

POMPERAUG WOODS

**ANNUAL FINANCIAL FILING
For Fiscal Year Ending September 30, 2014**

Date submitted: 02/25/15

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POMPERAUG WOODS, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2014 AND 2013

POMPERAUG WOODS, INC.

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Independent Auditors' Report

To the Board of Directors
Pomperaug Woods, Inc.

We have audited the accompanying financial statements of Pomperaug Woods, Inc., which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities and 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pomperaug Woods, Inc., as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 20, 2014

POMPERAUG WOODS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Unrestricted Revenues		
Resident service revenue	\$ 6,493,173	\$ 6,349,735
Amortization of entrance fees	1,389,529	1,197,937
Health center patient revenue, net of discounts of \$3,238,418 in 2014 and \$3,303,842 in 2013	2,381,136	2,581,645
Interest and dividend income	5,783	7,078
Contributions	21,980	50,935
Other	51,852	53,594
Net assets released from restrictions	-	1,425
Total unrestricted revenues	10,343,453	10,242,349
Expenses		
Resident care	3,551,052	3,364,924
General and administrative	2,665,166	2,624,437
Dietary	1,401,322	1,359,611
Plant	1,368,349	1,190,202
Depreciation	1,242,999	1,240,085
Housekeeping	467,717	438,207
Interest	87,693	135,849
Other	3,228	1,806
Total expenses	10,787,526	10,355,121
Loss from Operations	(444,073)	(112,772)
Loss on Disposal of Assets	(63,305)	(33,462)
Change in unrestricted net assets	(507,378)	(146,234)
Temporarily Restricted Net Assets		
Contributions	10,000	-
Net assets released from restrictions	-	(1,425)
Increase (decrease) in temporarily restricted net assets	10,000	(1,425)
Decrease in Net Assets	(497,378)	(147,659)
Net Assets - Beginning of Year	(13,013,653)	(12,865,994)
Net Assets - End of Year	\$ (13,511,031)	\$ (13,013,653)

The accompanying notes are an integral part of the financial statements

POMPERAUG WOODS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ (497,378)	\$ (147,659)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from entrance fees, net of refunds paid	1,593,344	1,244,985
Depreciation	1,242,999	1,240,085
Amortization of entrance fees	(1,389,529)	(1,197,937)
Loss on disposal of assets	63,305	33,462
(Increase) decrease in operating assets:		
Accounts receivable	24,136	(11,220)
Operating reserve	(4,192)	46,359
Other current assets	51,799	(100,010)
Return of capital discounts	27,100	21,896
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	52,798	(17,506)
Other current liabilities	(4,528)	(7,483)
Net cash provided by operating activities	1,159,854	1,104,972
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(855,886)	(847,415)
Net cash used in investing activities	(855,886)	(847,415)
Cash Flows from Financing Activities		
Payments of long-term debt	(600,000)	(600,000)
Net cash used in financing activities	(600,000)	(600,000)
Net Decrease in Cash and Cash Equivalents	(296,032)	(342,443)
Cash and Cash Equivalents - Beginning of Year	3,803,460	4,145,903
Cash and Cash Equivalents - End of Year	\$ 3,507,428	\$ 3,803,460
Cash Paid During the Year for Interest	\$ 87,693	\$ 135,849

The accompanying notes are an integral part of the financial statements

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Pomperaug Woods, Inc. (the Company) is a not-for-profit corporation that owns and operates a continuing care retirement facility (the Facility) in Southbury, Connecticut. The Facility consists of 132 and 133 resident units that were 88% and 82% occupied as of September 30, 2014 and 2013, respectively. These units were 91% and 85% sold at September 30, 2014 and 2013, respectively. In addition, the Facility currently provides a health center (the Health Center) with 37 skilled nursing beds. The Health Center was 89% and 97% occupied as of September 30, 2014 and 2013, respectively. The Facility also operates 9 and 8 assisted living units as of September 30, 2014 and 2013, respectively. The assisted living units were 78% and 75% occupied as of September 30, 2014 and 2013, respectively.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Net Assets Categories - To ensure observance of limitations and restrictions placed on the use of resources available to the Company, the accounts of the Company are maintained in the following net asset categories:

Unrestricted - Unrestricted net assets represent resources that may be expended at the direction of the Board of Directors.

Temporarily Restricted - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. When the purpose or timing restrictions have been met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restriction. Temporarily restricted net assets as of September 30, 2014 were available to support the arts and crafts program.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. The key financial statement area where management applies the use of estimates is the amortization of deferred revenue from entrance fees (see Note 2). It is management's opinion that the estimates applied in the accompanying financial statements are reasonable.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment - Property, plant and equipment is stated at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Land and building improvements	5-20 years
Furniture, fixtures and equipment	5-15 years

Expenditures for maintenance and repairs are charged to operations as incurred. Expenditures in excess of \$500 for renewals and betterments are capitalized.

Income Taxes - The Company is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal and state income taxes. The tax returns for the Company for the years ended September 30, 2011 through 2014 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid instruments purchased with a maturity of three months or less. The fair value of these investments approximates carrying value. The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable - Accounts receivable are considered delinquent and written off when all attempts to collect from individuals or other payor sources have been exhausted. Management maintains an allowance for doubtful accounts that is based on its review of significant balances where it believes realizability is at risk. The allowance for doubtful accounts was \$32,423 and \$-0- as of September 30, 2014 and 2013, respectively.

Management Agreement - Under a management agreement, the Company utilizes Life Care Services, LLC (LCS) to supervise operations of the Facility. The management fees and salary for the LCS administrator, included as a component of general and administrative expenses in the accompanying statements of activities and changes in net assets, were \$554,406 and \$542,189 for the years ended September 30, 2014 and 2013, respectively.

Health Center Patient Revenue - Health center patient revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Founders Fund - During 1999, the Founders Fund (the Fund) was established by the Board of Directors as a memorial honoring the original Board of Directors of the Company. Disbursements from the Fund may be made to provide services or facilities consistent with the Company's charitable purposes and must be specifically approved by the Board of Directors. The Fund and any contributions to the Fund are classified as unrestricted net assets in the accompanying financial statements.

The following is a summary of the changes in the Fund as of September 30, 2014 and 2013:

	2014	2013
Balance - beginning of year	\$ 351,140	\$ 299,618
Total interest earned	1,505	587
Contributions	2,480	50,935
Balance - End of Year	\$ 355,125	\$ 351,140

Operating Reserve - The State of Connecticut Department of Social Services (DSS) monitors Connecticut retirement communities and their compliance with existing state regulations. DSS requires that retirement communities maintain an operating reserve equal to approximately one month's cash operating costs. In addition, the State requires the Company to maintain a reserve equivalent to one year in principal and interest payments on their term loan. The Company maintained an adequate operating reserve as of September 30, 2014 and 2013.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through November 20, 2014, which represents the date the financial statements were available to be issued.

NOTE 2 - RESIDENCY AGREEMENTS

The Company offers two types of residency agreements: traditional and return-of-capital (ROC). Some of the principal terms and conditions are as follows:

In consideration for a resident's payment of an entrance fee, the Company agrees to furnish the resident with a living unit for the resident's personal use and occupancy for the balance of the resident's lifetime, unless sooner terminated under the provisions of the agreement. The entrance fee must be paid in full prior to occupancy.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RESIDENCY AGREEMENTS (Continued)

For the duration of the resident's lifetime or until termination of the agreement, the Company agrees to furnish to the resident certain services and use of facilities according to the terms and conditions of the agreement. The resident agrees to pay the Company monthly service fees that are subject to periodic adjustments deemed necessary to maintain reserve funds and the financial security of the Facility.

Traditional agreements provide for a portion of the entrance fee to be repaid to the resident (or the resident's estate) in the event of death of the resident or termination of the agreement, upon reoccupancy of the living unit and receipt of the then current entrance fee. The refund amount shall equal the entrance fee reduced by 10% if within 5 months of move-in, or reduced by 2% a month (up to 50 months) if after the first 5 months of move-in. The entrance fee is amortized into revenue over the estimated remaining life of the resident as determined by the Facility's actuaries.

Prior to 1995, ROC agreements provided for a refund of 90% of the entrance fee, without interest, payable under the same conditions as above. After 1995, certain ROC contracts provide for a refund of an average of 85%. The refundable portion of the entrance fees received under the ROC agreements are recorded in the entrance fees refunds payable on the statement of financial position. The nonrefundable portion is amortized over the estimated remaining life of the resident.

Deposits received from residents are recorded as entrance fee deposits on the accompanying statements of financial position. At the time of signing the residency agreement, 10% of the life care entrance fee is required as a deposit. The remaining 90% of the entrance fee is paid upon occupancy of the reserved living unit and, before payment, is included in entrance fees receivable and unearned entrance fees on the accompanying statements of financial position.

The 10% deposit is fully refundable to the resident or to the resident's estate if the agreement is rescinded within 30 days or, if prior to move-in, the resident dies or becomes unable to occupy the Facility due to illness, injury or incapacity. For all other cancellations prior to occupancy, 2% of the entrance fee (20% of the deposit) is forfeited. Amounts forfeited are recognized as income at the time of forfeiture. The current portion of entrance fee refunds payable represents the estimated amount of entrance fees to be refunded to the Health Center residents or their estates over the next 12 months.

During 2009, the Board of Directors approved a deferred payment program as a sales incentive. This incentive included certain price reductions to ROC contracts on all apartments, except for the studios. The program also included a partial closing option for ROC contracts allowing a structured payment schedule during the first nine months after the resident moves in. The Board of Directors also approved a 100% "Guarantee" Program, which gives the prospective resident the ability to receive a 100% refund of their entrance fee during their first year of residency, contingent upon the resale of the apartment before the refund is made. These contracts are accounted for as part of entrance fee refunds payable. The Company had five deferred payment contracts outstanding as of September 30, 2014. There were no such contracts outstanding as of September 30, 2013.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RESIDENCY AGREEMENTS (Continued)

During 2011, the Board of Directors approved a Fee-for-Service ROC contract. Under the new contract, residents would receive a lower monthly fee than the ROC contracts noted above. Additionally, if the resident entered the Health Center, they would pay the private day rate instead of the monthly service fee paid while living in the independent living units. There were four Fee-for-Service ROC contracts in place as of September 30, 2014 and three Fee-for-Service ROC contracts in place as of September 30, 2013.

In July 2012, the Board of Directors approved the conversion of the second floor of C wing into an Assisted Living Wing to give residents an additional option for their care. The Assisted Living Wing consists of nine apartments, one of which was converted into a common room for the residents in the Assisted Living program. All apartments have a full kitchen, living room and at least one bathroom. There is also one two-bedroom unit. The standard Life Care Contract provides 2.5 hours per week of assisted living services for no additional charge but requires that residents pay separately for any additional assisted living services. The Assisted Living Wing provides a more affordable option to 24-hour Home Health care in a resident's apartment. In exchange for this cost-saving option, a resident moving into the Assisted Living Wing will waive the 2.5 hours of complimentary Assisted Living services under the Life Care Contract.

In the spring of 2014, the Finance Committee approved a limited marketing incentive, which waived certain service fees as a method of encouraging expedited closing commitments. These incentives will expire on January 1, 2015.

NOTE 3 - DEFINED CONTRIBUTION PLAN

The Company maintains a defined contribution Tax Deferred Annuity Plan (the Plan). Employees become eligible to participate in the Plan upon attainment of 21 years of age and 1 year of employment (1,000 hours of service). Employees vest at a rate of 20% per year starting after their first two years, becoming fully vested after seven years. The employer contribution is discretionary. As of September 30, 2014, the Plan had approximately 115 participants. The total expense incurred for the Plan in 2014 and 2013 was \$62,329 and \$50,541, respectively.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - NOTES PAYABLE

In March 2007, the Company converted its existing line of credit to a \$6,000,000 Term Loan, convertible by the Company to a Revolving Line of Credit Loan when the principal balance is paid down to less than \$3,000,000. The Term Loan bore interest at a fixed rate equal to the then prevailing Five-Year Federal Home Loan Bank of Boston "Classic Advance" rate plus a margin of 250 basis points for the first five years of the loan. In January 2013, the interest rate was reset to the prevailing Classic Advance rate, determined five days prior to the change date, plus a margin of 250 basis points, for the balance of the term loan. The interest rate at September 30, 2014 was 3.8%. The monthly principal payment on the term loan is \$50,000. There was an outstanding balance of \$1,950,000 and \$2,550,000 as of September 30, 2014 and 2013, respectively. All assets of the Company are pledged as collateral under the Term Loan.

Principal payments on notes payable for the next five years are as follows:

2015	\$ 600,000
2016	600,000
2017	600,000
2018	<u>150,000</u>
	<u>\$ 1,950,000</u>

Interest expense was \$87,693 and \$135,849 for the years ended September 30, 2014 and 2013, respectively.

NOTE 5 - HEALTHCARE INDUSTRY

The healthcare 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 healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

POMPERAUG WOODS, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

POMPERAUG WOODS, INC.

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Independent Auditors' Report

To the Board of Directors
Pomperaug Woods, Inc.

We have audited the accompanying financial statements of Pomperaug Woods, Inc., which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pomperaug Woods, Inc., as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, Pomperaug Woods, Inc., adopted Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities - Refundable Advance Fees*. Our opinion is not modified with respect to that matter.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 22, 2013

POMPERAUG WOODS, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

ASSETS	2013	(As Adjusted Note 6) 2012	LIABILITIES AND NET ASSETS	2013	(As Adjusted Note 6) 2012
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 3,803,460	\$ 4,145,903	Accounts payable and accrued liabilities	\$ 588,095	\$ 605,601
Entrance fees receivable	1,731,600	1,410,500	Current portion of term loan	600,000	600,000
Accounts receivable, net	344,052	332,832	Unearned entrance fees	1,924,000	745,000
Operating reserve	1,683,866	1,730,225	Current portion of entrance fee refunds payable	444,123	1,143,760
Other current assets	372,907	272,897	Other current liabilities	26,880	34,363
Total current assets	<u>7,935,885</u>	<u>7,892,357</u>	Total current liabilities	<u>3,583,098</u>	<u>3,128,724</u>
Return of Capital Discounts	<u>70,000</u>	<u>91,896</u>	Term Loan, Net of Current Portion	1,950,000	2,550,000
Property, Plant and Equipment			Deferred Revenue from Entrance Fees, Net of Accumulated Amortization of \$5,205,152 in 2013 and \$4,763,944 in 2012	5,813,477	6,236,415
Land	962,264	962,264	Entrance Fee Refunds Payable, Net of Current Portion	26,893,036	26,581,313
Land improvements	2,235,629	2,198,983	Total liabilities	<u>38,239,611</u>	<u>38,496,452</u>
Buildings and improvements	29,888,601	29,183,170	Net Assets		
Furniture, fixtures and equipment	2,800,164	2,677,545	Unrestricted	(13,059,947)	(12,913,713)
Construction-in-process	82,253	218,274	Temporarily restricted	46,294	47,719
	<u>35,968,911</u>	<u>35,240,236</u>	Total net assets	<u>(13,013,653)</u>	<u>(12,865,994)</u>
Less accumulated depreciation	18,748,838	17,594,031	Total Liabilities and Net Assets	<u>\$ 25,225,958</u>	<u>\$ 25,630,458</u>
Net property, plant and equipment	<u>17,220,073</u>	<u>17,646,205</u>			
Total Assets	<u>\$ 25,225,958</u>	<u>\$ 25,630,458</u>			

The accompanying notes are an integral part of the financial statements

POMPERAUG WOODS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	(As Adjusted Note 6) 2012
	<u>2013</u>	<u>2012</u>
Unrestricted Revenues		
Resident service revenue	\$ 6,349,735	\$ 5,837,039
Amortization of entrance fees	1,197,937	964,532
Health center patient revenue, net of discounts of \$3,303,842 in 2013 and \$3,152,644 in 2012	2,581,645	2,490,552
Interest and dividend income	7,078	7,287
Contributions	50,935	5,295
Other	53,594	9,526
Net assets released from restrictions	1,425	950
Total unrestricted revenues	<u>10,242,349</u>	<u>9,315,181</u>
Expenses		
Resident care	3,364,924	3,048,572
General and administrative	2,624,437	2,628,138
Dietary	1,359,611	1,315,978
Depreciation	1,240,085	1,193,708
Plant	1,190,202	1,120,437
Housekeeping	438,207	436,564
Interest	135,849	247,354
Other	1,806	1,482
Total expenses	<u>10,355,121</u>	<u>9,992,233</u>
Loss from Operations	(112,772)	(677,052)
Loss on Disposal of Assets	<u>(33,462)</u>	<u>(10,577)</u>
Change in Unrestricted Net Assets	<u>(146,234)</u>	<u>(687,629)</u>
Temporarily Restricted Net Assets		
Contributions	-	17,026
Net assets released from restrictions	(1,425)	(950)
Increase (decrease) in temporarily restricted net assets	<u>(1,425)</u>	<u>16,076</u>
Decrease in Net Assets	(147,659)	(671,553)
Net Assets - Beginning of Year	<u>(12,865,994)</u>	<u>(12,194,441)</u>
Net Assets - End of Year	<u>\$ (13,013,653)</u>	<u>\$ (12,865,994)</u>

The accompanying notes are an integral part of the financial statements

POMPERAUG WOODS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	(As Adjusted Note 6) 2012
	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (147,659)	\$ (671,553)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from entrance fees, net of refunds paid	1,244,985	3,140,949
Depreciation	1,240,085	1,193,708
Amortization of entrance fees	(1,197,937)	(964,532)
Loss on disposal of assets	33,462	10,577
(Increase) decrease in operating assets:		
Accounts receivable	(11,220)	(53,226)
Operating reserve	46,359	(5,183)
Other current assets	(100,010)	22,855
Return of capital discounts	21,896	(51,391)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(17,506)	19,229
Other current liabilities	(7,483)	(1,491)
Net cash provided by operating activities	<u>1,104,972</u>	<u>2,639,942</u>
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(847,415)	(713,505)
Net cash used in investing activities	<u>(847,415)</u>	<u>(713,505)</u>
Cash Flows from Financing Activities		
Payments of long-term debt	(600,000)	(600,000)
Net cash used in financing activities	<u>(600,000)</u>	<u>(600,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(342,443)	1,326,437
Cash and Cash Equivalents - Beginning of Year	<u>4,145,903</u>	<u>2,819,466</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,803,460</u>	<u>\$ 4,145,903</u>
Cash Paid During the Year for Interest	\$ 135,849	\$ 247,354

The accompanying notes are an integral part of the financial statements

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Pomperaug Woods, Inc. (the Company) is a not-for-profit corporation that owns and operates a continuing care retirement facility (the Facility) in Southbury, Connecticut. The Facility consists of 133 and 134 resident units that were 82% and 79% occupied as of September 30, 2013 and 2012, respectively. These units were 85% and 85% sold at September 30, 2013 and 2012, respectively. In addition, the Facility currently provides a health center (the Health Center) with 37 skilled nursing beds. In September 2012, seven resident units were converted to assisted living units. In October 2012, one additional resident unit was converted to an assisted living unit for a total of eight assisted living units. The assisted living units were 75% and 43% occupied as of September 30, 2013 and 2012, respectively. The Health Center was 97% and 100% occupied as of September 30, 2013 and 2012, respectively.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Net Assets Categories - To ensure observance of limitations and restrictions placed on the use of resources available to the Company, the accounts of the Company are maintained in the following net asset categories:

Unrestricted - Unrestricted net assets represent resources that may be expended at the direction of the Board of Directors.

Temporarily Restricted - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. When the purpose or timing restrictions have been met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restriction. Temporarily restricted net assets as of September 30, 2013 were available to support the arts and crafts program.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. The key financial statement area where management applies the use of estimates is the amortization of deferred revenue from entrance fees (see Note 2). It is management's opinion that the estimates applied in the accompanying financial statements are reasonable.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment - Property, plant and equipment is stated at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Land and building improvements	5-20 years
Furniture, fixtures and equipment	5-15 years

Expenditures for maintenance and repairs are charged to operations as incurred. Expenditures in excess of \$500 for renewals and betterments are capitalized.

Income Taxes - The Company is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal and state income taxes. The tax returns for the Company for the years ended September 30, 2010 through 2013 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid instruments purchased with a maturity of three months or less. The fair value of these investments approximates carrying value. The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable - Accounts receivable are considered delinquent and written off when all attempts to collect from individuals or other payor sources have been exhausted. Management maintains an allowance for doubtful accounts that is based on its review of significant balances where it believes realizability is at risk. The allowance for doubtful accounts was \$-0- as of September 30, 2013 and 2012.

Management Agreement - Under a management agreement, the Company utilizes Life Care Services, LLC (LCS) to supervise operations of the Facility. The management fees and salary for the LCS administrator, included as a component of general and administrative expenses in the accompanying statements of activities and changes in net assets, were \$542,189 and \$542,151 for the years ended September 30, 2013 and 2012, respectively.

Health Center Patient Revenue - Health center patient revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Founders Fund - During 1999, the Founders Fund (the Fund) was established by the Board of Directors as a memorial honoring the original Board of Directors of the Company. Disbursements from the Fund may be made to provide services or facilities consistent with the Company's charitable purposes and must be specifically approved by the Board of Directors. The Fund and any contributions to the Fund are classified as unrestricted net assets in the accompanying financial statements.

The following is a summary of the changes in the Fund as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Balance - beginning of year	\$ 299,618	\$ 294,093
Total interest earned	587	230
Contributions	<u>50,935</u>	<u>5,295</u>
Balance - End of Year	<u>\$ 351,140</u>	<u>\$ 299,618</u>

Operating Reserve - The State of Connecticut Department of Social Services (DSS) monitors Connecticut retirement communities and their compliance with existing state regulations. DSS requires that retirement communities maintain an operating reserve equal to approximately one month's cash operating costs. In addition, the State requires the Company to maintain a reserve equivalent to one year in principal and interest payments on their term loan. The Company maintained an adequate operating reserve as of September 30, 2013 and 2012.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through November 22, 2013, which represents the date the financial statements were available to be issued.

NOTE 2 - RESIDENCY AGREEMENTS

The Company offers two types of residency agreements: traditional and return-of-capital (ROC). Some of the principal terms and conditions are as follows:

In consideration for a resident's payment of an entrance fee, the Company agrees to furnish the resident with a living unit for the resident's personal use and occupancy for the balance of the resident's lifetime, unless sooner terminated under the provisions of the agreement. The entrance fee must be paid in full prior to occupancy.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RESIDENCY AGREEMENTS (Continued)

For the duration of the resident's lifetime or until termination of the agreement, the Company agrees to furnish to the resident certain services and use of facilities according to the terms and conditions of the agreement. The resident agrees to pay the Company monthly service fees that are subject to periodic adjustments deemed necessary to maintain reserve funds and the financial security of the Facility.

Traditional agreements provide for a portion of the entrance fee to be repaid to the resident (or the resident's estate) in the event of death of the resident or termination of the agreement, upon reoccupancy of the living unit and receipt of the then current entrance fee. The refund amount shall equal the entrance fee reduced by 10% if within 5 months of move-in, or reduced by 2% a month (up to 50 months) if after the first 5 months of move-in. The entrance fee is amortized into revenue over the estimated remaining life of the resident as determined by the Facility's actuaries.

Prior to 1995, ROC agreements provided for a refund of 90% of the entrance fee, without interest, payable under the same conditions as above. After 1995, certain ROC contracts provide for a refund of an average of 85%. The refundable portion of the entrance fees received under the ROC agreements are recorded in the entrance fees refunds payable on the statement of financial position. The nonrefundable portion is amortized over the estimated remaining life of the resident.

Deposits received from residents are recorded as entrance fee deposits on the accompanying statements of financial position. At the time of signing the residency agreement, 10% of the life care entrance fee is required as a deposit. The remaining 90% of the entrance fee is paid upon occupancy of the reserved living unit and, before payment, is included in entrance fees receivable and unearned entrance fees on the accompanying statements of financial position.

The 10% deposit is fully refundable to the resident or to the resident's estate if the agreement is rescinded within 30 days or, if prior to move-in, the resident dies or becomes unable to occupy the Facility due to illness, injury or incapacity. For all other cancellations prior to occupancy, 2% of the entrance fee (20% of the deposit) is forfeited. Amounts forfeited are recognized as income at the time of forfeiture. The current portion of entrance fee refunds payable represents the estimated amount of entrance fees to be refunded to the Health Center residents or their estates over the next 12 months.

During 2009, the Board of Directors approved a deferred payment program as a sales incentive. This incentive included certain price reductions to ROC contracts on all apartments, except for the studios. The program also included a partial closing option for ROC contracts allowing a structured payment schedule during the first nine months after the resident moves in. The Board of Directors also approved a 100% "Guarantee" Program, which gives the prospective resident the ability to receive a 100% refund of their entrance fee during their first year of residency, contingent upon the resale of the apartment before the refund is made. These contracts are accounted for as part of entrance fees refunds payable. The Company did not enter into any deferred payment programs for the fiscal years ended September 30, 2013 and 2012.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RESIDENCY AGREEMENTS (Continued)

During 2011, the Board of Directors approved a Fee-for-Service ROC contract. Under the new contract, residents would receive a lower entrance fee than the ROC contracts noted above. Additionally, if the resident entered the Health Center, they would pay the private day rate instead of the monthly service fee paid while living in the independent living units. There were three Fee-for-Service ROC contracts in place as of September 30, 2013. There were no Fee-for-Service ROC contracts in place as of September 30, 2012.

In July 2012, the Board of Directors approved the conversion of the second floor of C wing into an Assisted Living Wing to give residents an additional option for their care. The Assisted Living Wing consists of eight apartments, one of which was converted into a common room for the residents in the Assisted Living program. All apartments have a full kitchen, living room and at least one bathroom. There is also one two-bedroom unit. The standard Life Care Contract provides 2.5 hours per week of assisted living services for no additional charge but requires that residents pay separately for any additional assisted living services. The Assisted Living Wing provides a more affordable option to 24-hour Home Health care in a resident's apartment. In exchange for this cost-saving option, a resident moving into the Assisted Living Wing will waive the 2.5 hours of complimentary Assisted Living services under the Life Care Contract.

NOTE 3 - DEFINED CONTRIBUTION PLAN

The Company maintains a defined contribution Tax Deferred Annuity Plan (the Plan). Employees become eligible to participate in the Plan upon attainment of 21 years of age and 1 year of employment (1,000 hours of service). Employees vest at a rate of 20% per year starting after their first two years, becoming fully vested after seven years. The employer contribution is discretionary. As of September 30, 2013, the Plan had approximately 90 participants. The total expense incurred for the Plan in 2013 and 2012, was \$50,541 and \$37,128, respectively.

NOTE 4 - NOTES PAYABLE

In March 2007, the Company converted its existing line of credit to a \$6,000,000 Term Loan, convertible by the Company to a Revolving Line of Credit Loan when the principal balance is paid down to less than \$3,000,000. The Term Loan bore interest at a fixed rate equal to the then prevailing Five-Year Federal Home Loan Bank of Boston "Classic Advance" rate plus a margin of 250 basis points for the first five years of the loan. In January 2013, the interest rate was reset to the prevailing Classic Advance rate, determined five days prior to the change date, plus a margin of 250 basis points, for the balance of the term loan. The interest rate at September 30, 2013 was 3.8%. The monthly principal payment on the term loan is \$50,000. There was an outstanding balance of \$2,550,000 and \$3,150,000 as of September 30, 2013 and 2012, respectively. All assets of the Company are pledged as collateral under the Term Loan.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - NOTES PAYABLE (Continued)

Principal payments on notes payable for the next five years are as follows:

2014	\$ 600,000
2015	600,000
2016	600,000
2017	600,000
2018	<u>150,000</u>
	<u>\$ 2,550,000</u>

Interest expense was \$135,849 and \$247,354 for the years ended September 30, 2013 and 2012, respectively.

NOTE 5 - HEALTHCARE INDUSTRY

The healthcare 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 healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE

Pomperaug Woods, Inc., has elected to adopt Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities - Refundable Advance Fees* (ASU 2012-01). ASU 2012-01 requires a continuing care retirement community to record a liability for refundable entrance fees payable to residents upon reoccupancy of their independent living units. Under ASU 2012-01, this liability is required to be recorded at the gross refundable amount and amortization of this balance is no longer permitted. The new method of accounting under ASU 2012-01 was adopted by the Company during 2013 and the comparative financial statements have been adjusted to apply the new method retrospectively to 2012. The following financial statement line items for fiscal years 2013 and 2012, were affected by this change in accounting principle.

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Changes in the statement of activities and changes in net assets for the year ended September 30, 2013 are as follows:

	<u>As Computed prior to ASU 2012-01</u>	<u>As Reported under ASU 2012-01</u>	<u>Effect of Change</u>
Unrestricted Revenues			
Amortization of entrance fees	\$ 1,950,228	\$ 1,197,937	\$ (752,291)
Income (Loss) from Operations	639,519	(112,772)	(752,291)
Change in Unrestricted Net Assets	606,057	(146,234)	(752,291)
Increase (Decrease) in Net Assets	604,632	(147,659)	(752,291)
Net Assets - Beginning of year	(3,289,276)	(12,865,994)	(9,576,718)
Net Assets - End of Year	(2,684,644)	(13,013,653)	(10,329,009)

Changes in the statement of activities and changes in net assets for the year ended September 30, 2012 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Unrestricted Revenues			
Amortization of entrance fees	\$ 1,151,489	\$ 964,532	\$ (186,957)
Loss from Operations	(490,095)	(677,052)	(186,957)
Change in Unrestricted Net Assets	(500,672)	(687,629)	(186,957)
Decrease in Net Assets	(484,596)	(671,553)	(186,957)
Net Assets - Beginning of year	(2,804,680)	(12,194,441)	(9,389,761)
Net Assets - End of Year	(3,289,276)	(12,865,994)	(9,576,718)

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Changes in the statement of financial position as of September 30, 2013 are as follows:

	<u>As Computed prior to ASU 2012-01</u>	<u>As Reported under ASU 2012-01</u>	<u>Effect of Change</u>
Deferred Revenue from Entrance Fees	\$ 18,257,174	\$ 5,813,477	\$ (12,443,697)
Entrance Fee Refunds Payable	4,120,330	26,893,036	22,772,706
Net Assets			
Unrestricted	(2,730,938)	(13,059,947)	(10,329,009)

Changes in the statement of financial position as of September 30, 2012 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Deferred Revenue from Entrance Fees	\$ 19,290,986	\$ 6,236,415	\$ (13,054,571)
Entrance Fee Refunds Payable	3,950,024	26,581,313	22,631,289
Net Assets			
Unrestricted	(3,336,995)	(12,913,713)	(9,576,718)

POMPERAUG WOODS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Changes in the statement of cash flows for the year ended September 30, 2013 are as follows:

	<u>As Computed prior to ASU 2012-01</u>	<u>As Reported under ASU 2012-01</u>	<u>Effect of Change</u>
Change in Net Assets	\$ 604,632	\$ (147,659)	\$ (752,291)
Amortization of Entrance Fees	1,950,228	(1,197,937)	(752,291)

Changes in the statement of cash flows for the year ended September 30, 2012 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Change in Net Assets	\$ (484,596)	\$ (671,553)	\$ (186,957)
Amortization of Entrance Fees	(1,151,489)	(964,532)	(186,957)

POMPERAUG WOODS
Southbury, Connecticut

CASH FLOW PROJECTION

For the Period Beginning October 1, 2014

	Year 1 2015	Year 2 2016	Year 3 2017	Year 4 2018	Year 5 2019
Beginning Cash (1)	5,195,486	4,739,490	5,622,779	5,760,954	6,345,442
Interest Income (2)	4,965	5,179	5,689	6,050	6,707
Monthly Service Fees (3)	5,768,310	6,138,552	6,410,304	6,602,256	6,800,160
Double Occupancy Fees (4)	304,517	338,530	359,508	370,852	381,662
Miscellaneous Income (5)	(97,849)	(100,785)	(103,809)	(106,923)	(110,131)
Attrition Income (6)	6,837,439	6,613,963	5,507,926	5,496,424	5,510,082
Health Center Income (7)	6,482,888	6,776,757	7,027,095	7,251,563	7,463,259
Nursing Care Purchased (8)	0	0	0	0	0
Life Care Discount (9)	(3,192,875)	(3,396,050)	(3,555,403)	(3,690,490)	(3,813,558)
Operating Expenses (10)	(9,472,025)	(9,749,485)	(10,035,102)	(10,322,076)	(10,617,378)
Capital Expenditures (11)	(961,000)	(989,830)	(1,019,525)	(1,050,111)	(1,081,614)
Loan Principal (12)	(600,000)	(600,000)	(600,000)	(150,000)	0
Loan Interest (13)	(74,250)	(47,250)	(20,250)	(3,375)	0
Estate Refunds (14)	(5,456,116)	(4,106,291)	(3,838,259)	(3,819,683)	(3,808,457)
Net Change (15)	(455,996)	883,289	138,175	584,488	730,732
Ending Cash	4,739,490	5,622,779	5,760,954	6,345,442	7,076,173

POMPERAUG WOODS
Southbury, Connecticut

CASH FLOW PROJECTION FOOTNOTES

- (1) Beginning Cash represents cash and any reserves on hand at the beginning of the fiscal year for Years 1 through 5.

Cash and Cash Equivalents	\$3,507,428
Assets Whose Use is Limited – Current	0
Assets Whose Use is Limited - Long Term	1,688,058
Total	\$5,195,486

- (2) Interest Income on the average cash balance is assumed to be at an annual rate of 0.1 percent in Years 1 through 5.

- (3) Monthly Service Fees represents the total of first person monthly service fees for all independent living units at average occupancy of:

<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
89.0%	92.4%	93.9%	93.9%	93.9%

Monthly service fees are assumed to increase by 2.5 percent in Year 2, 2.75 percent in Year 3, and 3.0 percent in Years 4-5.

- (4) Double Occupancy Fees represents second person fees, which are assumed to increase at the same rate as first person monthly service fees.

- (5) Miscellaneous Income represents revenue from such services as furnishing additional meals, special services, guest apartment rental, beauty shop, personal laundry, vending equipment, and gifts.

- (6) Attrition Income represents the additional income from re-reservation of living units based upon living unit turnover rates as computed by the independent consulting actuarial firm of Milliman of Omaha, Nebraska.

- (7) Health Center Income assumes average daily rates in Year 1 of \$490.80 for a private room and \$430.47 for a semiprivate room. There are 37 health center beds (7 private rooms and 15 semiprivate rooms). The average census has been projected at:

<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
32.4	33.3	33.7	33.9	33.9

- (8) Life Care Discount is the expense of placing Pomperaug Woods’ residents in the health center per the life-care contracts.

- (9) Operating Expenses are assumed to increase by 2.9 percent for Years 2 through 5.

- (10) Capital Expenditures are costs of repair or replacement of portions of the buildings and equipment. Such costs are assumed to be relatively low when the buildings are new and to increase gradually thereafter as the facility ages.
- (11) Loan Principal payments began January 2008 at \$600,000 annually. The principal payment decreases to \$150,000 in Year 4 and \$0 thereafter. This loan represents the conversion of a \$6,000,000 revolving line of credit to a ten-year term loan, which was entered into on June 29, 2007.
- (12) Loan Interest payments on the ten-year term loan are scheduled at:
- | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> |
|---------------|---------------|---------------|---------------|---------------|
| \$74,250 | \$47,250 | \$20,250 | \$3,375 | \$0 |
- (13) Estate Refunds is that portion of the entrance fee refunded due to the death of a resident. This refund is paid from the entrance fee received by the Community from the new resident. Attrition rates used in calculating estate refunds are based upon year-end actuarial data from the firm of Milliman of Omaha, Nebraska.
- (14) Net Change is the difference between ending cash and beginning cash in a given year.

POMPERAUG WOODS
Southbury, Connecticut

FORECASTED STATEMENT OF REVENUES AND EXPENSES

	Year 1 2015	Year 2 2016	Year 3 2017	Year 4 2018	Year 5 2019
OPERATING REVENUES					
Earned Entrance Fees	1,192,456	1,051,833	928,978	823,759	739,695
Apartment Fees	6,072,827	6,477,082	6,769,812	6,973,108	7,181,822
Interest Income	4,965	5,179	5,689	6,050	6,707
Other Income	(97,849)	(100,785)	(103,809)	(106,923)	(110,131)
TOTAL	7,172,399	7,433,309	7,600,670	7,695,994	7,818,093
HEALTH CENTER REVENUES - NET	3,290,013	3,380,707	3,471,692	3,561,073	3,649,701
TOTAL OPERATING REVENUES	10,462,412	10,814,016	11,072,362	11,257,067	11,467,794
OPERATING EXPENSES:	0	0	0	0	0
G&A	(2,692,951)	(2,773,740)	(2,856,952)	(2,942,660)	(3,030,940)
Plant	(1,340,052)	(1,373,553)	(1,407,892)	(1,436,050)	(1,464,771)
Housekeeping	(500,103)	(515,106)	(530,559)	(546,476)	(562,870)
Dietary	(1,432,437)	(1,475,410)	(1,519,672)	(1,565,262)	(1,612,220)
Resident Care	(3,506,482)	(3,611,676)	(3,720,027)	(3,831,628)	(3,946,576)
Depreciation	(1,222,469)	(1,168,171)	(1,105,413)	(1,060,638)	(1,015,029)
Interest	(74,250)	(47,250)	(20,250)	(3,375)	0
Amortization	0	0	0	0	0
TOTAL OPERATING EXPENSES	(10,768,744)	(10,964,906)	(11,160,765)	(11,386,089)	(11,632,407)
REVENUE OVER EXPENSE (DEFICIT)	(306,332)	(150,890)	(88,403)	(129,022)	(164,612)

POMPERAUG WOODS
CAPITAL COST AMORTIZATION ASSUMPTIONS

The basis for amortization assumptions for the provider's capital costs includes the following:

- a. Entrance Fee Revenue: At the time of initial occupancy, the non-refundable portion of the entrance fee for the living unit is treated as deferred income and is amortized based upon the expected remaining life of each individual resident. The remaining life expectancy is re-evaluated annually.
- b. Fixed Assets: Estimated depreciation expense for the forecast period was computed on the straight-line method using an estimated 40 year life for building-related costs and a 5 - 25 year life for equipment additions.
- c. Amortization Expense: Financing costs incurred in conjunction with issuance of the Series 1987 Bonds, deferred costs associated with acquiring initial contracts, and fees incurred to obtain bank financing and development fees (including sales tax) have all been fully amortized as of September 30, 2002.

**RETURN OF CAPITAL FEE SCHEDULE
LIFE CARE**

Pomperaug Woods offers two pricing options – 1. Life Care includes long term care at a price equal to the weighted average monthly fee of independent living; and 2. Fee for Service includes long term care at a la carte pricing; (both plans have a health eligibility requirement)

Apartment Home Type	Entrance Fee	Refundable Portion	Monthly Fee
Milton Studio	\$155,000	\$139,500	\$3,489
Riverton 1 Bedroom 1 Bath	\$230,000	\$184,000	\$3,621
Putnam 1 Bedroom 1 Bath	\$250,000	\$200,000	\$3,678
Windsor 1 Bedroom, 1 Bath	\$300,000	\$240,000	\$4,135
Newtown 1 Bedroom, 1.5 Bath	\$320,000	\$256,000	\$4,135
Stratford 1 Bedroom 1.5 Bath	\$345,000	\$276,000	\$4,325
Salisbury 1 Bedroom, Den 1.5 Bath	\$410,000	\$328,000	\$4,473
Bridgewater 2 Bedroom 2 Bath w/Patio	\$445,000	\$356,000	\$4,496
Redding 2 Bedroom, 2 Bath w/Terrace	\$525,000	\$420,000	\$4,800
Cornwall 2 Bedroom	\$565,000	\$452,000	\$6,116

Effective 10/14

2nd person monthly service fee= \$1,855

2nd person entrance fee= \$15,000

TRADITIONAL FEE SCHEDULE

Apartment Home Type	Entrance Fee	Monthly Fee
Milton Studio	\$117,000	\$3,489
Riverton 1 Bedroom 1 Bath	\$144,000	\$3,621
Putnam 1 Bedroom 1 Bath	\$150,000	\$3,678
Windsor 1 Bedroom, 1.5 Bath	\$187,000	\$4,135
Newtown 1 Bedroom, 1.5 Bath	\$198,000	\$4,135
Stratford 1 Bedroom 1.5 Bath	\$216,000	\$4,325

Salisbury 1 Bedroom, Den, 1.5 Bath	\$252,000	\$4,473
Bridgewater 2 Bedroom 2 Bath w/Patio	\$273,000	\$4,496
Redding 2 Bedroom, 2 Bath w/	\$324,000	\$4,800
Cornwall 2 Bedroom	\$390,000	\$6,116

Effective 10/14

2nd person monthly service fee = \$1,855

2nd person entrance fee = \$15,000

RETURN OF CAPITAL FEE SCHEDULE
FEE-FOR-SERVICE

Pomperaug Woods offers two pricing options – 1. Life Care includes long term care at a price equal to the weighted average monthly fee of independent living; and 2. Fee for Service includes long term care at a la carte pricing (both plans have a health eligibility requirement)

Apartment Home Type	Entrance Fee	Refundable Portion	Monthly Fee
Milton Studio	\$155,000	\$139,500	\$2,289
Riverton 1 Bedroom 1 Bath	\$230,000	\$184,000	\$2,421
Putnam 1 Bedroom 1 Bath	\$250,000	\$200,000	\$2,478
Windsor 1 Bedroom, 1.5 Bath	\$300,000	\$240,000	\$2,935
Newtown 1 Bedroom, 1.5 Bath	\$320,000	\$256,000	\$2,935
Stratford 1 Bedroom 1.5 Bath	\$345,000	\$276,000	\$3,125
Salisbury 1 Bedroom, Den, 1.5 Bath	\$410,000	\$328,000	\$3,273
Bridgewater 2 Bedroom 2 Bath w/Patio	\$445,000	\$356,000	\$3,296
Redding 2 Bedroom, 2 Bath w/	\$525,000	\$420,000	\$3,600
Cornwall 2Bedroom	\$565,000	\$452,000	\$4,916

Effective 10/2014

*2nd person Entrance Fee= \$15,000

2nd person monthly fee = \$655

**POMPERAUG WOODS
RESIDENTIAL TURNOVER RATES**

The residential turnover rate is calculated by dividing the number of apartments released by the average number of occupied apartments.

The residential turnover rates for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
16.77%	16.73%	16.12%	15.74%	15.56%	15.43%

**POMPERAUG WOODS
AVERAGE AGE OF RESIDENTS**

The projected average age of residents for the next five years is as follows:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
88.79	88.69	88.79	88.89	88.98

**POMPERAUG WOODS
HEALTH CARE UTILIZATION RATES**

Health care utilization rates, including admission rates and days per 100 residents by level of care for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

<u>Year</u>	<u>Utilization Rate</u>	<u>Admission Rate</u>	<u>Days per 100 Residents*</u>
FY 2014	85.16%	59.48%	7,707
FY 2015	82.29%	63.54%	7,038
FY 2016	84.14%	65.07%	7,047
FY 2017	84.24%	65.03%	7,036
FY 2018	84.17%	64.86%	7,055
FY 2019	84.10%	64.77%	7,058

*Skilled Nursing Only

**POMPERAUG WOODS
OCCUPANCY RATES**

Occupancy rates for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
85.84%	89.02%	92.42%	93.94%	93.94%	93.94%

**POMPERAUG WOODS
NUMBER OF HEALTH CARE ADMISSIONS**

The number of health care admissions pursuant to continuing-care contracts for the most recently completed fiscal year, and anticipated for the next five years, is as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
94	103	109	111	111	111

**POMPERAUG WOODS
DAYS OF CARE**

The days of care per year for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
12,154	11,369	11,826	12,014	12,069	12,085

**POMPERAUG WOODS
NUMBER OF PERMANENT TRANSFERS**

The number of permanent transfers to the health center in fiscal year ending September 30, 2014 was five (5) residents.

**POMPERAUG WOODS
STATEMENT OF CASH FLOWS**

For a statement of cash flows for Pomperaug Woods, Inc., see Exhibit B of this annual financial filing.



Statement of Actuarial Opinion

I, Gregory T. Zebolsky, am associated with the firm Milliman, Inc. and am a Member of the American Academy of Actuaries and meet its qualification standards to issue statements of Actuarial Opinion for Continuing Care Retirement Communities. I have been retained by Life Care Services to develop resident population projections and to review certain items in the financial projections contained in the September 30, 2014 financial filing for Pomperaug Woods. The items we review include exhibits E through K and the projection of selected items in exhibit B, all of which relate to the actuarial population projections. The items we review on exhibit B include only monthly service fees, double occupancy fees, attrition income, estate refunds, health center income, and life care discount. We have not reviewed other items in exhibit B.

This is the actuarial certification as described in Section 17a-373-6(i)(2) of the regulations implementing the Connecticut Continuing Care Statutes. The actuarial methodology used in these projections conforms to Actuarial Standard of Practice No. 3, "Practices Relating to Continuing Care Retirement Communities" adopted September, 2007 by the Actuarial Standards Board.

In performing my review and developing the population projections, I have relied on resident data, financial statements, and the residency agreement provided by Christie Buckrop of Life Care Services as certified in the attached statement. I performed no audit or independent verification of the information furnished. I have reviewed the resident data furnished for reasonableness and consistency.

I have examined the data, actuarial assumptions, and actuarial methods used in determining the population and financial projections referred to above. In my opinion, the financial and actuarial projections:

- i. are based on data and actuarial assumptions that are reasonable and appropriate under the circumstances, and
- ii. are computed using methods consistent with sound actuarial principles and practices.

Gregory T. Zebolsky, F.S.A., M.A.A.A.

I, Christie Buckrop, Actuarial Finance Analyst of Life Care Services, hereby affirm that the resident data, financial projection worksheet, and other summaries and analyses relating to data prepared for and submitted to Gregory T. Zebolsky, Consulting Actuary with Milliman, Inc., in support of his actuarial opinion for Pomperaug Woods as of September 30, 2014, were prepared under my direction and to the best of my knowledge and belief, are substantially accurate and complete.

Christie Buckrop, Actuarial Finance Analyst

February 23, 2015

EXHIBIT M