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INSURANCE Department

DISCLOSURE STATEMENT

Riddle Village operates a life care retirement community (the "Community") in Media, Pennsylvania, which it owns. This Disclosure Statement has been prepared to furnish information about Riddle Village and the Community to prospective residents in accordance with the requirements of Pennsylvania law.

The issuance of a Certificate of Authority by the Pennsylvania Department of Insurance authorizing Riddle Village to operate the Community does not constitute approval, recommendation or endorsement of the Community by the Insurance Department, nor is it evidence of, nor does it attest to, the accuracy or completeness of the information set out in this Disclosure Statement.

The date of this Disclosure Statement is October 31, 2016.

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SUMMARY PAGE

1. The facility: Riddle Village
1048 West Baltimore Pike
Media, PA 19063
2. The provider: Riddle Village
1048 West Baltimore Pike
Media, PA 19063
3. To discuss admissions contact:

Marketing Director
Riddle Village
1048 West Baltimore Pike
Media, PA 19063
Phone: (610) 891-3700
4. The property: Riddle Village is located in a suburban setting on approximately 40 acres of wooded land. Residential apartments are offered with five floors in each building.
5. Minimum age: Riddle Village accepts applicants who have attained the age of 62.
6. Affiliations: Riddle Village does not have an affiliation with any religious, fraternal, charitable, or other organization except that Riddle Memorial Hospital played a role in the planning, financing and development of the Community.
7. Resident population: Occupancy of the initial 235 units in Phase I commenced on October 15, 1993. Occupancy of an additional 50 residential units commenced on September 1, 1995 and occupancy of 60 nursing units and 38 personal care units in the Healthcare Facility commenced on August 31, 1995. Occupancy of Phase IIB, the final phase of independent living, commenced on February 16, 1998. Occupancy of the Monticello House Addition including additional healthcare beds and other amenities unrelated to healthcare commenced on June 20, 2008. As of October 14, 2016, Riddle Village had 410 residents in Independent Living units and 135 residents in the Healthcare Facility.
8. Sample fees for the existing residential units as of 10/1/16 are:

<u>One Bedroom Unit</u>	<u>Entrance Fee</u>	<u>Monthly Fee</u>
One Person	\$153,792	\$2,822
Two Persons	\$170,792	\$4,122

MISSION STATEMENT

Enrich the value of retirement living for our residents and the lives of those who support them.

Riddle Village pledges to continue its comprehensive program that provides the highest quality lifestyle possible for residents with varying requirements. Living spaces, wellness services and recreational activities exemplify our philosophy that residents come first; their comfort, care and security are our primary concerns.

Riddle Village is also committed to attracting a skilled staff, a work force equally concerned about the residents and dedicated to offering them superior services. Fair treatment, fair salaries and an excellent benefits program ensure that Riddle Village is continuing to be the employer of choice in the Greater Delaware Valley retirement industry.

VISION STATEMENT

Be the preferred community for retirement living.

It is the vision of Riddle Village to enhance the quality of retirement living that is resident and consumer focused, forward thinking, ethically driven, and innovative. We strive continually to be an organization that is proactive and flexible in anticipating or responding to challenges and changes in the retirement industry enabling us to remain strong far into the future.

STATEMENT OF PHILOSOPHY & PURPOSE

1. To attract residents and employees regardless of race, sex, color, physical capability, religion, veteran status, familial status or national origin.
2. To foster a cultural attitude of compassion, respect, friendliness, and understanding among all residents and employees.
3. To meet residents' expectations on the provision of quality services that will enhance the quality of their lives.
4. To improve or optimize the level of resident's satisfaction of life.
5. To foster open communication between residents and management for the purpose of enhancing their level of confidence and trust.
6. To operate the organization based on sound ethical and moral principles.
7. To be sensitive and mindful to our social accountability to the community outside of Riddle Village.
8. To enhance our ability to serve residents, present and future, by keeping up to date on the latest trends and issues relating to life care and the field of aging.
9. To create a positive working environment for all employees that would encourage high job satisfaction and professional growth.
10. To be responsible stewards of our financial, material, and human resources.
11. To promote independence and dignity among all residents.
12. To provide a safe and secure environment that will enhance the psychosocial, wellness needs of our residents.
13. To understand and promote the attitude that our service to our residents is paramount and that our employees are our most valuable resource or asset.

RIDDLE VILLAGE

Riddle Village, a Pennsylvania nonprofit corporation, provides the continuing care in the Community. Riddle Village's business address is 1048 West Baltimore Pike, Media, PA 19063.

Information about the Officers and Directors of Riddle Village is set forth below.

Name, Position with
Riddle Village and
Business Address

Principal Occupation
and Business Experience

Daniel E. Kennedy
Director, Chair
55 Wharton Drive
Glen Mills, PA 19342

Retired President/CEO, Riddle Memorial Hospital and the
Riddle Healthcare Foundation

Joseph P. Brooks
Director, Vice Chair
300 West State Street
Media, PA 19063

First Vice President – Investments, Merrill Lynch
Wealth Management Advisor

Jon D. Helms
Director, Secretary
1048 W. Baltimore Pike, H206
Media, PA 19063

Retired Sun Company Executive; Former President of
Philadelphia Buy Right; Director of the Riddle
HealthCare Foundation from 2002 to present

Edward McKillip
Director, Treasurer
1068 W. Baltimore Pike
Media, PA 19063

Director of Finance – Main Line Health from 2004 to present;
Riddle Hospital from 2011 to present

Maria C. Bucco, DO
Director
Health Care Center II, Suite 2104
1088 W. Baltimore Pike
Media, PA 19063

Physician, Internal Medicine, Riddle Hospital

Robert F. Fischer, CPA
Director
Fischer Cunnane & Associates, LTD
11 Turner Lane
West Chester, PA 19380

CPA and Consultant, Fischer Cunnane and Associates,
Certified Public Accountants; Director of the Riddle
HealthCare Foundation from 2003 to present

Joseph E. Lundy, Esq.
Director
Schnader Harrison Segal & Lewis LLP
1600 Market Street Suite 3600
Philadelphia, PA 19103-7286

Attorney, Non-Profit Law

Leonard McCandless
Director
1048 W. Baltimore Pike, APT M106
Media, PA 19063

Retired Director Emeritus at the Haverford Trust Company

Robert L. Sumner
Director
1048 W. Baltimore Pike, APT H306
Media, PA 19063

President, Serving at the Crossroads from 2004 to present;
Partner, Sumner, Spellman & Thompson Dental Practice
from 1962 to 1998

Other Officers (Non-Directors)

Robert G. Bertolette
President
Riddle Village
1048 W. Baltimore Pike
Media, PA 19063

President/Chief Executive Officer of Riddle Village

Kimberly Roguszewski
Vice President
Assistant/Secretary and Assistant Treasurer
Riddle Village
1048 W. Baltimore Pike
Media, PA 19063

Vice President/Chief Financial Officer of Riddle Village

Ronald J. Waterman, NHA
Vice President
Riddle Village
1048 W. Baltimore Pike
Media, PA 19063

Vice President/Chief Operating Officer of Riddle Village

None of the above Directors or Officers has a Conflict of Interest with Riddle Village.

Riddle Village has never been affiliated with any religious, fraternal, charitable, or other nonprofit organizations, except that Riddle Hospital played a role in the planning, financing and development of the Community. Riddle Village is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code.

PROJECT DESCRIPTION

Riddle Village is located just south of U.S. Route 1 and west of Pennsylvania Route 352 on approximately 40 acres of wooded land adjacent to Riddle Hospital. The Community was built in phases with Phase I consisting of 235 residential units. Phase I also includes a common facilities building connected to the residential units. The common areas include two dining rooms, cafe, lounge, library, community activity rooms and administrative offices. Construction of Phase I began in June 1992 and occupancy began October 15, 1993.

Phase II consists of 50 additional residential units and a Healthcare Facility with 60 skilled nursing beds, 38 personal care units and certain commons related areas including a swimming pool with fitness area. Construction of Phase II began in June 1994 and the residential units were completed September 1, 1995 and the skilled nursing beds were completed August 31, 1995.

Phase IIB consists of 80 additional residential units. Construction of these units began in October 1996 and occupancy began on February 16, 1998. The completed facility consists of 365 residential units and a healthcare facility of 38 personal care and 60 skilled nursing beds.

In June of 2008, the addition to the Monticello House was completed, which added 11 personal care units and 26 skilled nursing beds to the healthcare facility in addition to several common areas including an expanded fitness center, new guest suites and a dining venue.

The Corporation also has a Ground Lease with the Riddle HealthCare Foundation.

The residential units of the Community are offered in the following sizes:

- Studio
- One Bedroom
- Deluxe One Bedroom
- One Bedroom – 1 1/2 baths
- Deluxe One Bedroom – 1 1/2 baths
- Two Bedrooms - 2 baths
- Deluxe Two Bedrooms - 2 baths
- Deluxe Two Bedroom - 2 1/2 baths
- Deluxe Three Bedrooms - 2 1/2 baths
- Grand Three Bedroom - 3 baths

SERVICES PROVIDED

Riddle Village provides each resident ("Resident") of the Community with the services and accommodations described in the Residency and Care Agreement ("R&C Agreement"). As stated in the R&C Agreement, Riddle Village provides each Resident with a residential unit, and the facilities, services and nursing care as specified in the R&C Agreement, for the rest of the life of the Resident, or for such shorter period as is specified in the R&C Agreement in case it is terminated during the lifetime of the Resident. The R&C Agreement provides for the payment of an entrance fee and a monthly service fee, and also provides for services that are available for an extra charge.

The services that are provided under the R&C Agreement without additional charge (except as specifically stated) include the following:

Food Services. In July of 2011, Riddle Village changed its traditional one principal meal per day plan to an expanded Flex-Dollar Meal Plan offering residents greater choices, flexibility and value. The allocated dollars are included in the monthly service fee and can be used in all of the various dining venues. Reasonable special dietary needs are provided for on request.

The monthly service fee also includes tray service to the residential unit if a resident is receiving care for minor illness and the tray service is ordered by the Resident's personal physician or Riddle Village's nursing staff. This service is generally limited to a maximum of 14 consecutive days.

Service Credits. If a resident anticipates being away from the Community for seven or more consecutive days, a service credit is provided to offset the charges for services not used such as food, housekeeping and utilities. There is also an Extended Absence Credit for those residents away for a period of 3 months or longer.

Nursing Services. As part of the nursing services provided under the R&C Agreement without extra charge, Riddle Village will maintain and operate a Healthcare Facility that is staffed on a 24-hour basis by licensed, professional nurses. The Healthcare Facility will be equipped and staffed to provide temporary nursing care or permanent nursing care. Riddle Village will provide the nursing care in the skilled or personal care section of the Healthcare Facility at no additional cost over the Resident's normal monthly service charge, except for a reasonable charge for two added meals each day and other charges as outlined in the Residency & Care Agreement.

Nursing support is provided to Residents with short-term illnesses by providing temporary accommodations in a respite room of the Skilled Nursing Facility or Personal Care unit of the Community, to monitor progress and assess continuing needs.

Applicable government and private insurance reimbursements for health care costs are assigned to Riddle Village.

Each residential unit is equipped with a call system to summon emergency aid.

Riddle Village encourages Residents to remain independent. Programs promoting wellness are offered as well as a Wellness Center where physician hours are offered in various specialties. Appointments and payment for services are arranged directly with the physician office.

Other Services. There is no charge in addition to the monthly service fee for the following:

- * A planned schedule of social, educational, recreational and optional religious activities;
- * Use of common facilities, including the auditorium;
- * Regularly scheduled transportation for shopping;
- * Weekly light housekeeping services in the residential units;
- * Annual housekeeping of the residential units;
- * Wall-to-wall carpeting, kitchen appliances and other permanent fixtures in the residential units (upgrade of carpet selection, other flooring, cabinets, counter types, etc, may require a one-time additional cost at the time the R&C Agreement is executed);
- * Weekly laundry service for bed linens;
- * Washers and dryers in each residential unit (except that washers and dryers for studio units are at convenient locations);
- * Water, heat, electricity, sewer service, air conditioning, trash removal from central locations, sidewalk and roadway snow removal and grounds maintenance;
- * Pre-wiring of residential units for telephone and cable television installation;
- * Use of storage area in the Community;
- * Repairs, maintenance and replacement of buildings and equipment owned by Riddle Village.

There is an additional charge to the monthly service fee for the following:

- * Meals for Residents who exceed the monthly allocated amount in their Flex Dollar Meal Plan;
- * Guest meals outside of the Flex Dollar Meal Plan;
- * Telephone service;
- * Cable television use - both Comcast and Verizon services are available in each apartment living unit;

- * Trips and tours (other than shopping trips referred to above);
- * Extra maid service;
- * Private accommodations in the skilled nursing beds in the Healthcare Facility, when available;
- * Medical and incontinent supplies;
- * Home Health Care;
- * High-speed internet service;
- * Campus-wide wireless emergency alert pendant system.

Any of the following that are required must be obtained by the Residents at their own cost:

- * Physician and dentist services;
- * Out-patient services;
- * Physical or occupational therapy;
- * Respiratory therapy and oxygen;
- * Hospital care;
- * Prescription drugs;
- * Specialized equipment including wheelchairs and other prescribed specialty items;
- * Eye glasses, hearing aids and orthopedic appliances;
- * Therapy for psychiatric disorders or mental illness;
- * Personal laundry (except weekly laundry service for bed linens), non-medical supplies and hair care.

THOROUGHBRED LOUNGE

With the addition of the Thoroughbred Lounge, Riddle Village acquired a non-transferable liquor license through the Pennsylvania Liquor Control Board that was specifically created for retirement communities. This allows the Village to legally sell and serve alcoholic beverages to residents and their guests in the Thoroughbred Lounge and other various dining/social venues.

PROJECT FEES

Entrance fees and monthly service fees for the 365 residential units as of the date of this Disclosure Statement for the various living units in the independent living unit are set forth in the following table.

Schedule of Fees

	<u>Current First Person Entrance Fees</u>	<u>Current First Person Monthly Fees</u>
Studio (A)	\$101,136	\$2,363
Classic One Bedroom (B)	\$153,792	\$2,822
Deluxe One-Bedroom (C)	\$178,488	\$2,993
Classic One-Bedroom, 1 1/2 baths (D)	\$200,823	\$3,400
Deluxe One-Bedroom, 1 1/2 baths (E)	\$213,711	\$3,478
Classic Two-Bedroom, 2 baths (F)	\$254,202	\$3,938
Deluxe Two-Bedroom, 2 baths (G)	\$281,077	\$4,174
Deluxe Three-Bedroom, 2 1/2 baths (H)	\$354,976	\$5,969
Deluxe Two-Bedroom, 2 1/2 baths (J)	\$388,567	\$6,153
The Grand Three-Bedroom, 3 baths (K)	\$463,558	\$6,824

There is an additional entrance fee of \$17,000 under Plan A for all Phases of residential units with double occupants. In addition, there is a \$1,300 to \$1,332 second person monthly service fee for double occupancy of the residential units, depending upon the unit.

The entrance fees in the above table are based on Entrance Fee Plan A. Entrance fees under Entrance Fee Plans B or C will be higher.

Entrance fees and monthly service fees will be modified periodically as approved by the Board and will be revised to reflect the Community's experience and estimates of its future costs. Factors to be considered in reviewing monthly service fees include, but are not limited to, the consumer price index, government regulations, reserve fund maintenance, and occupancy levels. Riddle Village will give Residents at least 30 days notice of adjustments in fees.

HISTORICAL INCREASE IN MONTHLY RATE

Effective Date of Increase	Single	Double	Annual % Increase
October 1, 2011	\$109	\$149	3.9%
October 1, 2012	\$122	\$166	4.2%
October 1, 2013	\$124	\$181	3.9%
October 1, 2014	\$118	\$183	4.2%
October 1, 2015	\$130	\$161	4.0%
October 1, 2016	\$120	\$165	3.6%
 Average Dollar Amount	 \$121	 \$168	

LONG-TERM FINANCING AND RESERVE FUNDS

Funds are invested for Riddle Village by Ziegler Capital Markets, who are registered investment advisors under the Investment Advisors Act of 1940.

The Board of Directors of Riddle Village has outlined specific investment guidelines which Ziegler Capital Markets is required to follow. These guidelines include Government Obligations, Agency Obligations and commercial paper rated in the highest rating category by Moody's Investors Service or Standard & Poor's Rating Services. Guidelines for other asset classes are also contained in the Investment Policy Statement.

Long-term financing for Riddle Village was originally secured in June 1992 and in June 1994 through the issuance of Delaware County Authority First Mortgage Revenue Bonds of \$47,205,000 Phase I Series 1992 Bonds and of \$17,710,000 of Phase II Series 1994 Bonds. In November 1996 the Village refinanced its outstanding indebtedness and funded the costs associated with the development of 80 Phase IIB units. The tax-exempt \$61,275,000 Delaware County Authority (Pennsylvania), First Mortgage Revenue Bonds, Series 1996 (Riddle Village Project) (Series 1996 Bonds) were issued by Delaware County Authority.

In July 2005, Riddle Village refinanced the remaining debt associated with the First Mortgage Revenue Bonds, Series 1996 Bonds. This refinancing was accomplished through the issuance of the Series 2005 A and Series 2005 B Bonds. These bonds were issued by Delaware County Authority. The Series 2005 A Bonds were a tax-exempt issuance totaling \$8,230,000 while the Series 2005 B Bonds were a taxable issuance totaling \$36,800,000. The Series 2005 Bonds are supported by a Letter of Credit by Sovereign Bank.

The Series 2005 A and Series 2005 B issuance did not require a Debt Service Reserve Fund as was required by the 1996 Series Bonds. Riddle Village continues to maintain separate funds necessary to meet the requirement by Pennsylvania Law in connection with the establishment of a life care retirement community. The balance of funds satisfies the Liquid Reserve requirement of the State.

In October 2006, Riddle Village refinanced the remaining debt associated with the taxable Series 2005 B Bonds. In addition, Riddle Village financed the expansion of the healthcare center, which added 26 skilled nursing beds, 11 personal care units and other commons areas. The completion date for this project was June 2008. These bonds were issued by Delaware County Authority and were supported by a Letter of Credit by Sovereign Bank. These bonds, Series 2006 Bonds were tax-exempt and totaled \$45,270,000. Of that total, approximately \$8,117,900 was for the expansion project while the remaining amount was used to repay the Series 2005 B Bonds.

In October 2011, Riddle Village refinanced all of the 2005A Series Bonds and a portion of the Series 2006 Bonds using a Direct Purchase Loan from Citizens Bank. The total of this Direct Purchase Loan is approximately \$30,000,000. The remaining Series 2006 Bonds totaled approximately \$20,000,000 and continued to be supported by a Letter of Credit by Bank of America.

In October 2013, Riddle Village refinanced all of the Series 2006 Bonds with a Citizens Bank Direct Purchase Loan. The 2011 Direct Purchase Loan remains in place with an extension on the termination date until October 2018. Citizens Bank has created a bank group including Bryn Mawr Trust and BB&T Bank (formerly Susquehanna Bank) to further support the credit.

Long-term debt as of September 30, 2016 was \$44,315,000.

OPERATING BUDGET

The Riddle Village Phase I commenced occupancy beginning October 15, 1993. In addition, Phase II of Riddle Village was substantially completed and occupancy of the 50 residential units, and 60 skilled nursing beds and 38 personal care beds, commenced on September 1, 1995 and August 31, 1995 respectively. Phase IIB commenced occupancy February 16, 1998. The Monticello House Addition commenced occupancy on June 20, 2008 increasing the number of skilled nursing beds to 86 and personal care beds to 49. This addition also allowed for an improved Fitness Center, Guest Suites and a new dining venue. The Operating Budget is described on Exhibit B attached.

EXHIBIT A

RIDDLE VILLAGE FINANCIAL STATEMENT

RIDDLE VILLAGE

**REPORT ON AUDIT
OF FINANCIAL STATEMENTS**

as of and for the year ended
June 30, 2016

RIDDLE VILLAGE
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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Riddle Village
Media, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Riddle Village, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of operations and changes in net assets (deficiency) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Riddle Village as of June 30, 2016 and 2015, and the results of its operations, changes in net assets (deficiency) and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 22, 2016

**RIDDLE VILLAGE
BALANCE SHEETS
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 960,818	\$ 723,262
Accounts Receivable, Net of Allowance for Uncollectible Accounts	2,813,085	3,049,751
Accounts Receivable - Entrance Fees	1,691,887	2,017,253
Inventories	201,976	187,823
Prepaid Expenses and Other Current Assets	554,315	533,812
Total Current Assets	6,222,081	6,511,901
 ASSETS LIMITED AS TO USE		
Restricted Cash - Capital Improvement Fund	11,050	10,839
Restricted Cash - Resident Endowment Fund	2,030,162	1,887,265
Assets Held Under Bond Indenture	14,530,461	9,870,047
Statutory Reserves	3,012,000	3,034,000
Total Assets Limited as to Use	19,583,673	14,802,151
 PROPERTY AND EQUIPMENT, NET	26,994,590	27,263,029
 OTHER ASSETS		
Deferred Marketing and Development Costs, less Accumulated Amortization of \$4,190,794 at 2016 and \$4,091,926 at 2015	690,884	789,752
Deferred Financing Costs, less Accumulated Amortization of \$349,634 at 2016 and \$307,716 at 2015	879,915	921,833
Total Other Assets	1,570,799	1,711,585
Total Assets	\$ 54,371,143	\$ 50,288,666

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIENCY)	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 1,380,000	\$ 1,330,000
Deferred Revenue for Resident Care	1,668,529	1,534,739
Accounts Payable and Accrued Expenses	1,407,825	1,267,021
Total Current Liabilities	<u>4,456,354</u>	<u>4,131,760</u>
REFUNDABLE ENTRANCE FEE DEPOSITS	12,278,566	10,610,684
UNAMORTIZED DEFERRED REVENUE	32,962,113	30,998,422
LONG-TERM DEBT, LESS CURRENT MATURITIES	42,935,000	44,315,000
LIABILITY FROM INTEREST RATE SWAP AGREEMENTS	<u>1,190,917</u>	<u>1,254,997</u>
Total Liabilities	93,822,950	91,310,863
NET ASSETS (DEFICIENCY)		
Unrestricted	(42,023,018)	(43,490,793)
Temporarily Restricted	796,486	770,834
Permanently Restricted	1,774,725	1,697,762
Total Net Assets (Deficiency)	<u>(39,451,807)</u>	<u>(41,022,197)</u>
Total Liabilities and Net Assets (Deficiency)	<u>\$ 54,371,143</u>	<u>\$ 50,288,666</u>

**RIDDLE VILLAGE
STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIENCY)
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
REVENUE		
Resident Care Services, Including Amortization of Deferred Entrance Fees of \$4,912,093 for 2016 and \$4,844,047 for 2015	\$ 18,945,489	\$ 17,847,857
Net Patient Service Revenue	9,815,230	9,683,424
Other Operating Revenue	33,101	44,015
Interest Income	106,383	121,087
Total Revenue	28,900,203	27,696,383
EXPENSES		
Administration	4,962,750	4,972,442
Nursing	6,168,049	6,242,602
Activities	471,932	446,812
Transportation	123,925	120,299
Housekeeping, Laundry and Linens	1,015,500	1,011,328
Dining Services	3,981,540	3,823,100
Maintenance	1,029,366	1,096,327
Security	192,381	185,165
Depreciation and Amortization	4,555,560	4,250,154
Facility Cost and Utilities	3,493,765	3,600,271
Interest	1,484,944	1,542,579
Total Expenses	27,479,712	27,291,079
EXCESS OF REVENUE OVER EXPENSES	1,420,491	405,304
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Unrealized Loss on Investments	(16,796)	(38,571)
Change in Fair Value of Interest Rate Swap Agreements	64,080	190,596
Total Other Changes in Unrestricted Net Assets	47,284	152,025
INCREASE IN UNRESTRICTED NET ASSETS (DEFICIENCY)	\$ 1,467,775	\$ 557,329

See accompanying Notes to Financial Statements.

**RIDDLE VILLAGE
STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (DEFICIENCY) (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
INCREASE IN UNRESTRICTED NET ASSETS (DEFICIENCY)		
Excess of Revenue over Expenses	\$ 1,420,491	\$ 405,304
Unrealized Loss on Investments	(16,796)	(38,571)
Change in Fair Value of Interest Rate Swap Agreements	64,080	190,596
Increase in Unrestricted Net Assets (Deficiency)	1,467,775	557,329
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	25,652	76,979
Increase in Temporarily Restricted Net Assets	25,652	76,979
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	76,963	49,051
Increase in Permanently Restricted Net Assets	76,963	49,051
INCREASE IN NET ASSETS	1,570,390	683,359
Net Assets (Deficiency) - Beginning of Year	(41,022,197)	(41,705,556)
NET ASSETS (DEFICIENCY) - END OF YEAR	\$ (39,451,807)	\$ (41,022,197)

See accompanying Notes to Financial Statements.

**RIDDLE VILLAGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets (Deficiency)	\$ 1,570,390	\$ 683,359
Adjustments to Reconcile Increase in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	4,555,560	4,250,154
Amortization of Resident Entrance Fees	(4,912,093)	(4,844,047)
Entrance Fee Deposits and Deferred Entrance Fees	9,501,878	11,031,877
Contributions	(102,615)	(126,030)
Change in Value of Interest Rate Swap Agreements	(64,080)	(190,596)
(Increase) Decrease in:		
Accounts Receivable	236,666	355,747
Accounts Receivable - Entrance Fees	325,366	(1,588,419)
Other Current Assets	(34,656)	(60,456)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	140,804	(455,621)
Net Cash Provided by Operating Activities	11,217,220	9,055,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(4,146,335)	(3,090,100)
Increase in Assets Held Under Bond Indenture, Net	(4,638,414)	(2,418,689)
(Increase) Decrease in Restricted Cash	(143,108)	74,286
Net Cash Used by Investing Activities	(8,927,857)	(5,434,503)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Series 2011 Bonds Payable	(865,000)	(545,000)
Repayment of Series 2013 Bonds Payable	(465,000)	(740,000)
Repayment of Note Payable from Riddle Healthcare Foundation	-	(142,857)
Contributions	102,615	126,030
Refunds Paid from Entrance Fees	(824,422)	(2,393,271)
Net Cash Used by Financing Activities	(2,051,807)	(3,695,098)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	237,556	(73,633)
Cash and Cash Equivalents - Beginning of Year	723,262	796,895
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 960,818	\$ 723,262
CASH PAID FOR INTEREST	\$ 1,504,932	\$ 1,530,004

See accompanying Notes to Financial Statements.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Riddle Village (the "Village") is a Pennsylvania not-for-profit corporation which was organized in January 1990 for the purpose of providing housing, healthcare, and other related services to residents through the operation of a retirement community. The Village consists of 365 residential units, a healthcare center of 49 personal care units, and 86 skilled nursing beds.

On March 4, 2008, the Board of Directors of the Village approved the establishment of Riddle Village Development, LLC for the purpose of implementing the development of additional facilities. The financial statements of Riddle Village Development, LLC will be consolidated with the Village. Riddle Village Development, LLC will be managed by a Board consisting of members of the Board of Directors of the Village with the President and CEO of the Village acting as chair. Funds up to \$100,000 may be made available to Riddle Village Development, LLC in the form of a loan from the Village to cover any expenses related to the investigation into or the development of a new facility. These expenses may include site search expenses, market feasibility studies, land planning and related studies, administrative expenses and outside consulting, or accounting and legal expenses. As of June 30, 2016 and 2015, there was no activity at Riddle Village Development, LLC.

New Accounting Pronouncements

In April 2015, FASB issued amended guidance to simplify the presentation of debt issuance costs as discussed within ASU 2015-03, Interest – Imputation of Interest. Debt financing costs will be presented in the balance sheet as a direct deduction from the debt liability effective for fiscal years beginning after December 15, 2015. Management is evaluating the impact of this guidance on the entity's financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles of recognizing revenue from contracts with customers as discussed within ASU No. 2014-09 – 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 disclosure 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.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In January of 2016, the Financial Accounting Standards Board (FASB) Accounting Standards issued (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. Management is evaluating the impact of the amended recognition and measurement guidance on the entity's financial statements.

Use of Estimates

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

Income Taxes

The Village is exempt from federal income taxes under Section 509(a)(2) of the Internal Revenue Code; accordingly, no provision for income taxes is required.

The Village follows the provisions of the income tax standard regarding the recognition and measurement of uncertain tax positions. The Village believes that there is no uncertainty in the tax positions taken by the Village and these provisions have no impact on the Village's financial statements.

The Village's income tax returns are subject to review and examination by federal, state, and local authorities.

Performance Indicator

The statement of operations includes the determination of operating income (loss). Changes in unrestricted net assets (deficiency) which are excluded from operating income (loss), consistent with industry practice, include unrealized gains and losses on investments and the effective portion of the interest rate swap agreements that are designated as hedging agreements.

Cash and Cash Equivalents

The Village considers all liquid investments with maturities when purchased of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash and cash equivalents consisted primarily of cash on hand and demand deposits with financial institutions.

**RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Village provides an allowance for uncollectible accounts based on the allowance method using management's judgment considering historical information. Residents are not required to provide collateral for services rendered. Payments from third-party billers for services are required within 30 days of receipt of invoice or claim submitted. Accounts past due for more than 30 days are individually analyzed for collectability. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At June 30, 2016 and 2015, the allowance for uncollectible accounts was \$37,692 and \$38,191, respectively.

Accounts Receivable - Entrance Fees

Accounts receivable – Entrance Fees represents entrance fees that are deferred for up to 12 months after a resident occupies a unit. The receivable is expected to be collected during the immediately subsequent fiscal year and are current assets as of June 30, 2016 and 2015. Management determined that no allowance is necessary on the entrance fee receivable.

Inventories

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

Assets Limited as to Use

Capital Improvement Fund

The Village has established a fund with the goal of raising funds for capital improvements to the campus that are not included in the organizational budget. The residents participate, along with management, in the determination of which capital projects will be funded. Management and the board of directors have the final decision on which capital projects will be funded, unless a specific project is stipulated by the donor.

Resident Endowment Fund

The Village has established an endowment fund to provide a source for financial assistance to residents of the community who are able to demonstrate financial need for the cost of care.

Assets Held Under Bond Indenture

Certain assets limited as to use are held in a custody account as required by the outstanding bond agreements and used to pay interest and principal on long-term bonds. Certain other assets limited as to use are reserved to fund future operating expenses and capital improvements on long-term bonds.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use (Continued)

Statutory Liquid Reserve

The Village must maintain a reserve requirement which is the greater of (a) the total of all principal and interest payments due during the next 12 months on account of any mortgage loan or other long-term financing of the continuing care facility, or (b) 10% of the projected annual operating expenses of the facility, exclusive of depreciation. Money in the Statutory Liquid Reserve Account may be applied at any time at the direction of the Village for operating expenses and principal and interest payments on long-term debt.

Fair Value of Financial Instruments

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

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

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

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

The fair values of financial instruments are summarized further in Note 13.

Property and Equipment

Property and equipment are stated at cost or at fair value at the date of donation. The Village's policy is to capitalize expenditures for major improvements that exceed \$500. Depreciation is provided on assets using the straight-line method over the estimated useful lives of the assets. Estimated lives are determined using American Hospital Association guidelines. Useful lives range from 1 to 40 years. Repairs and maintenance are expensed as incurred.

The Village 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 June 30, 2016 and 2015.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Marketing and Development Costs

Deferred marketing and development costs represent sales marketing and other direct costs incurred to acquire initial continuing care contracts which are expected to be recovered from future contract revenues. These costs are deferred and amortized using the straight-line method over the estimated life expectancy of the initial residents. Any such costs incurred after the initial contracts are expensed as incurred. Marketing expense was \$715,289 and \$767,426 for the years ended June 30, 2016 and 2015, respectively.

Deferred Financing Costs

Deferred financing costs represent expenses (e.g. underwriting, legal, consulting, and other costs) incurred relative to issuing the Series 2011 and 2013 bonds. Costs related to the initial issuance of the bonds are being amortized over the weighted average life of the bonds.

Obligation to Provide Future Services

The Village periodically calculates the present value of the net cost of future services and use of facilities to be provided to current residents, which is compared to the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. As of June 30, 2016 and 2015, management's estimate indicated no need to record an additional liability for an obligation to provide future services and use of facilities.

Net Assets

Net assets are classified into three categories and reported as follows:

Unrestricted – Unrestricted net assets are comprised of those resources over which the Board of Trustees has discretionary control.

Temporarily Restricted - Temporarily restricted net assets are assets limited as to use by donors for a specific purpose. Gifts are reported as temporarily restricted support when they are received with donor stipulations that limit their use. When a donor restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations in net assets released from restriction. The Capital Improvement Fund and earnings from the Resident Endowment Fund are temporarily restricted net assets.

Permanently Restricted – Permanently restricted net assets are those assets subject to a donor imposed restriction that will be maintained in perpetuity by the Village. The principal portion of the Resident Endowment Fund is included in permanently restricted net assets.

Reclassification

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

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Village has evaluated events and transactions for potential recognition or disclosure through September 22, 2016, the date the financial statements were issued. The results of this evaluation indicated that there are no subsequent events or transactions that are required to be disclosed in these financial statements.

NOTE 2 REVENUE RECOGNITION

Continuing care contracts, which constitute life leases on residential apartments and health care services to be provided in the nursing facility, require entrance fees upon move-in and a monthly service fee during occupancy.

The Village has three types of continuing care contracts from which a resident can choose: a 100 percent declining nonrefundable agreement ("Plan A"), a 50 percent declining refund agreement ("Plan B"), and a 90 percent declining refund agreement ("Plan C"). Under the Plan A agreement, the entrance fee paid less a sum equal to two percent of the entrance fee paid for each month the agreement has been in force will be refunded to the resident. Under this agreement, after 48 months of occupancy, a resident will not receive a refund. Under the Plan B agreement, a resident terminating the residency agreement will receive a refund equal to the entrance fee paid less two percent per month for the initial 25 months of occupancy or a minimum refund of 50 percent of the entrance fee paid. Under the Plan C agreement, a resident terminating the residency agreement will receive a refund equal to the entrance fee paid less two percent per month for the initial five months of occupancy or a minimum refund of 90 percent of the entrance fee paid.

All refunds due will be refunded to the resident upon termination of the agreement and re-occupancy of the unit. The entrance fees contractually refundable under existing contracts were \$45,297,579 and \$41,609,106 at June 30, 2016 and 2015, respectively.

The nonrefundable portion of the entrance fees is deferred upon occupancy and recognized as income on a straight-line basis over each individual resident's or joint residents' expected remaining lives from their date of occupancy. In addition, entrance fees are earned on a joint and last survivor basis for persons occupying the same unit.

Upon termination of a contract through death or withdrawal from the Village after occupancy, any unamortized nonrefundable deferred entrance fee is recorded as revenue. Termination income was \$311,254 and \$512,141 for the years ended June 30, 2016 and 2015, respectively.

**RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future period as adjustments become known or as years are no longer subject to such audits, review, and investigations.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation at June 30 consist of the following:

	2016	2015
Building and Building Improvements	\$ 68,713,413	\$ 64,611,784
Furniture, Fixtures, and Equipment	30,125,067	29,981,493
Leasehold Improvements	5,897,402	5,897,402
Total	104,735,882	100,490,679
Less: Accumulated Depreciation	(77,741,292)	(73,227,650)
Total Property and Equipment	\$ 26,994,590	\$ 27,263,029

Depreciation expense for the years ended June 30, 2016 and 2015 was \$4,414,774 and \$4,109,368, respectively.

NOTE 5 ASSETS LIMITED AS TO USE

Under the provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act (the Act), the Village must maintain a statutory minimum liquid reserve that is equal to the greater of 10% of the total projected operating expenses for the next twelve months, exclusive of depreciation and amortization, or the total of all debt service (principal and interest) due during the upcoming twelve months. The statutory minimum liquid reserve requirement as of June 30, 2016 and June 30, 2015, is \$3,012,000 and \$3,034,000, respectively. Under the provisions of the act, cash and cash equivalents and assets limited as to use of the Village satisfy this requirement. Management believes that the Village is in compliance with all other requirements of the Act as of June 30, 2016 and 2015.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 ASSETS LIMITED AS TO USE (CONTINUED)

The statutory liquid reserve requirement as of June 30, 2016 and 2015 is calculated as follows:

	<u>2016</u>	<u>2015</u>
Projected Annual Interest Expense	\$ 1,632,000	\$ 1,704,000
Principal Payments Due on Long-Term Debt	1,380,000	1,330,000
Liquid Reserve Requirement	<u>\$ 3,012,000</u>	<u>\$ 3,034,000</u>
Projected Annual Operating Expenses	\$ 24,177,515	\$ 23,583,112
Minimum Rate	10%	10%
Liquid Reserve Requirement	<u>\$ 2,417,752</u>	<u>\$ 2,358,311</u>
Statutory Minimum Liquid Reserve	<u>\$ 3,012,000</u>	<u>\$ 3,034,000</u>

The composition of assets limited as to use, which are stated at fair value, as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 8,994,922	\$ 4,225,513
Corporate Bonds	5,730,835	5,758,150
U. S. Government Obligations	4,857,916	4,818,488
Total Assets Limited as to Use	<u>\$ 19,583,673</u>	<u>\$ 14,802,151</u>

NOTE 6 LONG-TERM DEBT

Long-term debt as of June 30, 2016 and 2015 consists of:

	<u>2016</u>	<u>2015</u>
Variable Rate Delaware County Authority Direct Purchase Revenue Bonds, Series 2011	\$ 27,130,000	\$ 27,995,000
Variable Rate Delaware County Authority Direct Purchase Revenue Bonds, Series 2013	17,185,000	17,650,000
Total Long-Term Debt	44,315,000	45,645,000
Less: Current Maturities	<u>(1,380,000)</u>	<u>(1,330,000)</u>
Total Long-Term Debt, Less Current Maturities	<u>\$ 42,935,000</u>	<u>\$ 44,315,000</u>

On October 3, 2011, the Village issued \$30,000,000 Delaware County Authority Direct Purchase Revenue Bonds Series 2011 ("Series 2011"). The proceeds were used to redeem \$7,580,000 of the Series 2005A Bonds, issued by the Authority in the original aggregate principal amount of \$8,230,000, and \$22,030,000 of the Series 2006 Bonds and to pay certain costs related to the issuance of these bonds. The Series 2011 Bonds are Direct Purchase Revenue Bonds and interest is payable at variable rates.

**RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

On October 30, 2013, the Village issued \$18,610,000 Delaware County Authority Direct Purchase Revenue Bonds Series 2013 ("Series 2013"). The proceeds were used to redeem \$18,610,000 of the Series 2006 Bonds, issued by the Authority in the original aggregate principal amount of \$45,270,000. The Series 2013 Bonds are Direct Purchase Revenue Bonds and interest is payable at variable rates.

The Series 2013 Bonds are not secured by a letter of credit as the proceeds of the Series 2013 Bonds and available funds from the Village were sufficient to reimburse the bank for the 2006 Letter of Credit.

Total interest paid was approximately \$1,505,000 and \$1,530,000 for the years ended June 30, 2016 and 2015, respectively.

The loan agreements of the Series 2013 and Series 2011 bonds require the Village to meet certain financial ratios and occupancy requirements. As of June 30, 2016 and 2015, management is not aware of any violations in these financial or occupancy covenants.

The required minimum annual principal reduction of long-term debt for each of the next five years and in the aggregate is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,380,000
2018	1,430,000
2019	1,550,000
2020	1,645,000
2021	1,705,000
Thereafter	<u>36,605,000</u>
Total	<u>\$ 44,315,000</u>

NOTE 7 LONG-TERM NOTE PAYABLE – RIDDLE HEALTHCARE FOUNDATION

The Village had an agreement with Premium Power Services, LLC to perform electrical work for approximately \$1,000,000. The work performed under this agreement created a primary service line to the Village from the utility provider. In July 2007, in conjunction with this project, Riddle Village issued a promissory note to Riddle HealthCare Foundation in the amount of \$1,000,000. The Village also has a Ground Lease with Riddle HealthCare Foundation. See Note 11 for further discussion on the Ground Lease. The term of the note was for seven years and interest was payable annually at 6.8 percent. Annual principal payments, plus accrued interest, began on August 1, 2008 and Riddle Village paid one principal and interest payment per year through August 1, 2014. The note was secured by a mortgage and interest in the personal property of the Village, provided that such liens would be subordinate to the Series 2011 and Series 2013 bonds and not subject the Village to default on any of its obligations or covenants.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 DERIVATIVES

The Village utilizes derivative financial instruments to reduce its exposure to the market risk from changes in interest rates. The instruments used to mitigate this risk are interest rate swaps. The instruments held by the Village are designated as highly effective cash flow hedges of interest rate risk on variable rate debt and, accordingly, the changes in the fair value of these instruments are excluded from the performance indicator in other changes in unrestricted net assets for the year.

In conjunction with the Series 2013 issuance, the Village entered into two new interest rate swap agreements with Citizens Bank ("Citizens Swaps") and concurrently terminated the previously held swap agreements held with Sovereign Bank ("Sovereign Swap") and Bank of America ("BOA Swap"). The duration of each swap is four years. At June 30, 2016 and 2015, the fair value of the swaps represents liabilities of \$1,190,917 and \$1,254,997, respectively, and are presented separately on the balance sheets. The Citizens Swaps effectively convert a portion of the interest on the Series 2013 Bonds from a variable rate to a fixed rate of 2.49 percent for the notional amounts previously listed.

The fair values of the Village's interest rate swaps are obtained from the market values provided by the brokers. The values represent the estimated amount the Village would pay to terminate the agreements, taking into consideration the difference between the contract rates of interest and the rates currently quoted for the agreements.

For the years ended June 30, 2016 and 2015, the change in the fair value of the interest rate swaps resulted in unrealized gains of \$64,080 and \$190,596, respectively.

NOTE 9 FUNCTIONAL EXPENSES

The Village provides residential living and general healthcare services to its residents. Expenses related to providing these services are as follows:

	2016	2015
Resident and Health Care Services	\$ 23,415,504	\$ 23,217,943
General and Administrative	4,064,208	4,073,136
Total	\$ 27,479,712	\$ 27,291,079

NOTE 10 CONCENTRATION OF CREDIT RISK

The Village maintains its cash accounts at commercial banks and balances may exceed FDIC insurance limitations. The concentration of credit risk varies with the funds held in the accounts and fluctuates based on available balances during the year.

RIDDLE VILLAGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 10 CONCENTRATION OF CREDIT RISK (CONTINUED)

The Village grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015 was as follows:

	2016	2015
Medicare	20%	27%
Private and Other	80%	73%
Total	100%	100%

NOTE 11 COMMITMENTS AND CONTINGENCIES

Ground Lease Agreement

Pursuant to the memorandum to the Foundation Ground Lease Agreement dated September 27, 2011, the initial term of the original lease was extended to July 1, 2037 with base rent payable by Riddle Village to Riddle Healthcare Foundation of \$619,300 payable in advance in equal quarterly installments of May 1, August 1, November 1, and February 1 of each year.

Aggregate minimum commitments under the non-cancelable Ground Lease consist of the following at June 30, 2016:

Year Ending June 30,	Amount
2017	\$ 681,228
2018	681,228
2019	743,674
2020	749,351
2021	749,351
Thereafter	32,636,857
Total	\$ 36,241,689

Rental expense for each of the years 2016 and 2015 was \$681,232, respectively.

Litigation

The Village periodically finds itself a defendant in legal suits that have developed in the normal course of business. Although it is impossible to determine the ultimate resolution of matters that remain unresolved at this time, the Village believes that the matters will be resolved without significant negative financial impact.

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Industry Regulation

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

NOTE 12 RELATED PARTIES

The Village maintains a non-cancelable Ground Lease with related party Riddle HealthCare Foundation (formerly known as Riddle Memorial Foundation). See Note 11 for discussion regarding the Ground Lease.

The Ground Lease allows Riddle HealthCare Foundation to appoint a member to the Village's Board of Directors and requires the Village to submit an annual operating budget to Riddle HealthCare Foundation for its approval.

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Village's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	\$ 19,583,673	\$ -	\$ -	\$ 19,583,673
Liabilities:				
Interest Rate Swap Agreements	-	1,190,917	-	1,190,917

RIDDLE VILLAGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the Village's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Assets Limited as to Use	\$ 14,802,151	\$ -	\$ -	\$ 14,802,151
Liabilities:				
Interest Rate Swap Agreements	-	1,254,997	-	1,254,997

The determination of the fair values above incorporates various factors. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of the Village's nonperformance risk on its liabilities.

The fair value of investments is determined by third party service providers utilizing various methods dependent upon the specific type of investment. When quoted prices are available in the active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include money market funds and bank deposits, U.S. government and agency securities, corporate bonds, common stocks, and mutual funds.

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

The following methods and assumptions were used by the Village in estimating the fair value of its other financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable: The carrying amount reported in the balance sheet approximates fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates fair value.

Long-term debt: The carrying amount of the Series 2011 and 2013 bonds approximates fair value because those financial instruments bear interest at variable rates that approximate current market rates for notes with similar maturities and credit quality. The fair value of the long-term note payable to Riddle Healthcare Foundation is not reasonably determinable due to the relationship of the two parties of the note payable agreement.

EXHIBIT B

FINANCIAL PROJECTIONS AND ANALYSIS

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PROJECTED STATEMENT OF REVENUES
AND EXPENSES

RIDDLE VILLAGE
FISCAL YEAR 2017

	2017	2018	2019	2020	2021
OPERATING REVENUES					
Earned entrance fees	\$4,920	\$5,018	\$5,118	\$5,220	\$5,324
Residential service fees	14,567	15,304	16,089	16,917	17,783
Health care center	9,895	10,245	10,569	10,910	11,266
Interest income	231	448	486	513	486
Other income	42	44	46	49	51
TOTAL OPERATING REVENUES	29,655	31,059	32,308	33,609	34,910
OPERATING EXPENSES					
Administrative	4,553	4,822	5,150	5,509	5,901
Marketing	778	770	795	820	847
Ground rent	681	681	744	749	744
Wellness	478	491	508	526	545
Dining services	4,088	4,227	4,371	4,519	4,673
Environmental services	2,497	2,546	2,634	2,725	2,819
Personal care	937	972	1,007	1,043	1,081
Nursing services	5,563	5,755	5,954	6,159	6,372
Facility costs	2,970	3,059	3,151	3,245	3,343
Depreciation & Amortization	4,200	4,320	4,440	4,560	4,680
Interest on Bonds	1,632	1,551	2,039	1,971	1,898
TOTAL OPERATING EXPENSES	28,377	29,194	30,793	31,826	32,903
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE EXTRAORDINARY ITEM	1,278	1,865	1,515	1,783	2,007
Loss on early extinguishment of debt	0				
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	\$1,278	\$1,865	\$1,515	\$1,783	\$2,007

PROJECTED CASH FLOW STATEMENT

RIDDLE VILLAGE
FISCAL YEAR 2017

	2017	2018	2019	2020	2021
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OPERATING ACTIVITIES					
Deficit of revenues over expenses	\$1,278	\$1,865	\$1,515	\$1,783	\$2,007
Add: Items not requiring the expenditures of cash					
Depreciation & Amortization	4,200	4,320	4,440	4,560	4,680
Interest on Deferrals					
Interest on Bonds	1,632	1,551	2,039	1,971	1,898
Deferred ground rent					
Less: Items not resulting in the receipt of cash					
Earned entrance fees	(4,920)	(5,018)	(5,118)	(5,220)	(5,324)
Change in working capital	120	120	120	120	120
Entrance fees received--net of refunds	5,700	5,700	5,814	5,930	6,049
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY OPERATIONS	8,010	8,538	8,810	9,144	9,430
INVESTING ACTIVITIES					
Normal equipment additions	(3,485)	(3,750)	(4,076)	(3,800)	(3,800)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH USED BY INVESTING ACTIVITIES	(3,485)	(3,750)	(4,076)	(3,800)	(3,800)
FINANCING ACTIVITIES					
Repayment of bonds outstanding	(1,380)	(1,430)	(1,550)	(1,645)	(1,705)
Foundation Loan	0	0			
Interest earnings during construction	0				
Repayment of Deferred Notes	0	0	0	0	0
Interest payments	(1,632)	(1,551)	(2,039)	(1,971)	(1,898)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH USED BY FINANCING ACTIVITIES	(3,012)	(2,981)	(3,589)	(3,616)	(3,603)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,513	1,807	1,145	1,728	2,027
Cash and cash equivalents at beginning of year	19,000	20,513	22,320	23,465	25,193
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$20,513</u>	<u>\$22,320</u>	<u>\$23,465</u>	<u>\$25,193</u>	<u>\$27,220</u>
	=====	=====	=====	=====	=====

REVENUES

Entrance fees generated from the reservation of residential units are based on the forecasted number of units reserved each year and the estimated entrance fees of the units reserved. The nonrefundable portion of entrance fees is assumed to be earned over the remaining life of the Village.

The following table outlines the first person entrance fees by pricing phase for the residential units under Plan A:

Schedule of Fees (Effective October 1, 2016)

	<u>Current First Person Entrance Fees</u>	<u>Current First Person Monthly Fees</u>
Studio (A)	\$101,136	\$2,363
Classic One Bedroom (B)	\$153,792	\$2,822
Deluxe One-Bedroom (C)	\$178,488	\$2,993
Classic One-Bedroom, 1 1/2 baths (D)	\$200,823	\$3,400
Deluxe One-Bedroom, 1 1/2 baths (E)	\$213,711	\$3,478
Classic Two-Bedroom, 2 baths (F)	\$254,202	\$3,938
Deluxe Two-Bedroom, 2 baths (G)	\$281,077	\$4,174
Deluxe Three-Bedroom, 2 1/2 baths (H)	\$354,976	\$5,969
Deluxe Two-Bedroom, 2 1/2 baths (J)	\$388,567	\$6,153
The Grand Three-Bedroom, 3 baths (K)	\$463,558	\$6,824

There is an additional entrance fee of \$17,000 under Plan A for all Phases of residential units with double occupants.

Residents reserving units under Plan B and Plan C are assumed to pay an entrance fee premium of approximately 25% and 50%, respectively, above the Plan A entrance fee. Based on the experience of Phases I & II and similar facilities that offer multiple entrance fee refund options, it was assumed that 90% of the residential units will be reserved under Plan A, 5% under Plan B and 5% under Plan C.

Revenues from monthly service fees are based on the forecasted utilization of the Retirement Center and the monthly service fees anticipated to be in effect during the forecast period.

There is a \$1,300 to \$1,332 second person monthly service fee for double occupancy of all units, depending upon the unit. The projections assume that the above monthly service fees will be increased approximately 4.5% annually throughout the forecast period. Forecasted interest income is based on an average annual interest rate of approximately 3.5% on all available cash balances.

Forecasted other income, consisting of income from additional resident and guest meals, income from barber and beauty shop, vending equipment, gifts, special services, personal laundry and other miscellaneous sources was based upon Management's experience with similar retirement communities. These revenues are anticipated to increase 4.5% annually, throughout the forecast period.

Health care revenues are generated from services provided to residents transferring from the residential units. Retirement Center residents requiring nursing services receive such care at no increase over their monthly service fee other than the charge for two additional daily meals not provided for by the monthly service fee and certain other items used for their care.

EXPENSES

Overall, facility expenses are projected to increase by approximately 3% annually. Special attention is paid to expected staffing levels. Staffing levels for the Retirement Center are based upon Riddle Village experience as well as experience at similar retirement facilities, giving effect to the level of services anticipated to be offered at the Village.

The Riddle HealthCare Foundation is the owner of the 40-acre site on which the Village is located. The HealthCare Foundation leases the land to the Corporation which lease has an initial term ending January 1, 2037 and one 15-year renewal option (the "Ground Lease"). While the Corporation's leasehold interest in the mortgage will be subject to the lien of the mortgage, the HealthCare Foundation's fee interest in the land is not subject to such lien.

The Ground Lease provides for the payment of non-subordinated base rent of \$681,230 per year, payable in advance in equal quarterly installments on May 1, August 1, November 1 and February 1 of each year. Payment of all Additional Base Rent shall be deferred if the Debt Service Coverage Ratio is less than 1.30 on any quarterly calculation date or in the Event of Default under the Loan Agreement. The annual fee on the ground lease increases every five years at the higher of annual CPI or 10%.

Management does not anticipate a material amount of uncollectible accounts from residents during the forecast period. Therefore, the forecast contains no provision for uncollectible accounts.

DEPRECIATION EXPENSE AND PROPERTY, PLANT AND EQUIPMENT

The Forecasted Balance Sheets reflect the cost of constructing and equipping the Village. The Statements of Forecasted Revenues and Expenses include the related depreciation and interest expense.

Subsequent equipment purchases are based on Management's plans for capital expenditures during the forecast period.

Estimated provisions for depreciation during the forecast period were computed on the straight-line method using an estimated average 35-year life for construction-related costs, 10-year life for furniture and equipment, and a 5-year life for capital equipment additions.

AMORTIZATION EXPENSE

Certain marketing costs were deferred and amortized over a period of 9.0 years. Financing expenses incurred in conjunction with issuance of the Bonds were amortized using the bonds outstanding method.

INTEREST EXPENSE, DEBT FINANCING AND OTHER LIABILITIES

The \$46,930,000 of Series 2013 Bonds and Series 2011 Bonds bear interest at a variable rate. Currently approximately 74% of the outstanding debt is part of a Swap Agreement. Riddle Village currently has a 5 year Swap Agreement with Citizens Bank. Principle payments on the Series 2011 Bonds began June 1, 2012 with a final maturity of June 1, 2037. Principle payments on the Series 2013 Bonds began on June 1, 2013 with a final maturity of June 1, 2037.

CURRENT ASSETS, CURRENT LIABILITIES AND CHANGES IN WORKING CAPITAL

Working capital requirements have been estimated based on the historical experience of similar facilities. Major working capital requirements were forecasted as follows:

Cash and investments	Unrestricted cash available to the Corporation.
Accounts receivable	45 days of Health Care Center revenues and other income.
Other Current Assets	11 days of operating expenses, excluding depreciation, amortization and interest.
Current portion of Assets restricted as to use by Trust Indenture.	Accrued interest and principal due for the 2005A Bonds and 2006 Bonds
Accounts payable	11 days of operating expenses, excluding depreciation, amortization and interest.
Accrued expenses	32 days of operating expenses, excluding depreciation, amortization and interest.
Accrued interest payable	Interest reserve for variable rate debt on the 2011 Bonds and 2013 Bonds.
Current portion of LT Debt	Represents principal payments due June 1 for the Series 2011 Bonds and Series 2013 Bonds.



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RECEIVED
Corporate & Financial Regulation
OCT 28 2016
Pennsylvania
Insurance Department

September 22, 2016

Ms. Teresa Miller
Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Dear Commissioner Miller:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Riddle Village for the year ended June 30, 2016, and have issued our report thereon dated September 22, 2016. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to Riddle Village and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Pennsylvania Board of Public Accountancy.
- b. The engagement principal, who is a certified public accountant, has 15 years of experience in public accounting and is experienced in auditing continuing care retirement communities. Members of the engagement team, some of whom have had experience in auditing continuing care retirement communities and 80% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that Riddle Village intends to file its audited financial statements and our report thereon with the Commonwealth of Pennsylvania Insurance Department (the "Insurance Department") and that the Commonwealth of Pennsylvania Insurance Commissioner (the "Insurance Commissioner") will be relying on that information in monitoring and regulating the financial condition of Riddle Village.
- d. While we understand that an objective of issuing a report on the financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, Riddle Village and the Insurance Commissioner should understand that the objectives of an audit of financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in net deficit and cash flows in conformity with accounting principles generally accepted in the United States of America.

- e. We have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material errors or misstatements caused by fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.
- f. It is the responsibility of the management of Riddle Village to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.
- g. The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the financial position of continuing care retirement communities and should not rely solely upon the independent auditors' report.
- h. We will retain the workpapers prepared in the conduct of our audit until the Insurance Department has filed a Report of Examination covering 2016, but no longer than seven years. After notification to Riddle Village, we will make the workpapers available for review by the Insurance Department at the offices of Riddle Village, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Insurance Department, photocopies of pertinent audit workpapers may be made (under the control of the accountant) and such copies may be retained by the Insurance Department.
- i. The engagement principal is serving in that capacity with respect to Riddle Village for the fifth year ended June 30, 2016, and is licensed by the Pennsylvania Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.
- j. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

Ms. Teresa Miller
Commonwealth of Pennsylvania
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This report is intended solely for the information and use of the board of directors and management of Riddle Village, the Insurance Department, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

A handwritten signature in black ink that reads "James D. Watson, CPA, CIA". The signature is written in a cursive style with a large, stylized initial "J".

James D. Watson, CPA, CIA

Plymouth Meeting, Pennsylvania
September 22, 2016