

**RIVERVIEW LUTHERAN RETIREMENT
COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Riverview Lutheran Retirement Community of Spokane
dba: Riverview Retirement Community
Spokane, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Riverview Lutheran Retirement Community of Spokane dba: Riverview Retirement Community (a Washington nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 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
Riverview Lutheran Retirement Community of Spokane
dba: Riverview Retirement Community

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Riverview Lutheran Retirement Community of Spokane dba: Riverview Retirement Community as of December 31, 2017 and 2016, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
March 16, 2018

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,739,086	\$ 492,274
Investments	16,349,495	15,113,826
Accounts Receivable, Net	1,003,612	886,707
Prepaid Expenses	89,738	73,266
Total Current Assets	21,181,931	16,566,073
ASSETS LIMITED OR RESTRICTED AS TO USE		
Restricted for Debt Service and Reserve	1,525,774	1,515,112
Other Assets Limited or Restricted as to Use	1,110,890	988,322
Total Assets Limited or Restricted as to Use	2,636,664	2,503,434
PROPERTY, BUILDINGS, AND EQUIPMENT, NET		
	32,799,631	30,128,602
Total Assets	\$ 56,618,226	\$ 49,198,109
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 873,911	\$ 559,138
Accrued Payroll and Related Liabilities	787,297	748,956
Accrued Interest	398,000	379,500
Applicants' Deposits	144,000	138,000
Patient Trust Liability	10,165	14,258
Current Maturities of Long-Term Debt	251,149	190,000
Current Portion of Entrance Fees Refundable Upon Re-Occupancy	194,625	296,000
Total Current Liabilities	2,659,147	2,325,852
LONG-TERM LIABILITIES		
Long-Term Debt, Net	20,193,863	14,556,005
Entrance Fees Refundable upon Re-occupancy, Net of Current Portion	28,652,705	27,703,680
Deferred Revenue from Nonrefundable Entrance Fees	3,658,761	3,550,146
Deferred Compensation Payable	516,443	418,531
Total Long-Term Liabilities	53,021,772	46,228,362
Total Liabilities	55,680,919	48,554,214
NET ASSETS		
Unrestricted	678,048	384,636
Permanently Restricted	259,259	259,259
Total Net Assets	937,307	643,895
Total Liabilities and Net Assets	\$ 56,618,226	\$ 49,198,109

See accompanying Notes to Financial Statements.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUE		
Resident Service Revenue, Net	\$ 19,208,453	\$ 19,844,293
Entrance Fees Earned	427,369	561,529
Loss on Fair Market Value Refund of Residency Agreements	(188,800)	(240,000)
Termination Income from Nonrefundable Portion of Residency Agreements	207,016	149,533
Tenant Reimbursements	189,351	222,616
Investment Income, Net	1,771,319	976,448
Contributions	52,911	22,240
Gain on Disposal of Equipment	291	857
Other Revenue	343,323	257,188
Total Unrestricted Revenue	<u>22,011,233</u>	<u>21,794,704</u>
EXPENSES		
Health Services	8,613,339	8,760,275
Activities	614,964	612,726
Chaplaincy	104,195	85,371
Dietary	2,862,307	2,672,541
Housekeeping and Laundry	774,871	814,831
Plant Operations and Security	2,378,120	2,386,683
Fiscal and Administration	2,788,933	2,586,786
Interest Expense	802,354	787,247
Taxes and Insurance	436,612	417,501
Depreciation	2,342,126	2,148,390
Total Unrestricted Expenses	<u>21,717,821</u>	<u>21,272,351</u>
CHANGE IN UNRESTRICTED NET ASSETS	293,412	522,353
Net Assets - Beginning of Year	<u>643,895</u>	<u>121,542</u>
NET ASSETS - END OF YEAR	<u>\$ 937,307</u>	<u>\$ 643,895</u>

See accompanying Notes to Financial Statements.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 293,412	\$ 522,353
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,342,126	2,148,390
Amortization of Debt Issuance Costs	16,439	16,440
Amortization of Bond Premium	(12,550)	(12,550)
Nonrefundable Contracts - Entrance Fees Received	743,000	809,500
Nonrefundable Contracts - Termination Income	(207,016)	(149,533)
Entrance Fees Earned	(427,369)	(561,529)
Loss on Fair Market Value Refund of Residency Agreements	188,800	240,000
Realized Gain on Investments	(427,425)	(30,033)
Unrealized Gain on Investments	(989,206)	(587,013)
Gain on Disposal of Equipment	(291)	(857)
Net Change in:		
Accounts Receivable	(116,905)	73,882
Prepaid Expenses	(16,472)	7,331
Accounts Payable	314,773	(69,915)
Accrued Payroll and Related Liabilities	38,341	68,740
Accrued Interest	18,500	(5,010)
Applicants' Deposits	6,000	24,000
Net Cash Provided by Operating Activities	1,764,157	2,494,196
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	6,273,742	962,178
Purchase of Investments	(6,132,191)	(1,779,413)
Proceeds from Property, Building, and Equipment	2,000	3,000
Purchase of Property, Building, and Equipment	(5,014,864)	(2,418,382)
Net Cash Used by Investing Activities	(4,871,313)	(3,232,617)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(190,000)	(180,000)
Proceeds from Issuance of Loan	6,000,000	-
Loan Issuance Costs Paid	(114,882)	-
Payments on Line of Credit	(300,000)	(500,000)
Draws on Line of Credit	300,000	-
Refundable Contracts - Entrance Fees Received	2,972,000	3,238,000
Refundable Contracts - Entrance Fees Refunded	(2,313,150)	(2,418,550)
Net Cash Provided by Financing Activities	6,353,968	139,450
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,246,812	(598,971)
Cash and Cash Equivalents - Beginning of Year	492,274	1,091,245
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,739,086	\$ 492,274
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid in Cash	\$ 839,215	\$ 788,368

See accompanying Notes to Financial Statements.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Riverview Lutheran Retirement Community of Spokane dba: Riverview Retirement Community (the Corporation) was comprised of three separate corporations prior to January 1, 2016. The corporations were: Riverview Lutheran Home of Spokane dba: Riverview Terrace; Riverview Lutheran Care Center of Spokane dba: Riverview Care Center, and Riverview Village. These three corporations were incorporated under the Washington State Nonprofit Corporation Act with the purpose of owning, operating, and providing retirement housing for the elderly in the local community. Each corporation was exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3).

Pursuant to an Agreement and Plan of Merger, dated December 1, 2015, by and among Riverview Terrace, Riverview Care Center and Riverview Village; the Articles of Merger of Riverview Terrace and Riverview Village with and into Riverview Care Center (the Articles of Merger) became effective on January 1, 2016. The Articles of Merger consummated a merger of Riverview Terrace, Riverview Care Center, and Riverview Village.

Under the Articles of Merger, the surviving entity was Riverview Care Center. By operation of law, Riverview Care Center succeeded all of the assets and rights previously belonging to and is responsible for all of the liabilities and obligations previously incurred by Riverview Terrace and Riverview Village.

In connection with the merger, Riverview Care Center also changed its legal name from Riverview Lutheran Care Center of Spokane to Riverview Lutheran Retirement Community of Spokane (doing business as Riverview Retirement Community). Riverview Retirement Community (the Corporation) was previously, and continues to be, a Washington nonprofit corporation and 501(c)(3) organization.

Riverview Resident Assistance Foundation (Foundation), a Washington nonprofit 501(c)(3) organization, was incorporated on January 19, 2017. The Foundation was organized to generate donations and to provide financial assistance to residents of Riverview Retirement Community who outlive their financial assets. The Foundation is deemed a Type 1 Supporting Organization by the IRS and Riverview Retirement Community is identified as the Supported Organization. The initial board of directors of the Foundation was appointed by the board of directors of Riverview Retirement Community and all new members of the Foundation board of directors must first be approved by the board of directors of Riverview Retirement Community. The financial position of the Foundation as of December 31, 2017, and the results of its operations, changes in its net assets, and its cash flows for the year then ended have not been incorporated into the financial statements of Riverview Retirement Community as they were deemed to be immaterial.

As of December 31, 2017, the Foundation had total assets of \$3,638 and no liabilities. Total contributions were \$3,638 for the year ended December 31, 2017.

**RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting pursuant to accounting principles generally accepted in the United States of America.

Performance Indicator

Change in unrestricted net assets as reflected in the accompanying Statement of Activities and Changes in Net Assets is the performance indicator. The performance indicator includes all changes in unrestricted net assets, including unrealized changes in the value of investments and, if present, would exclude restricted investment income, realized and unrealized changes in the value of restricted investments, and investment fees restricted by donors or law.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market accounts, commercial paper, and other securities with maturities of three months or less at date of acquisition that are not otherwise held by an investment advisor or restricted for debt service or debt reserve.

Investments

Investments are stated at fair value based on quoted market prices. Investments acquired by gift are recorded at fair value on the date received. Investments in marketable securities are adjusted to fair value through recognition of unrealized gains and losses in the performance indicator as they are classified as trading securities. Gains or losses are calculated based on specific identification of the investments. Dividend, interest, and other investment income are recorded net of related custodial and advisory fees. See Note 8 for fair value hierarchy disclosures.

Accounts Receivable

The Corporation provides services to residents even though they may lack adequate funds or may participate in programs that do not pay full charges. The Corporation receives payment for health services from residents, insurance companies, Medicare, Medicaid, and other third-party payors. As a result, the Corporation is exposed to certain credit risks. The Corporation manages its risk by regularly reviewing its accounts, by providing appropriate allowances for uncollectible accounts, and by having secured the accounts through its Residency and Patient Agreements with the residents of the community.

Accounts receivable are stated at the amount management expects to collect. If necessary, management provides for possible uncollectible amounts through a charge to revenue and a credit to a valuation allowance based on its assessment of the current status of individuals' balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to resident accounts receivable.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited or Restricted as to Use

Assets limited or restricted as to use include assets that are restricted for debt reserve and debt service or limited as to use by the board of directors or donors for various reasons (see Note 3).

Property, Building, and Equipment

Property, building, and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, major replacements and improvements, and other related costs capitalized during construction. The Corporation capitalizes fixed assets with a cost greater than \$5,000 in the independent and assisted living departments and \$2,000 in the skilled nursing facility. Maintenance, repairs, and minor replacements are charged to expense when incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in revenue or expense for the period.

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. The review addresses the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment losses were present for the years ended December 31, 2017 and 2016.

Applicants' Deposits

The Corporation requires each applicant for residency to pay a \$1,000 or \$500 fee to join the waiting list for the independent living or assisted living units, respectively. This deposit enables the Corporation to objectively determine which applicant will prevail when more than one applicant is interested in the same unit by awarding the unit to the applicant that has been on the waiting list longest. The waiting list deposits are fully refundable for any reason prior to applying the deposit to a resident agreement. When an independent living unit becomes available, the applicant is required to pay a nonrefundable \$4,000 entrance fee deposit to reserve a specific independent living unit prior to occupancy.

Patient Trust Liability

Patient trust liability consists of patients' funds held under agency agreement with the Corporation. A corresponding asset is recorded in assets limited or restricted as to use.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Entrance Fees Refundable Upon Re-Occupancy

Residency Agreements are 75% or 80% refundable at the time of re-occupancy after termination of the contract. There are a limited number of residency agreements in which the refund is equal to 80% of the entrance fee received from subsequent resident of the unit. The refundable portion of entrance fees as of December 31, 2017 and 2016 was \$28,847,330 and \$27,999,680, respectively. As of December 31, 2017 and 2016, \$194,625 and \$296,000, respectively, of the refundable portions were due to residents were included in current portion of entrance fees refundable upon re-occupancy and will be refunded at the time the unit is reoccupied by another resident. Actual refunds of such entrance fees were \$2,313,150 and \$2,418,550 for the years ended December 31, 2017 and 2016, respectively. The nonrefundable portion of the entrance fee for the Residency Agreements is described in the following paragraph.

Deferred Revenue from Nonrefundable Entrance Fees

The nonrefundable portion (20% or 25% of the entrance fee) of the Residency Agreements is recorded as deferred revenue. The nonrefundable deferred entrance fees are amortized to income on a straight-line basis over the estimated remaining life expectancy of the resident which is estimated at the time of entrance and is adjusted annually based on actuarially determined, estimated, remaining life expectancy of the resident. Upon voluntary or involuntary termination, the remaining unamortized balance of the nonrefundable portion of the entrance fee is recognized as income. Amounts amortized to income relating to these types of contracts were \$427,369 and \$561,529, respectively, for the years ended December 31, 2017 and 2016, and are presented in entrance fees earned in the Statement of Activities and Changes in Net Assets. At December 31, 2017 and 2016, the Corporation had nonrefundable entrance fees of \$3,658,761 and \$3,550,146, respectively, related to entrance fees received that will be recognized as revenue in future years.

Net Assets

The Corporation reports three classifications of net assets. A description of each classification of net assets is as follows:

Unrestricted Net Assets – Unrestricted net assets represent unrestricted resources available to support the Corporation's operations and temporarily restricted resources which have become available for use by the Corporation in accordance with the intention of the donor.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent contributions that are limited in use by the Corporation in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Corporation according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. There were no temporarily restricted net assets at December 31, 2017 and 2016.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Permanently Restricted Net Assets – Permanently restricted net assets represent net assets subject to donor-imposed stipulations that they be maintained by the Corporation in perpetuity. The board of directors has interpreted Washington's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit the Corporation to use all or part of the investment return on these assets.

Revenue Recognition

Resident service revenues are recognized in the month in which services are provided and collectability is reasonably assured. In addition, resident service revenue is presented net of third-party rate adjustments. Other revenue is recognized as the related services are provided and includes guest meals revenue, coffee shop revenue, beauty salon revenue, and other miscellaneous revenue.

The Corporation provides health care services primarily to residents of its community. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Contributions

The Corporation reports unconditional contributions of cash and other assets at fair value at the date the contribution is made. Conditional contributions are reported at fair value at the date the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

Tax-Exempt Status

The Corporation has been recognized by the Internal Revenue Service as a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related activities. No tax provision has been made in the accompanying Statement of Activities and Changes in Net Assets.

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Risk

The Corporation's cash, cash equivalents, investments, and assets limited or restricted as to use consist of various financial instruments. These financial instruments may subject the Corporation to concentrations of risk as, from time to time, cash and investment balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC), the fair value of debt securities are dependent on the ability of the issuer to honor its contractual commitments, and the fair value of investments are subject to change. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Concentration of credit risk results from the Corporation granting credit without collateral to its residents and patients, most of whom are local residents and may be insured under third-party payor agreements. See Note 2 for the mix of receivables from residents and third-party payors at December 31, 2017 and 2016.

Unemployment Self-Insurance

The Corporation self-insures for unemployment benefits. Provision for self-insurance claims is made in the period the claims are paid.

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.

Advertising

The Corporation follows the policy of expensing advertising costs as incurred. The Corporation's advertising expense for the years ended December 31, 2017 and 2016 was \$490,554 and \$405,517, respectively.

Reclassifications

Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on changes in net assets or net assets as previously reported.

Subsequent Events

The board of directors and management have evaluated subsequent events through March 16, 2018, the date the financial statements were available to be issued.

**RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

	2017		2016	
	Amount	Percentage	Amount	Percentage
Medicare	\$ 686,965	61 %	\$ 529,520	57 %
Private Payors	290,037	26	174,735	19
Medicaid	108,146	10	136,177	15
Managed Care	34,675	3	88,363	9
Other	6,477	-	2,912	-
Accounts Receivable, Gross	<u>1,126,300</u>	<u>100%</u>	<u>931,707</u>	<u>100%</u>
Less: Allowance for Doubtful Accounts	(122,688)		(45,000)	
Accounts Receivable, Net	<u>\$ 1,003,612</u>		<u>\$ 886,707</u>	

NOTE 3 ASSETS LIMITED OR RESTRICTED AS TO USE

Assets limited or restricted as to use consisted of the following at December 31:

	2017	2016
Restricted for Debt Service and Reserve:		
Series 2012 Bond Debt Reserve Fund	\$ 949,376	\$ 945,200
Series 2012 Bond Debt Service Fund	<u>576,398</u>	<u>569,912</u>
Subtotal	1,525,774	1,515,112
Other Assets Limited or Restricted as to Use:		
Restricted under Deferred Compensation Arrangements	516,443	418,530
Beneficial Interest in Perpetual Trust and Endowments	446,906	408,400
By Donors and/or Board for Assistance Fund	60,430	72,459
By Board for Visions for Tomorrow	66,188	64,907
Patient Trust Funds	10,165	14,258
Beneficial Interest in Foundation Funds	<u>10,758</u>	<u>9,768</u>
Subtotal	1,110,890	988,322
Total Assets Limited or Restricted as to Use	<u>\$ 2,636,664</u>	<u>\$ 2,503,434</u>

RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,871,299	\$ 3,330,108
Land Improvements	4,272,002	4,107,233
Buildings	27,532,097	27,631,105
Building Improvements	18,563,898	16,979,941
Equipment and Furnishings	4,893,472	3,560,116
Vehicles	518,012	518,013
Subtotal	<u>59,650,780</u>	<u>56,126,516</u>
Less: Accumulated Depreciation	<u>(28,348,812)</u>	<u>(26,148,964)</u>
Subtotal	31,301,968	29,977,552
Construction in Progress	1,497,663	151,050
Total Property, Buildings, and Equipment, Net	<u><u>\$ 32,799,631</u></u>	<u><u>\$ 30,128,602</u></u>

Construction in progress as of December 31, 2017 relates to the construction of a memory care building and various improvements and remodels to the Corporation's campus. The construction is being financed with a loan from Washington Trust Bank (see Note 5) and from operations. The Corporation anticipates the memory care building to incur total costs of approximately \$7,500,000 and is expected to be completed in late 2018. Interest expense of \$59,250 was capitalized into construction in progress for the year ended December 31, 2017.

NOTE 5 LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Washington State Housing Finance Commission 5% Fixed Rate Demand Elderly Housing Revenue Bonds, Series 2012	\$ 15,041,149	\$ 15,180,000
Memory Care Unit Note Payable	5,948,851	-
Long-Term Debt, Gross	<u>20,990,000</u>	<u>15,180,000</u>
Add: Unamortized Premium	61,702	74,251
Less: Unamortized Debt Issuance Costs	<u>(606,690)</u>	<u>(508,246)</u>
Carrying Amount of Long-Term Debt	20,445,012	14,746,005
Less: Current Maturities	<u>(251,149)</u>	<u>(190,000)</u>
Long-Term Debt, Net	<u><u>\$ 20,193,863</u></u>	<u><u>\$ 14,556,005</u></u>

**RIVERVIEW LUTHERAN RETIREMENT COMMUNITY OF SPOKANE
DBA: RIVERVIEW RETIREMENT COMMUNITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 LONG-TERM DEBT (CONTINUED)

Series 2012 Fixed Rate Revenue Bonds

On December 3, 2012, the Washington State Housing Finance Commission (the Commission) issued its \$15,695,000 Nonprofit Housing Revenue and Refunding Revenue Bonds (Riverview Retirement Community Project), Series 2012 bonds. The proceeds of the Series 2012 bonds were used (1) to refund the Series 1997 bonds, (2) to finance and refinance capital improvements, (3) to fund a debt service reserve fund, (4) to pay capitalized interest on the Series 2012 bonds and (5) to pay the costs of issuing the Series 2012 bonds. The Series 2012 bonds were issued pursuant to a Master Trust Indenture agreement between the Commission and U.S. Bank N.A., as Bond Trustee.

These bonds were issued in two tranches: \$2,060,000 of 5.00% term bonds due January 1, 2023 with a yield of 4.25% and \$13,635,000 of 5.00% term bonds due January 1, 2048. Principal is payable annually on January 1, which commenced on January 1, 2014 and interest payments are made semi-annually on January 1 and July 1, which commenced on January 1, 2013. Pledged collateral includes gross receivables, equipment, and a deed of trust on the properties. Holders of the Series 2012 Bonds and Washington Trust Bank who financed the \$6 million credit agreement hold parity collateral positions in the pledged collateral. The bond proceeds included a \$125,495 premium that is amortized over 10 years.

Memory Care Unit Note Payable

On October 6, 2017, the Corporation and Washington Trust Bank signed a \$6,000,000 credit agreement to finance the construction of the memory care building (see Note 4). The note bears interest and is based on the regular five-year Federal Home Loan Bank Intermediate/Long Term, Fixed Advance rate (the FHLB Rate) as published by the Federal Home Loan Bank of Des Moines, plus a margin of two and one-quarter percent (2.25%). Interest rate was 4.50% as of December 31, 2017. Principal is payable monthly, commencing on November 1, 2018 through October 1, 2032. The note included issuance costs of \$114,883, which are amortized over the term of the note. Pledged collateral includes gross receivables, equipment, and a deed of trust on the properties. Holders of the Series 2012 Bonds and Washington Trust Bank who financed the \$6 million credit agreement hold parity collateral positions in the pledged collateral.

Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 251,149
2019	525,981
2020	549,981
2021	576,077
2022	602,201
Thereafter	18,484,611
Total Maturities	<u>\$ 20,990,000</u>

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NOTE 5 LONG-TERM DEBT (CONTINUED)

Interest expense consisted of the following for the years ended December 31:

	2017	2016
Interest Expense	\$ 798,465	\$ 783,357
Amortization - Bond Premium	(12,550)	(12,550)
Amortization - Debt Issuance Costs	16,439	16,440
Total Interest Expense	\$ 802,354	\$ 787,247

Restrictive Covenants

The bond and note payable agreements contain various covenants which, among other things, require the Corporation to maintain certain financial ratios. For the year ended December 31, 2017, management is not aware of any violations of the debt covenants as specified in the agreements.

Line of Credit

During the year ended December 31, 2013, the Corporation obtained a \$2,000,000 short-term line of credit with Washington Trust Bank which has been renewed annually since inception. The credit line is unsecured. On September 15, 2017, the line of credit was renewed with a maturity date of August 22, 2018. The variable interest rate on the line of credit was 4.50% at December 31, 2017. The outstanding balance on the line at December 31, 2017 was \$-0-. Principal outstanding on this line of credit shall not exceed the lesser of \$2,000,000 or the maximum nonparity indebtedness permitted in the Master Trust Indenture dated December 1, 2012 that relates to the Series 2012 Bonds.

NOTE 6 RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at December 31:

	2017	2016
Oscar and Marie Peterson Memorial Fund	\$ 249,259	\$ 249,259
Inland Northwest Community Foundation	10,000	10,000
Total Permanently Restricted	\$ 259,259	\$ 259,259

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NOTE 6 RESTRICTED NET ASSETS (CONTINUED)

The Corporation's endowment consists of funds in the Oscar and Marie Peterson Memorial fund and Inland Northwest Community Foundation. Its endowment includes donor-restricted endowment funds. As required by ASC 958-205, *Not-for-Profit Entities*, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets are comprised of investments to be held in perpetuity, the income from which is unrestricted.

The Corporation has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by the Corporation, in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund;
- Purpose of the Corporation and donor-restricted endowment fund;
- General economic conditions;
- Possible effects of inflation and deflation;
- Expected total return from income and the appreciation of investments;
- Other resources of the Corporation, and
- Investment policies of the Corporation.

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NOTE 6 RESTRICTED NET ASSETS (CONTINUED)

Endowments by net assets class in total:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ENDOWMENT ASSETS -				
DECEMBER 31, 2015	\$ 150,029	\$ -	\$ 259,259	\$ 409,288
Investment Return:				
Investment Income	8,686	-	-	8,686
Net Change in Value	25,180	-	-	25,180
Investment Fees	(6,308)	-	-	(6,308)
Total Investment Return	27,558	-	-	27,558
Cash Disbursements	(18,678)	-	-	(18,678)
Distributions to Unrestricted Net Assets, Net	-	-	-	-
ENDOWMENT ASSETS -				
DECEMBER 31, 2016	158,909	-	259,259	418,168
Investment Return:				
Investment Income	10,512	-	-	10,512
Net Change in Value	55,639	-	-	55,639
Investment Fees	(8,908)	-	-	(8,908)
Total Investment Return	57,243	-	-	57,243
Cash Disbursements	(17,747)	-	-	(17,747)
Distributions to Unrestricted Net Assets, Net	-	-	-	-
ENDOWMENT ASSETS -				
DECEMBER 31, 2017	<u>\$ 198,405</u>	<u>\$ -</u>	<u>\$ 259,259</u>	<u>\$ 457,664</u>

NOTE 7 THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

For the years ended December 31, 2017 and 2016, approximately 35% and 34%, respectively, of revenue from the Care Center Division was derived under federal third-party reimbursement programs. These revenues were based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, changes in net assets, or cash flows of the Corporation.

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NOTE 8 FINANCIAL INSTRUMENTS

FASB Accounting Standards Codification (ASC) 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net assets value per share (or its equivalent) with the ability to redeem the investment in the near term.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the Statement of Financial Position at December 31, 2017 and 2016, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Cash and Cash Equivalents: Cash and cash equivalents approximate fair value due to the short maturity of such instruments. Cash and cash equivalents held by investment advisors are included in money market funds.

Investments: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents held for investment, exchange traded equities and mutual funds, debt securities, and fixed income securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, discounted cash flows, or net asset values. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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NOTE 8 FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present the fair value hierarchy for those assets measured at fair value on a recurring basis at December 31:

	2017			
	Level 1	Level 2	Level 3	Total
Investment Accounts:				
Money Market Funds	\$ 6,302,439	\$ -	\$ -	\$ 6,302,439
Mutual Funds	3,061,517	-	-	3,061,517
Fixed Income Funds	4,081,565	-	-	4,081,565
Equity Funds	5,540,638	-	-	5,540,638
Total Investments	\$ 18,986,159	\$ -	\$ -	\$ 18,986,159
	2016			
	Level 1	Level 2	Level 3	Total
Investment Accounts:				
Money Market Funds	\$ 1,415,406	\$ -	\$ -	\$ 1,415,406
Mutual Funds	4,060,387	-	-	4,060,387
Fixed Income Funds	4,790,619	-	-	4,790,619
Equity Funds	7,350,848	-	-	7,350,848
Total Investments	\$ 17,617,260	\$ -	\$ -	\$ 17,617,260

The financial instruments are classified in the Statement of Financial Position at December 31:

	2017	2016
Investments	\$ 16,349,495	\$ 15,113,826
Assets Limited or Restricted as to Use	2,636,664	2,503,434
Total	\$ 18,986,159	\$ 17,617,260

Investment income for the years ended December 31 consists of the following:

	2017	2016
Interest and Dividends	\$ 425,750	\$ 429,920
Realized Gains	427,425	30,033
Unrealized Gains	989,206	587,013
Investment Fees	(71,062)	(70,518)
Total Investment Income	\$ 1,771,319	\$ 976,448

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NOTE 9 RETIREMENT PLANS

Supplemental Executive Retirement Plan

The Corporation is a sponsor of a Supplemental Executive Retirement Plan (Plan). The Plan is a nonqualified employee pension benefit plan providing deferred compensation to a select group of management or highly-compensated employees. A participant in the Plan who has attained the age of 62 with a minimum of five years of "benefit service" and has 5 to 10 years employment at the Corporation is eligible for benefits from the Plan upon termination of employment. The Plan is administered by the Personnel Committee of the board of directors. Contributions to the Plan are made at a rate of between 5% and 20% of the participant's base compensation and specific percentages are determined annually by the Personnel Committee. Contributions to the Plan by the Corporation were \$45,821 and \$40,975, respectively, for the years ended December 31, 2017 and 2016. The assets of the Plan are included in Other Assets Limited or Restricted as to Use and the liabilities of the Plan are presented as Deferred Compensation Payable on the face of the statements of financial position as of December 31, 2017 and 2016.

Employee Retirement Plan

The Corporation maintains a 403(b) retirement plan for all eligible employees. Prior to January 1, 2017 the Corporation matched employee contributions up to 3% of the employee's salary. Effective January 1, 2017 Riverview's 403(b) plan was enhanced to meet safe harbor requirements. As such, Riverview matched 100% of the employee's contribution up to 3% of the employee's salary and 50% of contributions over 3% up to 5% of an employee's salary. The employer match in the 403(b) plan vests immediately. For the years ended December 31, 2017 and 2016 the Corporation's contributions to the plan were \$145,739 and \$126,646, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, the Corporation has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

NOTE 11 FUNCTIONAL EXPENSES

Functional expenses consisted of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Program Activities	\$ 14,678,479	\$ 14,996,155
General and Administrative	7,039,342	6,276,196
Total	<u>\$ 21,717,821</u>	<u>\$ 21,272,351</u>

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NOTE 12 OPERATING LEASES

During 2015, the Corporation entered into a copier agreement with a five-year term requiring payments of \$2,334 per month. Total lease expense for the year ended December 31, 2017 was approximately \$28,000.

Future obligations under terms of the Corporation's operating lease as of December 31, 2017 are as follows:

<u>Years Ending December 31.</u>	<u>Amount</u>
2018	\$ 28,003
2019	28,003
2020	25,669
2021	25,669
Total	<u>\$ 107,344</u>