legal representative shall receive a full refund of all money paid to the provider, except those costs specifically incurred by the provider at the request of the resident and set forth in writing in a separate addendum, signed by both parties to the contract.
- F. Condition of Residence.** At the effective date of termination of this Agreement, the Resident shall vacate the Residence and shall leave it in good condition except for normal wear and tear. The Resident shall be liable to RW-C for any cost incurred in restoring the Residence to good condition except for normal wear and tear.

- G. **Removal of Property.** The Resident agrees to the removal of any personal property from the Residence or room within ten (10) days after termination of the Agreement or permanent transfer. After ten (10) days, RW-C will have the right, if needed, to store such property at the expense of the Resident or Resident's estate.

VI. **GENERAL**

- A. **Assignment.** The rights and privileges of the Resident under this Agreement to the Residence, common areas and amenities, and services and programs of RW-C are personal to the Resident and may not be transferred or assigned by the Resident or otherwise.
- B. **Management of RW-C.** The absolute rights of management are reserved by RW-C, its Board of Trustees, and its administrators as delegated by said Board of Trustees.
- C. **Entire Agreement.** This Agreement has precedence over description of services in promotional materials or in presentations and constitutes the entire agreement between RW-C and the Resident. RW-C shall not be liable or bound in any manner by any statements, representations, or promises made by any person representing or assuming to represent RW-C, unless such statements, representations, or promises are set forth in this Agreement.
- D. **Waiver.** In the event that RW-C does not, in any one or more instances, insist upon your strict performance, observance or compliance with any of the terms or provisions of this agreement, or if RW-C waives a breach by you of this agreement, it shall not be construed to be a waiver of our right to insist upon your strict compliance with all other terms and provisions of this agreement.
- E. **Successors and Assigns.** Except as set forth herein, this Agreement shall bind and inure to the benefit of the successors and assigns of RW-C and the heirs, executors, administrators, and assigns of the Resident.
- F. **Transfer of Property.** The Resident agrees not to make any gift or other transfer of property for less than adequate consideration for the purpose of evading the Resident's obligations under this Agreement or if such gift or transfer would render such Resident unable to meet such obligations.
- G. **Affiliation with Religious Organizations.** RW-C is affiliated with the Episcopal Diocese of Virginia and the Mid-Atlantic Synod of the Presbyterian Church, USA; however, such organizations have no responsibility for any of the obligations of RW-C under this Agreement.

H. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Virginia.

VII. EXCEPTIONS OR SPECIAL TERMS

IN WITNESS WHEREOF, RW-C and the Resident have executed this Agreement and the applicable Ten Percent (10%) Deposit has been paid as of the day and year first above written.

Witness

Resident

Witness

Resident

Current Address (Number and Street)

City, State, Zip Code

Telephone

Date

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.

Signature

Rev: 08/16

Title

Date

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2017 AND 2016

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
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YEARS ENDED MARCH 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Rappahannock Westminster-Canterbury, Inc.
Irvington, Virginia

We have audited the accompanying balance sheets of Rappahannock Westminster-Canterbury, Inc. as of March 31, 2017 and 2016 and the related statements of operations and changes in unrestricted net assets (deficit), 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.

Auditors' Responsibility

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

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

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

Board of Trustees
Rappahannock Westminster-Canterbury, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rappahannock Westminster-Canterbury, Inc. as of March 31, 2017 and 2016 and the results of its operations, changes in net assets (deficit) and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
June 21, 2017

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
BALANCE SHEETS
MARCH 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,686,415	\$ 3,042,169
Investments	5,885,236	5,051,001
Accounts Receivable, Net	377,277	390,390
Notes Receivable	532,620	417,293
Due from Rappahannock Westminster-Canterbury Foundation	26,406	42,673
Inventory	170,717	158,894
Prepaid Expenses	71,348	13,637
Total Current Assets	9,750,019	9,116,057
ASSETS LIMITED AS TO USE	155,135	698,116
PROPERTY, PLANT, AND EQUIPMENT, NET	26,301,511	22,786,489
BENEFICIAL INTEREST IN NET ASSETS OF RAPPAHANNOCK WESTMINSTER-CANTERBURY FOUNDATION	6,949,796	6,578,014
Total Assets	\$ 43,156,461	\$ 39,178,676

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIT)	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 879,001	\$ 460,888
Accrued Compensation and Employee Benefits	960,907	1,079,082
Retainage Payable	198,258	-
Interest Payable	50,905	45,553
Entrance Fee Refund Payable	60,192	-
Advance Fee Deposits	264,846	846,392
Current Portion of Long-Term Debt	<u>732,726</u>	<u>630,000</u>
Total Current Liabilities	3,146,835	3,061,915
ADVANCE FEES		
Refundable Advance Fee Liability	4,434,430	3,913,858
Deferred Revenue from Advance Fees	<u>25,842,968</u>	<u>23,841,157</u>
Total Advance Fees	30,277,398	27,755,015
LONG-TERM DEBT, LESS CURRENT PORTION	<u>15,834,813</u>	<u>14,442,578</u>
Total Liabilities	49,259,046	45,259,508
NET ASSETS (DEFICIT)		
Unrestricted	(7,969,877)	(8,011,722)
Temporarily Restricted	1,035,449	1,099,047
Permanently Restricted	<u>831,843</u>	<u>831,843</u>
Total Net Assets (Deficit)	<u>(6,102,585)</u>	<u>(6,080,832)</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 43,156,461</u>	<u>\$ 39,178,676</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS (DEFICIT)
YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
REVENUES, GAINS, AND OTHER SUPPORT		
Residential Services, Including Amortization of Deferred Revenue from Advance Fees of \$3,297,852 in 2017 and \$3,345,155 in 2016	\$ 10,627,192	\$ 10,495,539
Health Care Services	4,194,495	3,607,748
Investment Income	127,410	99,958
Other	2,054,072	2,007,038
Total Revenues, Gains, and Other Support	17,003,169	16,210,283
EXPENSES		
Administrative	1,983,699	1,881,792
Marketing	525,831	535,251
Building and Grounds	2,356,281	2,157,519
Housekeeping and Laundry	899,666	859,956
Health Center	3,340,701	3,185,662
Home Services	1,275,126	1,183,383
Assisted Living	1,165,536	948,173
Resident Clinic	429,256	427,965
Resident Services	576,857	489,830
Food Services	2,297,167	2,216,456
Interest Expense	494,122	562,759
Depreciation	2,546,101	2,470,170
Total Expenses	17,890,343	16,918,916
OPERATING LOSS	(887,174)	(708,633)
NONOPERATING INCOME (LOSS)		
Increase (Decrease) in Beneficial Interest in Net Assets of Rappahannock Westminster-Canterbury Foundation	222,639	(31,530)
Unrealized Gains (Losses) on Investments Held by Rappahannock Westminster-Canterbury Foundation	212,740	(322,265)
Unrealized Gains (Losses) on Investments	237,640	(99,417)
Total Nonoperating Income (Loss)	673,019	(453,212)
DEFICIT OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	(214,155)	(1,161,845)
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Net Assets Released and Transferred from Rappahannock Westminster-Canterbury Foundation for Purchases of Property and Equipment	256,000	294,654
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS (DEFICIT)	\$ 41,845	\$ (867,191)

See accompanying Notes to Financial Statements.

**RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)
YEARS ENDED MARCH 31, 2017 AND 2016**

	2017	2016
UNRESTRICTED NET ASSETS		
Increase (Decrease) in Unrestricted Net Assets	\$ 41,845	\$ (867,191)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	173,246	56,843
Investment Income (Loss)	127,465	(32,256)
Net Assets Released from Restrictions	(364,309)	(388,073)
Decrease in Temporarily Restricted Net Assets	(63,598)	(363,486)
CHANGES IN NET ASSETS (DEFICIT)	(21,753)	(1,230,677)
Net Assets (Deficit) - Beginning of Year	(6,080,832)	(4,850,155)
NET ASSETS (DEFICIT) - END OF YEAR	\$ (6,102,585)	\$ (6,080,832)

See accompanying Notes to Financial Statements.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets (Deficit)	\$ (21,753)	\$ (1,230,677)
Adjustments to Reconcile Changes in Net Assets (Deficit) to Net Cash Provided by Operating Activities:		
Amortization of Deferred Revenue from Advance Fees	(3,297,852)	(3,345,155)
Depreciation	2,546,101	2,470,170
Amortization of Bond Issuance Costs	27,453	48,414
Bad Debt Expense	1,632	1,875
Net Unrealized (Gains) Losses on Investments	(237,640)	99,417
Proceeds from Advance Fees, Net	5,759,100	5,759,922
Change in Advance Fees Deposits	(581,546)	92,873
(Increase) Decrease in Beneficial Interest in Net Assets of Rappahannock Westminster-Canterbury Foundation, Including Temporarily and Permanently Restricted Net Assets	(371,782)	717,281
Changes in Operating Assets and Operating Liabilities:		
Accounts Receivable	11,481	17,385
Note Receivable	6,000	6,000
Inventory	(11,823)	(9,162)
Prepaid Assets	(57,711)	(7,194)
Receivable from Rappahannock Westminster-Canterbury Foundation	16,267	48,866
Accounts Payable and Accrued Expenses	60,031	137,540
Accrued Compensation and Employee Benefits	(118,175)	108,706
Retainage Payable	198,258	-
Interest Payable	5,352	(1,761)
Net Cash Provided by Operating Activities	3,933,393	4,914,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant, and Equipment, Net	(5,703,041)	(1,979,155)
Change in Assets Limited as to Use - Escrow Deposits	542,981	(108,639)
Purchases of Investments, Net	(596,595)	(571,308)
Net Cash Used by Investing Activities	(5,756,655)	(2,659,102)

See accompanying Notes to Financial Statements.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED MARCH 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Long-Term Debt	\$ 2,094,608	\$ -
Repayment of Long-Term Debt	(627,100)	(592,700)
Repayment of Other Long-Term Obligations	-	(1,164)
Net Cash Provided (Used) by Financing Activities	<u>1,467,508</u>	<u>(593,864)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (355,754)	 1,661,534
Cash and Cash Equivalents - Beginning of Year	<u>3,042,169</u>	<u>1,380,635</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,686,415</u></u>	<u><u>\$ 3,042,169</u></u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest, Net of Amounts Capitalized	<u><u>\$ 488,770</u></u>	<u><u>\$ 536,007</u></u>
Fixed Asset Additions Included in Accounts Payable	<u><u>\$ 452,068</u></u>	<u><u>\$ 93,986</u></u>

See accompanying Notes to Financial Statements.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rappahannock Westminster-Canterbury, Inc. (RW-C) was organized as a nonprofit corporation under the direction of Virginia Diocesan Homes, Inc., of the Protestant Episcopal Church of the Diocese of Virginia and Westminster Presbyterian Homes, Incorporated, of the Synod of the Mid-Atlantic of the Presbyterian Church in the United States for the purpose of establishing, operating and managing a 153-unit residential life care facility, a 42-bed nursing care facility, and a 38-unit assisted living facility for the aged in Lancaster County, Virginia.

RW-C operates under a concept in which residents enter into a residency agreement which requires payment of a one-time advance fee and monthly maintenance fees. These payments entitle residents to the use and privileges of RW-C for life, including the right to occupy designated residential units and to receive certain health care services. The residency agreement does not entitle the residents to an interest in the real estate or other property owned by RW-C.

Rappahannock Westminster-Canterbury Foundation (the Foundation) operates exclusively for the benefit of RW-C and to foster its operations and functions. The Foundation raises funds through solicitation and various fundraising events to provide financial assistance to qualified residents at RW-C.

Mission Statement

The mission of RW-C is to operate a church-related, continuing care retirement community committed to providing the highest quality living experience for senior adults.

Use of Estimates

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

Cash Equivalents

RW-C considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Allowance for Doubtful Accounts

RW-C provides an allowance for doubtful accounts using management's judgment. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. Accounts past due are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on historical experience. Amounts for which no payments are expected after collection efforts have been exhausted are written off. At March 31, 2017 and 2016, the allowance for doubtful accounts was \$10,000.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Assets Limited as to Use

Assets limited as to use include resources restricted under residency agreements. Assets limited as to use are carried at fair market value.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Investments

Investments, including funds held by the Trustee, are carried at fair value. The fair value of marketable equity securities, bonds and other investments is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Realized gains and losses on the sale of investments are determined based on the cost of the specific investment sold and are reported as unrestricted gains or losses. RW-C classifies its investments as trading securities and accordingly has included unrealized gains and losses on investments as nonoperating income (loss) within the excess (deficit) of revenues, gains and other support over expenses.

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Donated assets are recorded at fair market value at the date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 20 – 40 years for buildings and improvements and 3 – 20 years for furniture, machinery, equipment, and vehicles. Capital expenditures greater than \$250 are capitalized and depreciated over the life of the asset. The cost of maintenance and repairs is charged against operations when incurred, whereas significant renewals or betterments are capitalized.

Deferred Financing Costs

Financing costs incurred in connection with the issuance of long-term debt are deferred and amortized using the effective interest method over the term of the related indebtedness.

During fiscal year 2016, RW-C adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present deferred financing costs as a direct deduction from the face amount of the related borrowings, amortize deferred financing costs using the effective interest method (or straight line if the difference is minimal) over the life of the debt, and record the amortization as a component of interest expense. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied. RW-C elected to adopt this change in accounting principle as of April 1, 2015, prior to its effective date.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Advance Fees

Deferred revenue from advance fees represents the nonrefundable fees received at the time a resident is admitted to the community. The fees are amortized using the straight-line method over the estimated life expectancy of each resident or couple, adjusted annually. No amortization is recorded on the refundable portion of advance fees.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs were approximately \$232,000 and \$215,000 during 2017 and 2016, respectively.

Obligation to Provide Future Services

RW-C annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from advance fees, a liability is recorded with the corresponding charge to income (obligation to provide future services). The obligation is discounted at 6%, based on the expected long-term rate of return on government obligations. At March 31, 2017 and 2016, RW-C did not have an obligation to provide future services.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those held by the Foundation whose use has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets

Permanently restricted net assets are those held by the Foundation that carry donor-imposed restrictions that stipulate that donated assets be maintained in perpetuity, but permit the Foundation to use or expend the income derived from the donated assets.

Fellowship Assistance

RW-C has a fellowship assistance policy to identify current and prospective residents who are unable to pay and uses certain funds designated for benevolent assistance to subsidize the charges for entrance fees and/or monthly fees provided to those residents. Such residents are identified based on financial information obtained from the resident and subsequent review and analysis. Since RW-C does not charge the residents for services provided, estimated charges for benevolent assistance are not included in revenue.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fellowship Assistance (Continued)

RW-C has estimated its direct and indirect costs of providing benevolent assistance under its fellowship assistance policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the total operating costs to total operating revenue. The cost-to-charge ratio is applied to the charges foregone to calculate the estimated direct and indirect cost of providing benevolent assistance. Using this methodology, RW-C has estimated the costs for services under RW-C's benevolent assistance policy to be approximately \$326,000 and \$313,000 for the years ended March 31, 2017 and 2016, respectively.

RW-C received approximately \$140,000 and \$141,000 to subsidize the costs of providing fellowship assistance under its fellowship assistance policy for the years ended March 31, 2017 and 2016, respectively.

Net Health Care and Residential Services Revenue

RW-C has agreements with third-party payers that provide for payments at amounts different from its established rates. Net health care and residential services revenue is reported at the estimated realizable amounts from residents, third-party payers, and others for services rendered.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in unrestricted net assets (deficit) as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Operating Indicator

RW-C's operations include all unrestricted revenue, gains, expenses, and losses for the reporting period related to RW-C's mission except for contributions for the acquisition of plant, property, and equipment, which are reported as other changes in unrestricted net assets. RW-C is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code.

RW-C's income tax returns are subject to review and examination by federal and state authorities. RW-C is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income, excise, or other taxes.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Operating Indicator (Continued)

Other activities not related to RW-C's mission are considered to be nonoperating. Nonoperating income (loss) includes unrealized gains and losses on investments and changes in the beneficial interest in the net assets of Rappahannock Westminster-Canterbury Foundation.

Income Taxes

RW-C is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code.

RW-C's income tax returns are subject to review and examination by federal and state authorities. RW-C is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income, excise, or other taxes.

RW-C follows the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. This standard had no impact on RW-C's financial statements for the years ended March 31, 2017 and 2016.

Professional Liability Insurance

RW-C's professional liability insurance coverage is on the claims-made basis.

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. RW-C emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that RW-C has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value of Financial Instruments (Continued)

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. RW-C did not have any assets or liabilities that are valued using Level 2 or Level 3 inputs.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. RW-C adopted the policy to value certain financial instruments at fair value; however, RW-C has not elected to measure any existing financial instruments at fair value. RW-C may elect to measure newly acquired financial instruments at fair value in the future.

Risks and Uncertainties

RW-C holds investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will continue to occur in the near term and that such changes could materially affect RW-C's investment balances and the amounts reported in its balance sheets.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on previously reported net assets or change in net assets.

Subsequent Events

In preparing these financial statements, RW-C has evaluated events and transactions for potential recognition or disclosure through June 21, 2017, the date the financial statements were available to be issued.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 2 ASSETS LIMITED AS TO USE

Assets limited as to use at March 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Externally Restricted under Residency Agreements Cash and Cash Equivalents	<u>\$ 155,135</u>	<u>\$ 698,116</u>

NOTE 3 INVESTMENTS

Investments at March 31 are summarized as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Securities:				
Mutual Funds	\$ 160,752	\$ 158,448	\$ 255,842	\$ 257,610
U.S. Government Bonds	2,794,712	2,816,977	2,333,139	2,316,876
Common Stock	2,929,772	2,605,901	2,462,020	2,422,002
Total Investments	<u>\$ 5,885,236</u>	<u>\$ 5,581,326</u>	<u>\$ 5,051,001</u>	<u>\$ 4,996,488</u>

Investment income for assets limited as to use and investments are comprised of the following for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Investment Income:		
Interest	\$ 73,790	\$ 69,422
Dividends	84,839	74,703
Realized Losses	(31,219)	(44,167)
Total Investment Income	<u>\$ 127,410</u>	<u>\$ 99,958</u>
Nonoperating Income (Loss):		
Change in Unrealized Gains (Losses) on Investments Held by Rappahannock Westminster-Canterbury Foundation	\$ 212,740	\$ (322,265)
Unrealized Gains (Losses) on Investments	237,640	(99,417)
Total Nonoperating Income (Loss)	<u>\$ 450,380</u>	<u>\$ (421,682)</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 4 NOTES RECEIVABLE

A resident of RW-C granted a deed of trust to RW-C during fiscal year 2013 in the amount of \$121,079 as payment for the resident's outstanding account receivable balance. The deed of trust grants RW-C second rights to the proceeds from the sale of a business property owned by the grantors. The agreement also requires the resident to make monthly installment payments in addition to an annual interest payment until the property is sold. As of March 31, 2017 and 2016, the balances of the note are \$91,579 and \$97,579, respectively. Based on historical analysis, management estimates the entire balance as collectible.

At fiscal year-end 2016, entrance fee receivables totaling \$319,714 were recorded for two new residents who moved to RW-C during the 2016 fiscal year. This entire balance was subsequently collected during fiscal year 2017. At fiscal year-end 2017, entrance fee receivables of \$441,041 were recorded for two residents who moved to RW-C during the 2017 fiscal year.

NOTE 5 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following at March 31:

	2017	2016
Land	\$ 731,431	\$ 731,431
Land Improvements	5,731,703	5,653,628
Buildings and Fixtures	48,059,220	46,857,233
Machinery and Equipment	8,840,263	8,543,103
Furniture and Equipment	1,197,931	1,156,166
Vehicles	206,959	206,959
	64,767,507	63,148,520
Less: Accumulated Depreciation	(43,375,192)	(40,857,296)
	21,392,315	22,291,224
Construction in Progress	4,909,196	495,265
Property and Equipment, Net	\$ 26,301,511	\$ 22,786,489

Depreciation expense was \$2,546,101 and \$2,470,170 for the years ended March 31, 2017 and 2016, respectively.

Construction in progress at March 31, 2017 and 2016 related to general renovations to several cottages and apartments as well as costs associated with the Life Enrichment Center expansion project which is expected to be completed in 2018 for an estimated total cost of \$4,500,000. Interest amounts of \$84,038 and \$13,146 were capitalized during the years ended March 31, 2017 and 2016, respectively.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following at March 31:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Series 2012 Residential Care Facility Mortgage Revenue Refunding Bonds:		
2012A Series, due in graduated monthly installments ranging from \$21,000 in February 2013 to \$52,765 in April 2032. Interest is paid monthly at a fixed rate of 3.45%. Optional tender on December 15, 2022. Collateralized by substantially all assets of RW-C and guaranteed by the Foundation.	\$ 7,353,154	\$ 7,666,704
2012B Series, due in graduated monthly installments ranging from \$21,000 in February 2013 to \$52,765 in April 2032. Interest is paid monthly at a fixed rate of 3.45%. Collateralized by substantially all assets of RW-C and guaranteed by the Foundation.	7,353,154	7,666,704
Construction loan entered into May 2016 with a maximum draw of \$2.5 million. Interest payments at an interest rate of 4% were due during the draw period which ended May 1, 2017. In May 2017, this loan was converted to a traditional loan with monthly payments of interest and principal of \$14,543.53 for 12 years.	<u>2,094,608</u>	<u>-</u>
	16,800,916	15,333,408
Less: Unamortized Deferred Financing Costs	(233,377)	(260,830)
Less: Current Portion	<u>(732,726)</u>	<u>(630,000)</u>
Total Long-Term Debt	<u>\$ 15,834,813</u>	<u>\$ 14,442,578</u>

Annual principal payments due on the long-term debt are as follows:

<u>Year Ended March 31,</u>	<u>Amount</u>
2018	\$ 732,726
2019	798,484
2020	833,553
2021	880,809
2022	933,124
Thereafter	12,622,220
Total	<u>\$ 16,800,916</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 6 LONG-TERM DEBT (CONTINUED)

The loan agreements relating to the Series 2012 Bonds contain certain covenants including a requirement that net revenue available for long-term debt service (as defined) be not less than 120% of maximum annual debt service (as defined) and that day's cash on hand (as defined) be not less than 120 days. At March 31, 2017, management believes RW-C was in compliance with the covenant requirements under its bond agreements. During 2017 and 2016, RW-C paid approximately \$489,000 and \$536,000, respectively, for interest, net of amounts capitalized.

NOTE 7 LINE OF CREDIT

RW-C has an unsecured line of credit with a maximum borrowing limit of \$750,000 at March 31, 2017 and 2016 with an interest rate of 5%. At March 31, 2017 and 2016, no amounts had been borrowed from the line of credit. This line of credit was closed in May 2016 upon execution of the construction loan detailed in Note 6.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, which are held by the Foundation, are available for the following purposes at March 31:

	2017	2016
Construction of Health/Wellness Center	\$ 6,820	\$ 196,366
Memory Support	460,923	406,778
Other	567,706	495,903
Total Temporarily Restricted Net Assets	<u>\$ 1,035,449</u>	<u>\$ 1,099,047</u>

Temporarily restricted net assets released from restriction were used for purposes as specified by donor restriction.

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

All permanently restricted endowments are held by the Foundation. At March 31, 2017 and 2016, the Foundation had approximately \$832,000 in permanently restricted endowments. The Foundation had no board designated endowment funds for the years ended March 31, 2017 and 2016.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The Commonwealth of Virginia adopted the Virginia Prudent Management of Institutional Funds Act (the Act). The board of trustees of the Foundation has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment and (2) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted Endowment Fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted Endowment Fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

Funds with Deficiencies

It is the Foundation's policy to maintain the corpus amounts of each individual donor-restricted Endowment Fund received. If the fair value of assets associated with Individual donor-restricted Endowment funds were to fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration, in accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management targets a diversified asset allocation that meets the Foundation's long-term rate of return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy is consistent with its objective of preservation of the fair value of the original gift of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts.

The following is the change in endowment net assets for the years ended March 31:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 227,569	\$ 397,330	\$ 831,843	\$ 1,456,742
Realized Gains and Change in Net Unrealized Gains on Investments	-	124,813	-	124,813
Total Investment Return	227,569	522,143	831,843	1,581,555
Releases from Restrictions	48,662	(48,662)	-	-
Endowment Net Assets - End of Year	<u>\$ 276,231</u>	<u>\$ 473,481</u>	<u>\$ 831,843</u>	<u>\$ 1,581,555</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy
(Continued)

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets - Beginning of Year	\$ 168,829	\$ 497,883	\$ 831,843	\$ 1,498,555
Realized Gains and Change in Net Unrealized Losses on Investments	-	(41,813)	-	(41,813)
Total Investment Return	168,829	456,070	831,843	1,456,742
Releases from Restrictions	58,740	(58,740)	-	-
Endowment Net Assets - End of Year	<u>\$ 227,569</u>	<u>\$ 397,330</u>	<u>\$ 831,843</u>	<u>\$ 1,456,742</u>

NOTE 10 ADVANCE FEES AND DEPOSITS

Under the residency agreement, a reservation fee of 10% of the advance fee is required with each reservation. The reservation fee is refundable in full if, before the occupancy date, (i) a written request is received from the applicant, (ii) the applicant is not admitted or (iii) the applicant dies before the date of closing. Upon occupancy, reservation fees are reclassified as deferred revenue from advance fees.

The Residence and Services Agreement provides for partial refunds of the advance fee under the circumstances outlined below. Residents must make an election for one of the following four options:

1. Declining Refund Total Life Care – After the occupancy date, if the Residency Agreement is terminated for reasons other than death, all fees are refundable less an amount equal to 2% of such fees per month of occupancy.
2. 365-Day Deductible – Advance fees are treated the same as Declining Refund Total Life Care; however, the resident must pay for the first 365 days of health care services after which no additional fees are required.
3. 50% Refund Total Life Care – After the occupancy date, if at any time for any reason the Residency Agreement is terminated, at least 50% of the advance fee is refundable. For the first 25 months of residence, the refund declines at the rate of 2% per month.
4. Refundable Continuing Care – Advance fees are treated the same as 50% Refund Total Life Care; however, residents are required to pay for any health care services.

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 10 ADVANCE FEES AND DEPOSITS (CONTINUED)

At March 31, 2017 and 2016, the portion of such fees subject to refund provisions amounted to approximately \$14,279,000 and \$12,683,000, respectively. Amounts expected to be refunded to current residents at March 31, 2017 and 2016, based on RW-C's experience, total approximately \$4,434,000 and \$3,914,000, respectively.

NOTE 11 RETIREMENT PLAN

Effective April 1, 1998 and December 15, 1999, RW-C sponsors a contributory, defined contribution retirement plan (Plan). For those employees who elect to participate, RW-C will provide a matching contribution equal to 50% of the voluntary contributions of each employee up to a maximum of 4%. In addition, for all employees eligible to participate, RW-C may, at its discretion, contribute an amount, determined each plan year by the Plan committee, based on the total compensation of all participants eligible to receive an allocation. Total expenses related to the Plan for the years ended March 31, 2017 and 2016 were approximately \$114,000 and \$104,000, respectively.

NOTE 12 RAPPAHANNOCK WESTMINSTER-CANTERBURY FOUNDATION

Rappahannock Westminster-Canterbury Foundation (the Foundation) and RW-C are considered financially interrelated organizations. As a result, RW-C recognizes its 100% interest in the net assets of the Foundation in the accompanying financial statements. Summarized financial information for the Foundation as of and for the years ended March 31 is set forth below:

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and Cash Equivalents	\$ 872,893	\$ 943,591
Investments	6,116,309	5,677,096
Total Assets	<u>\$ 6,989,202</u>	<u>\$ 6,620,687</u>
Liability and Net Assets:		
Payable to RW-C	\$ 26,406	\$ 42,673
Deferred Revenue	13,000	-
Net Assets	6,949,796	6,578,014
Total Liability and Net Assets	<u>\$ 6,989,202</u>	<u>\$ 6,620,687</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 12 RAPPAHANNOCK WESTMINSTER-CANTERBURY FOUNDATION (CONTINUED)

Investments of the Foundation at March 31 are summarized as follows:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Marketable Equity				
Securities	\$ 3,382,081	\$ 2,573,010	\$ 3,154,879	\$ 2,567,457
Mutual Funds	1,106,579	1,021,743	996,111	971,288
U.S. Government				
Securities	222,033	222,027	183,095	178,052
Corporate Bonds	1,405,616	1,400,585	1,343,011	1,321,474
Total Investments	<u>\$ 6,116,309</u>	<u>\$ 5,217,365</u>	<u>\$ 5,677,096</u>	<u>\$ 5,038,271</u>

Transactions between the Foundation and RW-C consist primarily of financial assistance payments. The Foundation provides fellowships in the form of assistance with advance fees and/or monthly fees to qualifying RW-C residents. Financial assistance provided to RW-C residents for the years ended March 31, 2017 and 2016 totaled approximately \$326,000 and \$313,000, respectively.

Other transactions between the Foundation and RW-C include reimbursement of administrative expenses paid by RW-C on behalf of the Foundation. RW-C provides all administrative and accounting services to the Foundation.

NOTE 13 FUNCTIONAL EXPENSES

RW-C provides residential and health care services to the residents of its facility. Expenses related to providing these services for the years ended March 31 are as follows:

	2017	2016
Health Care Services	\$ 15,141,828	\$ 14,246,164
General and Administrative	2,748,515	2,672,752
Total Expenses	<u>\$ 17,890,343</u>	<u>\$ 16,918,916</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 14 FAIR VALUE MEASUREMENTS

RW-C uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how RW-C measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of RW-C measured at fair value on a recurring basis as of March 31:

	2017			Total
	Level 1	Level 2	Level 3	
Mutual Funds	\$ 160,752	\$ -	\$ -	\$ 160,752
U.S. Government Bonds	2,794,712	-	-	2,794,712
Common Stock	2,929,772	-	-	2,929,772
Beneficial Interest in Assets of RW-C Foundation	-	-	6,949,796	6,949,796
Total Assets Measured at Fair Value	<u>\$ 5,885,236</u>	<u>\$ -</u>	<u>\$ 6,949,796</u>	<u>\$ 12,835,032</u>

	2016			Total
	Level 1	Level 2	Level 3	
Mutual Funds	\$ 255,842	\$ -	\$ -	\$ 255,842
U.S. Government Bonds	2,333,139	-	-	2,333,139
Common Stock	2,462,020	-	-	2,462,020
Beneficial Interest in Assets of RW-C Foundation	-	-	6,578,014	6,578,014
Total Assets Measured at at Fair Value	<u>\$ 5,051,001</u>	<u>\$ -</u>	<u>\$ 6,578,014</u>	<u>\$ 11,629,015</u>

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the years ended March 31, 2017 and 2016:

Balance at March 31, 2015	\$ 7,295,295
Purchases	-
Interest, Realized and Unrealized Loss on Investments	(717,281)
Fees	-
Transfers	-
Balance at March 31, 2016	<u>6,578,014</u>
Purchases	-
Interest, Realized and Unrealized Gain on Investments	371,782
Fees	-
Transfers	-
Balance at March 31, 2017	<u>\$ 6,949,796</u>

RAPPAHANNOCK WESTMINSTER-CANTERBURY, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 15 RELATED PARTY TRANSACTIONS

During 2017 and 2016, RW-C entered into certain transactions with related parties.

RW-C has various deposit and investment accounts with Chesapeake Bank. During 2017 and 2016, a member of the board of trustees of RW-C also served as president of Chesapeake Trust Company. This member was board chair in 2016 for RW-C. At March 31, 2017 and 2016, total deposits and investments held with Chesapeake Bank were approximately \$10,883,000 and \$10,521,000, respectively.

NOTE 16 CONCENTRATIONS OF CREDIT RISK

RW-C places its temporary cash and investments with high credit quality financial institutions. At times, such cash and investments may be in excess of FDIC limits. Management believes these financial institutions have strong credit ratings and that credit risk related to those deposits is minimal.

RW-C grants credit without collateral to its patients and residents or their families, some of whom are local residents and who are insured under third-party payer agreements. The mix of receivables from patients and other third-party payers was as follows:

	<u>2017</u>	<u>2016</u>
Medicare	37 %	39 %
Medicaid	6	10
Private and Other	57	51
Total	100	100

NOTE 17 COMMITMENTS AND CONTINGENCIES

RW-C is subject to legal proceedings and claims which arise in the course of providing health care services. RW-C maintains liability insurance coverage for claims made during the policy year. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes RW-C is in compliance with all laws and regulations.