

**KENDAL AT HANOVER**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**KENDAL AT HANOVER  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Kendal at Hanover  
Hanover, New Hampshire

We have audited the accompanying financial statements of Kendal at Hanover, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, 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 Directors  
Kendal at Hanover

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kendal at Hanover as of December 31, 2016 and 2015, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
March 10, 2017

**KENDAL AT HANOVER  
BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015**

<b>ASSETS</b>	2016	2015
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,236,448	\$ 1,702,168
Accounts Receivable, Net	1,714,843	1,763,322
Entrance Fee Receivable	-	329,033
Prepaid Expenses and Other Current Assets	670,890	814,747
Due from Related Parties	29,469	24,123
Current Portion of Investments	-	6,310,492
Current Portion of Funds Held by Trustee under Revenue Bond Agreement	811,069	756,951
Total Current Assets	5,462,719	11,700,836
 <b>INVESTMENTS, NET OF CURRENT PORTION</b>	 27,481,845	 20,579,147
 <b>ASSETS LIMITED AS TO USE</b>		
Board-Designated Funds:		
Deposits from Prospective Residents	702,000	692,000
Other Board-Designated Investments	867,984	759,171
Funds Held by Trustee under Revenue Bond Agreement, Net of Current Portion	5,741,330	1,865
Funds Held for New Hampshire Statutory Reserves	10,823,699	10,478,773
Donor Temporarily Restricted Funds	6,563,117	6,293,884
Donor Permanently Restricted Funds	1,534,095	1,402,603
Total Assets Limited as to Use, Net of Current Portion	26,232,225	19,628,296
 <b>OTHER ASSETS</b>		
Self Insurance Deposit	552,939	540,093
 <b>PROPERTY AND EQUIPMENT, NET</b>	 88,966,840	 81,090,017
Total Assets	\$ 148,696,568	\$ 133,538,389

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 1,975,000	\$ 8,695,492
Accounts Payable and Accrued Expenses	1,380,867	1,315,000
Accounts Payable - Construction	397,252	547,484
Accrued Salaries, Wages, and Related Taxes	738,595	709,426
Accrued Bond Interest Payable	116,505	162,478
Deferred Revenues, Net	1,575,738	1,526,160
Due to Related Parties	24,210	16,448
Current Portion of Gift Annuities Payable	85,035	65,106
Total Current Liabilities	<u>6,293,202</u>	<u>13,037,594</u>
<b>PROSPECTIVE RESIDENT DEPOSITS</b>	702,000	692,000
<b>REFUNDABLE ENTRANCE FEE PAYABLE</b>	193,832	193,832
<b>DEFERRED REVENUE FROM ENTRANCE FEES</b>	65,341,102	61,743,700
<b>GIFT ANNUITIES PAYABLE, NET OF CURRENT PORTION</b>	65,529	45,561
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<u>38,708,132</u>	<u>24,268,227</u>
Total Liabilities	111,303,797	99,980,914
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	29,183,943	25,710,287
Temporarily Restricted	6,785,607	6,458,712
Permanently Restricted	1,423,221	1,388,476
Total Net Assets	<u>37,392,771</u>	<u>33,557,475</u>
Total Liabilities and Net Assets	<u>\$ 148,696,568</u>	<u>\$ 133,538,389</u>

**KENDAL AT HANOVER  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>		
Resident Service Fees	\$ 14,958,177	\$ 14,237,065
Earned Entrance Fees	5,850,277	5,753,193
Health Center Fees	4,329,461	4,362,220
Other Operating Revenue	518,281	558,256
Investment Income	562,479	767,043
Net Assets Released from Restrictions for Operations	296,205	147,133
Total Revenues, Gains, and Other Support	26,514,880	25,824,910
<b>OPERATING EXPENSES</b>		
General and Administrative	3,016,975	2,908,039
Health Services	5,038,044	4,879,720
Dining Services	3,076,378	3,115,874
Facilities Costs and Utilities	2,992,583	3,149,836
Employee Benefits	2,755,352	2,815,838
Environmental Services	977,523	1,025,671
System Fee	737,436	732,141
Real Estate Taxes	1,373,207	1,285,693
Depreciation and Amortization	4,313,252	4,126,171
Interest Expense	684,069	870,328
Total Operating Expenses	24,964,819	24,909,311
<b>INCOME FROM OPERATIONS</b>	1,550,061	915,599
<b>NON-OPERATING GAINS (LOSSES)</b>		
Unrestricted Contributions	312,413	289,265
Loss on Disposal of Property and Equipment	(11,559)	(266,291)
Loss on Extinguishment of Debt	(70,219)	-
Net Realized (Loss) Gain on Sale of Investments	(7,171)	907
Total Non-Operating Gains	223,464	23,881
<b>EXCESS OF REVENUES OVER EXPENSES</b>	1,773,525	939,480
<b>NET UNREALIZED GAIN (LOSS) ON INVESTMENTS AND ASSETS LIMITED AS TO USE</b>	1,700,131	(1,371,029)
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	\$ 3,473,656	\$ (431,549)

See accompanying Notes to Financial Statements.

**KENDAL AT HANOVER**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>UNRESTRICTED NET ASSETS</b>		
Excess of Revenues over Expenses	\$ 1,773,525	\$ 939,480
Net Unrealized Gain (Loss) on Investments and Assets Limited as to Use	1,700,131	(1,371,029)
Increase (Decrease) in Unrestricted Net Assets	3,473,656	(431,549)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	201,907	159,194
Investment Income	59,808	91,016
Net Unrealized Gain (Loss) on Investments	490,043	(435,335)
Net Realized Gain on Restricted Investments	11,838	186,404
Change in Value of Charitable Gift Annuities	(140,496)	(14,276)
Net Assets Released from Restrictions for Operations	(296,205)	(147,133)
Increase (Decrease) in Temporarily Restricted Net Assets	326,895	(160,130)
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	34,745	20,512
<b>INCREASE (DECREASE) IN NET ASSETS</b>	3,835,296	(571,167)
Net Assets - Beginning of Year	33,557,475	34,128,642
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 37,392,771</b>	<b>\$ 33,557,475</b>

See accompanying Notes to Financial Statements.



**KENDAL AT HANOVER  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets	\$ 3,835,296	\$ (571,167)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Entrance Fees Received	9,837,120	7,636,703
Amortization of Deferred Entrance Fees	(5,850,277)	(5,753,193)
Depreciation and Amortization	4,357,509	4,110,766
Amortization of Deferred Financing Costs	56,230	47,427
Loss on Disposal of Assets	11,559	266,291
Net Realized and Unrealized (Gain) Loss on Investments	(2,054,345)	1,633,329
Loss on Extinguishment of Debt	70,219	-
Restricted Contributions	(236,652)	(179,706)
(Increase) Decrease in Assets:		
Accounts Receivables	48,479	(248,357)
Prepaid Expenses and Other	128,511	150,808
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	152,376	760,775
Accrued Interest Payable	(45,973)	(17,561)
Net Cash Provided by Operating Activities	<u>10,310,052</u>	<u>7,836,115</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment, Net	(12,351,866)	(4,549,321)
Purchases of Investments and Assets Limited as to Use, Net	(5,185,908)	(810,706)
Deposit of Self Insurance	(12,846)	(92,433)
Net Cash Used by Investing Activities	<u>(17,550,620)</u>	<u>(5,452,460)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Refunds of Entrance Fees	(60,408)	(51,317)
Net Increase in Prospective Resident Deposits	10,000	41,000
Restricted Contributions	236,652	179,706
Principal Payments of Long-Term Debt	(2,235,000)	(2,285,000)
Proceeds from Long-Term Debt	19,029,653	-
Premiums from Issuance of Long-Term Debt	2,074,089	-
Redemption of Long-Term Debt	(10,867,328)	-
Payment of Deferred Financing Costs	(452,707)	-
Increase (Decrease) in Gift Annuities Payable	39,897	(76,903)
Net Cash Provided (Used) by Financing Activities	<u>7,774,848</u>	<u>(2,192,514)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	534,280	191,141
Cash and Cash Equivalents - Beginning of Year	<u>1,702,168</u>	<u>1,511,027</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,236,448</u>	<u>\$ 1,702,168</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest, Net of Capitalized Interest	<u>\$ 673,812</u>	<u>\$ 829,493</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and Equipment	\$ 397,252	\$ 547,484
Accounts Payable	\$ 397,252	\$ 547,484

See accompanying Notes to Financial Statements.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Kendal at Hanover (KaH) is a non-profit organization incorporated in New Hampshire on January 1, 2001. Previously, KaH was incorporated in the Commonwealth of Pennsylvania on April 28, 1988. KaH operates a continuing care retirement facility that provides housing, health care, and other related services to residents through the operation of a retirement facility containing 250 apartments and a 112 licensed bed health care facility located in Hanover, New Hampshire.

Kendal at Hanover is affiliated with The Kendal Corporation, a not-for-profit Pennsylvania corporation, through bylaws and an Agreement between The Kendal Corporation and Kendal at Hanover, which is reviewed and updated periodically. The most recent updated agreement was signed on December 1, 2014. The Agreement calls for Kendal at Hanover to pay The Kendal Corporation a System Fee. The fee has three components: a Base System Fee, a Contingency Reserve, and a System Growth Fund Reserve. The Base System Fee is calculated based on budgeted expenses less the System Fee itself, with a minimum fee payment for expenses less than \$5 million, and percentages for expenses between \$5 and \$15 million (3%), \$15-\$25 million (2.8%), and over \$25 million (2.5%).

The Contingency Reserve and System Growth Fund are each 0.25% of budgeted operating expenses (not including the System Fee itself). Each of the reserves has a specific target for the total KaH will pay. KaH has met the targets for the Contingency Reserve Fee and the System Growth Fee.

**Use of Estimates**

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include deferred revenue from entrance fees and obligation to provide future services and use of facilities to current residents. Actual results could differ from those estimates.

**Income Taxes**

KaH has been granted exempt status relative to federal and state corporate income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes.

KaH follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard has no impact on the KaH financial statements.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Income Taxes (Continued)**

KaH income tax returns are subject to review and examination by federal and state authorities. KaH is not aware of any activities that would jeopardize its tax-exempt status.

KaH is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes.

**Cash and Cash Equivalents**

KaH considers cash and cash equivalents to include investments in highly liquid investments with original maturity dates of three months or less, excluding amounts that are limited as to use under the trust agreements, board designated funds, deposits from prospective residents, other board designated investments, funds held for New Hampshire Statutory Reserves, and donor restricted amounts. KaH deposits cash in financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. Cash in the bank generally exceeds FDIC limit insurable limits.

**Accounts Receivable**

KaH provides an allowance for uncollectible accounts based on the allowance method using management's judgment, considering historical information. Residents are not required to provide collateral for the services rendered. Payment for services is required upon receipt of an invoice. Accounts past due for more than 90 days are individually analyzed for collectability. When all collection efforts have been exhausted, accounts are written off. Management believes that the allowance for doubtful accounts is adequate to provide for estimated uncollectible accounts associated with the accounts receivable balances. The allowance for doubtful accounts at December 31, 2016 and 2015 was \$16,796 and \$35,318, respectively.

**Investments**

Investments are comprised of equity securities and debt securities and are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income, including realized gains and losses on investments, interest and dividends, declines in market value deemed to be other than temporary, and earnings on trustee held funds, are reported as investment income and included in the excess of revenue over expenses. The cost of substantially all securities sold is based on the specific identification method. Unrealized gains and losses are excluded from the excess of revenue over expenses.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Investments (Continued)**

Declines in the market value of securities below cost that are deemed to be other-than-temporary result in a reduction in carrying amount to fair value. The impairment is charged to the excess of revenues over expenses and a new cost basis for the security is established. To determine whether impairment is other-than-temporary, KaH considers whether it has the ability and intent to hold the investment security until a market price recovery occurs. Evidence considered in this assessment includes the reason for the impairment, the severity and duration of the impairment, changes in market value subsequent to fiscal year-end and the forecasted performance of the investment security. For the fiscal years ended December 31, 2016 and 2015, there were no other-than-temporary declines in investments.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the risk associated with certain investments, it is reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

**Assets Limited as to Use**

Assets limited as to use are stated at fair value. Assets limited as to use include assets held for New Hampshire statutory reserve, assets held by trustee under a revenue bond agreement, assets designated by the Board of Directors (Board) for future use over which the Board retains control, and donor-restricted funds.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. KaH's policy is to capitalize expenditures for major improvements with a cost basis equal or greater than \$5,000 and a useful life of at least three years, and charge maintenance and repairs currently for expenditures that do not extend the useful lives of the related assets. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Land Improvements	5 – 25 Years
Buildings and Building Improvements	10 – 40 Years
Furniture and Equipment	4 – 15 Years

KaH records impairment losses on property and equipment when events and circumstances indicate that it is probable that the assets are impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Based on management's estimation process, no impairment losses have been recorded as of December 31, 2016 and 2015.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Deferred Financing Costs**

Deferred financing costs related to the issuance of the Series 2004, Series 2008, Series 2013, and Series 2016 Revenue Bonds (see Note 4), are being amortized using the straight-line method, a method which approximates the effective interest rate method, over the term of the related indebtedness and are recorded as a component of interest expense. As of December 31, 2016 and 2015 total deferred financing costs incurred were \$859,331 and \$814,642, respectively.

**Self-Insurance Deposit**

Effective January 1, 2014, KaH elected to participate in a self-insured medical and prescription plan established by The Kendal Corporation for the benefit of the employees of The Kendal Corporation and the employees of participating Kendal Affiliates, the Plan (see Note 11).

**Net Assets**

KaH reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted (subject to donor or time restrictions), and permanently restricted (principal maintained in perpetuity).

Temporarily restricted net assets are net assets whose use has been limited by donors to a specific purpose. These amounts are principally restricted to resident financial assistance, resident care and facility improvements, and specific equipment purchases. Gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained by KaH in perpetuity.

**Prospective Residents' Deposits**

Prospective residents deposit \$1,000 to \$2,000 in order to be placed on the waiting list for an apartment. Prospective residents' deposits are fully refundable upon request of the applicant. The waiting list is comprised of 453 and 452 applications at December 31, 2016 and 2015, respectively.

**Financial Assistance to Residents**

KaH has a formal policy under which resident fees are subsidized, based on financial need, as recommended by management and approved by the Executive Director. KaH provided financial assistance in accordance with the decisions made by the Executive Director, which, at established charges, amounted to approximately \$113,000 and \$51,000 for the years ended December 31, 2016 and 2015, respectively. Financial assistance is primarily funded through income generated from two restricted funds known as the Cadbury Fund and the Mel and Jinny Dickenson Home Care Fund.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Financial Assistance to Residents (Continued)**

The Cadbury Fund assistance is for monthly fee assistance of residents. The Mel and Jinny Dickenson Home Care Fund subsidizes medical home care services for residents. Reimbursement to operations from the Cadbury Fund and the Mel and Jinny Dickenson Home Care Fund approximated the financial assistance provided for the fiscal years ended December 31, 2016 and 2015.

**Employee Fringe Benefits**

KaH has an “earned time” plan to provide fringe benefits for its employees. Under this plan, each employee “earns” paid leave for each bi-weekly period paid. These hours of paid leave may be used for vacations, holidays, and short-term sickness. Hours earned but not used (during the calendar year) vest with the employee should termination from employment occur during the calendar year. Based upon the earned time policy, KaH full-time employees are not allowed to carry more than 320 hours of earned time at any time during the year. KaH accrues the cost of these benefits as they are earned. Accrued earned time amounted to approximately \$407,000 and \$422,000 at December 31, 2016 and 2015, respectively.

KaH also allows employees to take certain holidays without the use of earned time accrued. There are six such holidays during the year that are limited to a certain time period and are not vested with the employee. No accrued earned time is calculated or accrued for these holidays.

**Deferred Revenues**

Residents are charged monthly service and occupancy fees that are billed one month in advance. Advance billings to residents for monthly fees are recorded as deferred revenues in the balance sheet and are then recognized as resident service fee revenue when earned. Ancillary charges are charged at the end of each month and are recognized as service fee revenue in that month.

**Resident Entrance Fees**

KaH has four types of residence and care agreements: a standard agreement, a modified agreement with long-term care insurance, a 50% return-of-entry-fee agreement, and an agreement that allows direct entry into assisted living with no entry fee. Effective January 1, 2007, for new residents only, each of the contracts exclude pharmaceutical coverage. Under the standard agreement, resident entrance fees are initially refundable upon receipt, but become nonrefundable at the rate of 2% per month until becoming fully nonrefundable after 50 months. The contractual refund obligation at December 31, 2016 and 2015 was approximately \$17,701,000 and \$16,311,000, respectively.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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

**Resident Entrance Fees (Continued)**

Entrance fee receipts are initially recorded as deferred revenue from entrance fees and are amortized into operating revenue over the actuarially determined life expectancy of each resident. Entrance fee amortization is retroactively recorded subsequent to the initial three month period of residency. Upon death, any unamortized entrance fee is recorded as revenue in that period.

**Obligation to Provide Future Services**

An independent actuary engaged by KaH periodically 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 entrance fee revenue. If the present value of the net cost of future services and use of facilities exceeds the deferred entrance fee revenue, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5.5% based on the expected long-term rate of return on investments. As of December 31, 2016 and 2015, management believes there was no need to record a liability for an obligation to provide future services and use of facilities, based on the calculation of the future service obligation of the actuary.

**Donor-Restricted Gifts**

Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (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 statement of operations as either net assets released from restrictions for operations (for non-capital related items) or as net assets released from restrictions for capital expenditures (for capital related items). Permanently restricted net assets that have been restricted by donors are to be maintained by KaH in perpetuity.

**Performance Indicator**

KaH's performance indicator is the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from such amounts, consistent with industry practice, include unrealized gains and losses on the investments and asset released from restrictions used for capital expenditures. For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of residential living and related health care services are reported as revenue or expenses. Peripheral or incidental transactions are reported as non-operating gains and losses and include realized gains and losses on the fair value of investments, gains and losses on the disposal of property, loss on extinguishment of debt and unrestricted contributions.

**KENDAL AT HANOVER**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

**New Accounting Pronouncements**

During the year ended December 31, 2016, KaH early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This provision eliminates the requirement for entities, other than public business entities to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, KaH has omitted this disclosure for the years ended December 31, 2016 and 2015. The early adoption of this provision did not have an impact on the entity's financial position or results of operations.

**Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

**Reclassification**

Certain items in the 2015 financial statements have been reclassified to conform with the 2016 financial statement presentation.

**Subsequent Events**

In preparing these financial statements, KaH has evaluated events and transactions for potential recognition or disclosure through March 10, 2017, the date the financial statements were available to be issued or approved for issuance.



**KENDAL AT HANOVER**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE**

Investments and assets limited as to use are stated at fair value. The composition of investments and assets limited as to use as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 17,867,585	\$ 1,292,049
Fixed Income Securities	12,157,168	19,821,348
Marketable Equity Securities	20,581,619	17,260,669
Common Trust Fund	-	1,929,482
Multi-Sector Fund	2,358,491	2,476,793
Emerging Markets Fund	1,393,858	1,272,376
Fixed Income Bond Fund	-	3,054,848
Accrued Interest and Other	166,418	167,321
Total	<u>54,525,139</u>	<u>47,274,886</u>
Less: Current Portion of Funds Held by Trustee Under Revenue Bond Agreement	811,069	756,951
Less: Current Portion of Investments	-	6,310,492
Total	<u>\$ 53,714,070</u>	<u>\$ 40,207,443</u>
Investments	\$ 27,481,845	\$ 26,889,639
Assets Limited as to Use	<u>27,043,294</u>	<u>20,385,247</u>
Total	<u>\$ 54,525,139</u>	<u>\$ 47,274,886</u>

Investment income and gains (losses) for assets limited as to use, cash equivalents, and investments for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Investment Income	\$ 562,479	\$ 767,043
Net Realized (Loss) Gain on Sale of Investments	(7,171)	907
Net Unrealized Gain (Loss) on Investments	<u>1,700,131</u>	<u>(1,371,029)</u>
Total	<u>\$ 2,255,439</u>	<u>\$ (603,079)</u>
Temporarily Restricted:		
Investment Income	\$ 59,808	\$ 91,016
Net Realized Gain on Sale of Investments	11,838	186,404
Net Unrealized Gain (Loss) on Investments	<u>490,043</u>	<u>(435,335)</u>
Total	<u>\$ 561,689</u>	<u>\$ (157,915)</u>

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)**

Information regarding investments with unrealized losses as of December 31, 2016 is presented below. The table distributes the investments between those investments held for less than twelve months and those held for twelve months or more.

Investment	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and Corporate Obligations	\$ 2,295,246	\$ (61,849)	\$ 3,295,513	\$ (87,844)	\$ 5,590,759	\$ (149,693)
Marketable Equity Securities	-	-	7,863,968	(456,106)	7,863,968	(456,106)
Total	<u>\$ 2,295,246</u>	<u>\$ (61,849)</u>	<u>\$ 11,159,481</u>	<u>\$ (543,950)</u>	<u>\$ 13,454,727</u>	<u>\$ (605,799)</u>

The unrealized losses on the U.S. government and corporate obligations and marketable equity securities were caused by decreases in the financial markets after the purchase of the investments. Because KaH has the ability and intent to hold these investments until a market price recovery, which may be at maturity, KaH does not consider these investments to be other-than-temporarily impaired as of December 31, 2016.

**Funds Held for New Hampshire Statutory Reserves**

Under the provisions of the New Hampshire Continuing Care Provider Registration and Disclosure Act, KaH must maintain a statutory minimum liquid reserve for asset replacements. In addition, KaH is required to have liquid reserves equal to twelve months' principal and interest payments (New Hampshire Debt Service Reserve) plus that portion of two months' operating expenses based upon a 95% occupancy of the facility (Working Capital Reserve). These reserves are invested in U.S. Government obligations, bank certificates of deposit, repurchase agreements, and money market funds as required by the financing documents.

Reserve requirements as of December 31, 2016 and 2015 are as follows:

	2016	2015
Liquid Reserve for Asset Replacement	\$ 4,234,335	\$ 4,109,931
Debt Service Reserve	3,267,257	3,050,040
Working Capital Reserve	3,322,107	3,318,802
Total Required Reserves	<u>\$ 10,823,699</u>	<u>\$ 10,478,773</u>
KaH Funds Held for New Hampshire Statutory Reserves	<u>\$ 10,823,699</u>	<u>\$ 10,478,773</u>

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 3,703,792	\$ 3,703,792
Land Improvements	3,992,093	3,924,228
Buildings	111,926,915	106,124,158
Furniture and Equipment	17,194,295	16,761,844
Construction in Progress	<u>9,563,279</u>	<u>3,732,081</u>
Total	146,380,374	134,246,103
Less: Accumulated Depreciation	<u>57,413,534</u>	<u>53,156,086</u>
Total Property and Equipment	<u>\$ 88,966,840</u>	<u>\$ 81,090,017</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$4,313,252 and \$4,126,171, respectively.

In 2016 the KaH Board of Directors approved a master plan for the Community. The master plan includes two phases. Phase I is under construction with anticipated completion in May 2017. The apartment renovations and Phase I have been funded with the use of internal funds, and funds made available with the financing of the New Hampshire Health and Education Facilities Authority Series 2016 Bond Issue. Phase II is in design with construction anticipated to start in June 2018 and last approximately two years. KaH has entered into an agreement with RLPS Architects from Lancaster, PA for architecture, engineering and interior design services. Fees are based on a percentage of construction costs.

**KENDAL AT HANOVER**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 LONG-TERM DEBT**

Long-term debt as of December 31, 2016 and 2015 is as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
New Hampshire Health and Education Facilities Authority, Series 2004A Revenue Bonds 5.00%, term bonds due October 1, 2018	\$ -	\$ 3,740,000
New Hampshire Health and Education Facilities Authority, Series 2004B Revenue Bonds at variable interest rates, with varying maturity dates through October 1, 2030	7,890,000	8,670,000
New Hampshire Health and Education Facilities Authority, Series 2008 Re-Issued Revenue Bonds fixed interest rate (3.15%), maturing on August 1, 2023	14,050,000	14,470,000
New Hampshire Health and Education Facilities Authority, Series 2013 Revenue Bonds variable interest rates, maturing on August 1, 2016	-	6,310,492
New Hampshire Health and Education Facilities Authority, Series 2016 Revenue Bonds, fixed interest rates (2.0% to 5.0%), with varying maturity dates through October 1, 2046	<u>17,270,000</u>	<u>-</u>
Sub-Total	39,210,000	33,190,492
Plus: Unamortized Original Issue Premium	2,027,998	27,484
Less: Unamortized Debt Issuance Costs	<u>554,866</u>	<u>254,257</u>
Total Debt, Net Unamortized Debt Issuance Costs and Original Issue Premium	40,683,132	32,963,719
Less: Current Portion of Long-Term Debt	<u>1,975,000</u>	<u>8,695,492</u>
Long-Term Debt, Net of Current Portion	<u>\$ 38,708,132</u>	<u>\$ 24,268,227</u>

In October 2004, KaH, in connection with the New Hampshire Health and Education Facilities Authority (the Authority), advance refunded its tax-exempt Series 1997 and 2000 Revenue Bonds in the amount of \$25,660,000 and replaced the debt with tax-exempt Series 2004A Revenue Bonds in the amount of \$13,725,000 and Series 2004B Revenue Bonds bearing variable interest rates in the amount of \$15,545,000. The Series 2004A Bonds were repaid with the proceeds of the Series 2016 Bonds.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 LONG-TERM DEBT (CONTINUED)**

The variable interest rates on the Series 2004B Revenue Bonds are computed based on the weekly floater rate as defined in the agreement and ranged from 0.22% to 1.05% during the year ended December 31, 2016 and 0.22% to 0.32% during the year ended December 31, 2015. The interest rate was 0.91% and 0.22% at December 31, 2016 and 2015, respectively. The purpose of the refinancing was to secure lower cost of debt. Under the 2004 Revenue Bond Issue, KaH granted the Authority a security interest in gross receipts and a first mortgage on substantially all existing and future land, buildings, and equipment.

All or any number of the Series 2004B Revenue Bonds maturing on or after October 1, 2014 are subject to redemption at the option of KaH, in whole or in part at any time, by payment of a redemption price of the principal amount of each Series 2004 Revenue Bond called for redemption plus interest accrued to the date fixed for redemption without premium. As of December 31, 2016, the Series 2004B Bonds have a Fitch rating of BBB+ with a stable outlook.

The Series 2004B Bonds are collateralized by a letter of credit issued by Citizens Bank (RBS Citizens National Association). The letter of credit allows the Trustee to draw up to \$14,665,000 for repayment of principal and interest on the Series 2004B Bonds. Drawings on the letter of credit would bear interest at 2% above the bank's prime lending rate. The letter of credit had an annual fee paid quarterly in advance based on the face amount of the letter of credit as of the date of issuance and on the first business day of each fiscal quarter thereafter. Effective August 7, 2013, the letter of credit was extended through August 1, 2023. In the event KaH draws down on the letter of credit, they shall repay the drawing on the earliest of (1) date of remarketing of the Series 2004B Bonds, (2) the date of redemption or maturity of the Series 2004B Bonds, and (3) 180 days after the drawing unless the amount is converted to a term loan. No amounts have been drawn on the letter of credit through December 31, 2016.

The Series 2004B Bonds are subject to purchase on the demand of the owners thereof and are required to be purchased in certain events. In order to provide the availability of funds for the payment of the tendered bonds, the Authority has provided for the remarketing of the bonds. To the extent that the remarketing may not be successful, the Authority and KaH have provided for the purchase of such bonds by entering into a Reimbursement and Credit Agreement (the Agreement) with RBS Citizens.

Under the Agreement, in which the date of the letter of credit has been extended through August 1, 2023, the bank will purchase the Series 2004B Bonds that have been tendered and not remarketed. Amounts advanced under the Agreement and not reimbursed to the bank after 90 days will automatically be converted into a term loan to KaH. The term loan will be subject to the same amortization provisions as the bonds. At the expiration of the direct pay letter of credit, a balloon payment for the remaining principal will be due.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 LONG-TERM DEBT (CONTINUED)**

In September 2008, KaH entered into a Loan Agreement with New Hampshire Health and Education Facilities Authority (the Authority) pursuant to which the Authority sold the Series 2008 bonds. From the proceeds, KaH borrowed \$16,365,000 of New Hampshire Health and Education Facilities Authority Revenue Bonds, Kendal at Hanover Issue, Series 2008 Variable Rate Revenue Bonds (referred to as the Series 2008 Bonds).

The proceeds of the Series 2008 Bonds, together with available funds, were used to 1) fund renovations and improvements to the Cadbury Community Center including the dining services venue, library, and adjacent areas, KaH's residential units and common areas, and the information technology systems; 2) fund replacement of the dry sprinkler system throughout the facility and provide roof repairs to the Institution's facilities; 3) fund routine capital expenditures and miscellaneous construction, renovation, improvements, infrastructure repairs and equipping of KaH's facilities; and 4) pay certain costs of issuing the bonds.

On January 3, 2011 the Series 2008 Variable Rate Revenue Bonds were converted to a tax exempt Bank Qualified Loan with an annual fixed interest rate of 3.69%, maturing on January 2, 2021. In conjunction with the conversion to fixed rate debt in January 2011, the 2008 letter of credit was terminated. In August 2013, the Series 2008 debt was further restructured to extend the maturity of the debt through August 2023 and the interest rate was converted to a fixed interest rate to 3.15%. The Series 2008 debt is no longer a tax-exempt bank qualified loan.

In August 2013, KaH entered into a Loan Agreement and Mortgage with New Hampshire Health and Education Facilities Authority (the Authority) pursuant to which the Authority agreed to loan \$15,000,000 to KaH to provide funds to finance routine budgeted capital expenditures for three years and to pay certain costs of issuing the loan. Approximately \$6,310,000 of the proceeds were drawn down as of December 31, 2015. An additional \$725,000 of the proceeds were drawn down during fiscal year ending December 31, 2016. The Series 2013 Bonds were repaid with the proceeds of the Series 2016 Bonds.

In April 2016, KaH entered into a Loan Agreement and Mortgage with New Hampshire Health and Education Facilities Authority (the Authority) pursuant to which the Authority agreed to loan \$18,305,000 to KaH for the purpose of 1) current refunding of the outstanding Series 2004A bonds; 2) refunding all of the outstanding Series 2013 bonds; 3) financing and refinancing the costs of constructing, finishing and equipping the Wellness Fitness Project and the Gathering Room Project; 4) funding capitalized interest for the Series 2016 bonds; and 5) paying certain costs of issuing the Series 2016 bonds. The interest on the Series 2016 bonds is payable at fixed rates between 2.0% and 5.0%.

As required by the 2004 bond agreements, KaH established various reserve funds from the proceeds of the bonds. The respective bond agreements require certain other funds to be established and maintained by the bond trustee.

Under the bond indentures, KaH is subject to various covenants. These covenants include various reporting, financial, and operational requirements. As of December 31, 2016, management is not aware of any noncompliance with these covenants.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 LONG-TERM DEBT (CONTINUED)**

Aggregate mandatory redemptions and sinking fund requirements for each of the next five years and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Series 2004B</u>	<u>Series 2008</u>	<u>Series 2016</u>	<u>Total</u>
2017	\$ 810,000	\$ 435,000	\$ 730,000	\$ 1,975,000
2018	840,000	450,000	745,000	2,035,000
2019	410,000	465,000	-	875,000
2020	425,000	480,000	-	905,000
2021	445,000	500,000	-	945,000
Thereafter	4,960,000	11,720,000	15,795,000	32,475,000
Total	<u>\$ 7,890,000</u>	<u>\$ 14,050,000</u>	<u>\$ 17,270,000</u>	<u>\$ 39,210,000</u>

The current portion of assets limited as to use of \$811,069 and \$756,951 at December 31, 2016 and 2015, respectively, reflects assets that will be used to satisfy bond principal and interest currently payable. The current portion of investments of \$6,310,492 at December 31, 2015 reflected the balloon payment that was due in 2016 for the Series 2013 bonds.

The interest expense, exclusive of letter of credit fee, was approximately \$506,000 and \$757,000 for the years ended December 31, 2016 and 2015, respectively. Interest expense for the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Interest Cost Incurred	\$ 1,044,214	\$ 896,702
Less: Interest Capitalized	(360,145)	(26,374)
Total	<u>\$ 684,069</u>	<u>\$ 870,328</u>

**NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Resident Financial Assistance	\$ 4,911,274	\$ 4,605,861
Time Related Restrictions for Operations	896,939	1,009,084
Staff Education	545,432	473,404
Resident Programs	206,909	162,800
Staff Child Care Assistance	124,392	108,415
Employee Loans	74,914	69,021
Health Services	25,747	30,127
Total	<u>\$ 6,785,607</u>	<u>\$ 6,458,712</u>

As of December 31, 2016 and 2015 the total temporarily restricted net assets of \$6,785,607 and \$6,458,712 include \$5,575,026 and \$5,034,552, respectively, of temporarily restricted net assets designated as endowment funds.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

**Charitable Gift Annuities**

KaH administers various charitable gift annuities. A charitable gift annuity provides for the payment of distributions to the donor or other designated beneficiaries for a specified period of time. At the end of that period of time, the remaining assets are available for KaH's use for various purposes as determined by the donor. The portion of the assets attributable to the present value of the future benefits to be received by KaH is recorded as an increase in the net assets of KaH in accordance with its policy for recording contribution revenue in the period the charitable gift annuity is established.

There were no contributions for the years ended December 31, 2016 and 2015. KaH's interest is reported at fair value in KaH's balance sheet, based on quoted market prices of the underlying investments. KaH makes distributions to the designated beneficiaries on a contractual basis. The present value of the estimated future payments, \$150,564 and \$110,667 at December 31, 2016 and 2015, respectively, is calculated using various discount rates and applicable mortality tables.

A separate fund is maintained for the purpose of satisfying these obligations and cannot be applied toward the payment of other debts or obligations of KaH. The balance in the segregated fund was \$883,383 and \$980,045 at December 31, 2016 and 2015, respectively, and is included in assets limited as to use – donor temporarily restricted funds.

**Permanently Restricted Net Assets**

Permanently restricted net assets as of December 31, 2016 and 2015 are restricted to the following:

	2016	2015
Staff Child Care Assistance	\$ 394,663	\$ 373,962
Resident Financial Assistance	377,376	312,709
Staff Education	323,359	376,077
Resident Programs	140,372	140,372
Kendal General Endowment	187,451	185,356
Total	\$ 1,423,221	\$ 1,388,476

**Interpretation of Relevant Law**

The State of New Hampshire adopted the Uniform Prudent Management of Institutional Funds Act (the Act) effective during fiscal year 2009. The Board of Directors of KaH 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, KaH classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.



**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

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 KaH in a manner consistent with the standard of prudence prescribed in the Act.

In accordance with the Act, KaH determines annual distributions for residence assistance to be made from the Cadbury Fund in an amount totaling not more than 5% of the Fund's market value as measured on the first day of each fiscal year.

The following were the changes in the endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ -	\$ 5,034,552	\$ 1,388,476	\$ 6,423,028
Permanently Restricted Contributions	-	-	34,745	34,745
Temporarily Restricted Contributions and Investment Returns Designated for Current Operations	-	218,581	-	218,581
Net Appreciation (Realized and Unrealized)	-	430,274	-	430,274
Net Assets Released from Restrictions	-	(108,381)	-	(108,381)
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ 5,575,026</u>	<u>\$ 1,423,221</u>	<u>\$ 6,998,247</u>

**KENDAL AT HANOVER  
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**NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

The following were the changes in the endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ -	\$ 5,187,257	\$ 1,367,964	\$ 6,555,221
Permanently Restricted Contributions	-	-	20,512	20,512
Temporarily Restricted Contributions and Investment Returns Designated for Current Operations	-	157,058	-	157,058
Net Depreciation (Realized and Unrealized)	-	(199,354)	-	(199,354)
Net Assets Released from Restrictions	<u>-</u>	<u>(110,409)</u>	<u>-</u>	<u>(110,409)</u>
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ 5,034,552</u>	<u>\$ 1,388,476</u>	<u>\$ 6,423,028</u>

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires KaH to retain as a fund of perpetual duration. As of December 31, 2016 there were no deficiencies in the donor-restricted endowment funds.

**Return Objectives and Risk Parameters**

KaH has adopted investment 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 KaH must hold in perpetuity. Under this policy 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 payouts, fees, and inflation without putting the principal value at imprudent risk. Marketable equity securities and fixed income performance is expected to exceed capital market indices through opportunistic and diversified investments.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, KaH relies on an investment strategy that allocates its investments among a number of asset classes. The purpose of allocating among asset classes is to ensure the proper level of diversification to achieve the portfolio's investment objectives. KaH feels that this investment strategy meets KaH's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Investment returns on endowment funds are spent in accordance with the specifications of the donor restrictions and in accordance with the policies established by the Board of Directors.

**NOTE 6 RELATED PARTY TRANSACTIONS**

KaH has adopted a policy of disclosure of any possible conflicts of interest on the part of any Board member and certain staff. Board members with possible conflicts of interest on any matter are enjoined from using their personal influences in decisions on the matter. There were no material conflicts of interest reported by Board members, senior administrative officers, or certain staff during the years ended December 31, 2016 and 2015.

KaH paid The Kendal Corporation a system fee primarily for administrative services; such fees amounted to \$737,436 and \$732,141 for the years ended December 31, 2016 and 2015, respectively. The four components of the system fee agreement are the affiliation fee, the basic service fee, the contingency reserve, and the system growth fund. The last two components each have specific target reserves. KaH met the requirements for the contingency reserve in fiscal year 2004 and the system growth fund reserve was met in fiscal year 2008. In addition to the system fee, KaH paid \$3,707,567 and \$2,521,808 for the years ended December 31, 2016 and 2015, respectively, to The Kendal Corporation for a pension plan for KaH employees and KaH's share of various printing, legal, and health insurance costs.

In March 2015, KaH signed a Development Agreement with The Kendal Corporation. KaH intends to expand and re-position its campus and utilize certain development services provided by The Kendal Corporation. Subsequent to December 31, 2015, an amendment to the Development Agreement was signed stating that the development fee will be a fixed fee of \$1,650,000 for three projects: 1) Gathering Room/Wellness & Fitness Center, 2) Health Center, and 3) the Independent Living Expansion. The subsequent amendment for the development fee also states that if KaH requests marketing support for the Independent Living Project, the fee for this Project will be increased by not more than \$400,000 to account for this additional service. Development fees in the amount of \$605,000 were paid to the Kendal Corporation during 2016 and no development fees were paid in 2015.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 FUNCTIONAL EXPENSES**

KaH provides residential living services and general health care services to residents of its facility. Expenses related to providing these services for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Resident and Health Care Services	\$ 19,014,617	\$ 18,981,679
General and Administrative	5,950,202	5,927,632
Total	<u>\$ 24,964,819</u>	<u>\$ 24,909,311</u>

**NOTE 8 PENSION PLANS**

In July 2006, The Kendal Corporation formally adopted The Kendal Corporation 403(b) Plan (the 403(b) Plan), which allows eligible employees of KaH, as well as other employees of The Kendal Corporation and its affiliates, to make contributions to the 403(b) Plan up to limits established by the Internal Revenue Service. In addition, KaH may make discretionary matching and grant contributions annually, which become fully vested for participants with one year of service. Grant contributions expensed by KaH were \$388,474 and \$375,201 for the years ended December 31, 2016 and 2015, respectively. There was a matching contribution of \$47,004 and \$44,557, respectively, for the years ended December 31, 2016 and 2015.

KaH also participates in The Kendal Corporation Pension Plan (the Plan), a noncontributory defined benefit plan along with other entities affiliated with The Kendal Corporation. The Kendal Corporation and the affiliated entities treat themselves as a "Controlled Group," or single employer, under the Internal Revenue Service (IRS) Section 414 for qualified retirement plans. Section 412 of the IRS regulations provides for joint and several liability among the Controlled Group members for any unpaid minimum required contributions in connection with the Controlled Group members' defined benefit retirement plan. As of January 1, 2015, the Plan was frozen.

The Kendal Corporation is the sponsor of the Plan and under the generally accepted accounting principles (GAAP) accounts for the Plan as a single-employer plan. As such, the pension liability and disclosures regarding the asset allocation and other assumptions and benefits of the Plan are included in the financial statements of The Kendal Corporation. Under GAAP, KaH accounts for the Plan as a participant in a multiemployer pension plan and only recognizes KaH's contribution to the Plan as an expense. Total expenses related to the Plan during the years ended December 31, 2016 and 2015 were approximately \$288,918 and \$490,809, respectively. As of December 31, 2016, the pension liability specifically attributable to Kendal at Hanover is estimated at \$2,208,344. In accordance with GAAP, this amount is not recognized on the financial statements of Kendal at Hanover.

**KENDAL AT HANOVER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 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. KaH 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 KaH has the ability to access.

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

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

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.

The following table presents KaH’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments and Assets				
Limited as to Use:				
Fixed Income Securities	\$ 12,157,168	\$ -	\$ -	\$ 12,157,168
Marketable Equity				
Securities	20,581,619	-	-	20,581,619
Multi-Sector Fund	-	2,358,491	-	2,358,491
Emerging Markets Fund	-	1,393,858	-	1,393,858
Total	<u>\$32,738,787</u>	<u>\$ 3,752,349</u>	<u>\$ -</u>	<u>\$36,491,136</u>

**KENDAL AT HANOVER**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table presents KaH's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<b>Investments and Assets</b>				
Limited as to Use:				
Fixed Income Securities	\$ 19,821,348	\$ -	\$ -	\$ 19,821,348
Marketable Equity				
Securities	17,260,669	-	-	17,260,669
Common Trust Fund	-	1,929,482	-	1,929,482
Multi-Sector Fund	-	2,476,793	-	2,476,793
Emerging Markets Fund	-	1,272,376	-	1,272,376
Fixed Income Bond Fund	-	3,054,848	-	3,054,848
Total	<u>\$37,082,017</u>	<u>\$ 8,733,499</u>	<u>\$ -</u>	<u>\$45,815,516</u>

The following table sets forth additional disclosure for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2016 and 2015:

Investment Type	Fair Value as of 12/31/2016	Fair Value as of 12/31/2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Trust Fund	\$ -	\$ 1,929,482	-	Daily	Daily
Multi-Sector Fund	2,358,491	2,476,793	-	Daily	Daily
Emerging Markets Fund	1,393,858	1,272,376	-	Monthly	30 Days
Fixed Income Bond Fund	-	3,054,848	-	Daily	Daily
Total	<u>\$ 3,752,349</u>	<u>\$ 8,733,499</u>			

The investment objective of the common trust fund is to approximate as closely as practicable, before expenses, the performance of a custom index over the long term.

The investment objective of the multi-sector fund is to maximize long-term return, consistent with prudent investment management.

The investment objective of the emerging markets fund is to achieve long-term capital appreciation by investing primarily in equity and equity-related securities of small cap companies that are located in, or do significant business in, emerging market countries.

**KENDAL AT HANOVER  
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**NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The investment objective of the fixed income bond fund is to seek positive absolute returns over the medium term across all classes in excess of the money market rates in the currency of each class respectively.

**NOTE 10 INSURANCE**

KaH participates in an insurance risk retention group, the Peace Church Risk Retention Group (the PCRRG), a group insurance captive corporation licensed by the State of Vermont, to cover basic professional and general liability insurance on a claims-made basis. Effective December 28, 2007, PCRRG converted from a stock insurance company to a reciprocal insurance exchange under the laws of the State of Vermont. The shares of stock in PCRRG were converted to a subscriber interest in the PCRRG Reciprocal. As of December 31, 2016 and 2015, KaH has a subscriber interest in the PCRRG Reciprocal of 0.928% and 0.929%, respectively.

Entrance into the captive required a capital purchase of stock of approximately \$52,000. The investment is accounted by the cost method and is included in long-term investments on the balance sheet.

**NOTE 11 SELF-INSURED GROUP HEALTH PLAN**

Effective January 1, 2014, Kendal at Hanover elected to participate in a self-insured medical and prescription plan established by The Kendal Corporation for the benefit of the employees of The Kendal Corporation and the employees of participating Kendal Affiliates, the "Welfare Plan." The Kendal Corporation serves as the Welfare Plan sponsor and has established operational guidelines for the Welfare Plan as well as an oversight committee which includes representatives from participating Affiliates. With the assistance of consultants, the committee will estimate future claims as well as required premiums to fund future claims and establish required cash balances. The total premium determined for the Welfare Plan will be allocated using the participating lives for each participating entity. The premiums will be determined based on a shared risk pool and will not be adjusted to reflect the claims experience of any participating entity. There is an initial commitment of five years from the effective date of participation.

The Welfare Plan is administered by an insurance carrier and backed by a letter of credit. The Welfare Plan is responsible for funding employer liability losses to a maximum of \$100,000 per participant and \$1,000,000 in the aggregate per policy year. Third party stop-loss insurance coverage is in place for losses that exceed these amounts.

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**NOTE 11 SELF-INSURED GROUP HEALTH PLAN (CONTINUED)**

Kendal at Hanover has executed a Joinder Agreement with The Kendal Corporation to participate in the Welfare Plan effective January 1, 2014. In conjunction with execution of the Joinder Agreement, KaH was required to make an initial deposit of \$266,990 as of March 31, 2014. Kendal at Hanover's ownership interest in the Welfare Plan is \$552,939 and \$540,093 as of December 31, 2016 and 2015, respectively.

Self-Insurance expense was \$2,081,500 for the year ended December 31, 2016 and \$1,937,824 for the year ended December 31, 2015.

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

**Compliance**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as repayments of previously billed and collected revenues from patient services. The management of KaH is not aware of any instances of noncompliance with current laws and regulations.

**Other**

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to legal action, violations with regulatory rules and/or federal or state laws. No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

**NOTE 13 SUBSEQUENT EVENTS**

On January 1, 2017, KaH entered into a license agreement with The Town of Hanover. The agreement will provide public access to the Connecticut River. The term of the agreement is twenty years. The Town of Hanover, as Licensee, shall pay all real estate tax assessments levied during the term of the assessment. Any taxes or assessment covering any time period outside the term will be allocated between Kendal at Hanover and The Town of Hanover.