

RiverWoods Exeter, RiverWoods Manchester, RiverWoods Durham
Philosophies of Financial Budgeting & Performance- Updated as of Fiscal Year 2025

As State of New Hampshire charitable corporate entities, the Trustees of the RiverWoods communities, Exeter (RWE), Manchester (RWM) and Durham (RWD), agree to fulfill the Mission established under the Articles of Agreement. The duty to further the Mission of the corporations is the most fundamental fiduciary duty of a Trustee. Supporting the Mission is all-encompassing; covering financial security, a safe community to live and work in, and quality of life for both residents and staff.

Because we offer Type A “All Inclusive” and Type B “Modified” contracts, our communities are both housing/health care organizations and insurance providers. We have a perpetual commitment to our ongoing flow of residents. To meet that commitment, we must act in a way that ensures the best opportunity for ongoing financial strength. To do that we have established certain basic financial tenets and goals that guide the budgeting and pricing process. It is our intent to charge the lowest rates possible that will allow us to attain our financial goals in support of our Mission.

Financial Goals – Basic Tenets – Because of our ever-changing population and our long-term commitment (for housing, health care, insurance and return of capital), the most basic financial tenet is that all financial decisions will be made with a long-term horizon. The Trustee’s primary fiduciary duty is to protect and further the Mission of the organization in perpetuity. Additionally, as most contracts allow for significant refunds upon death/move out and resale, to fully keep its commitment to residents and their estates, we must maintain a level of service quality, physical appearance and financial health that continues a reasonable flow of people moving in and encourages high occupancy levels. This includes planning for long-term capital projects and maintaining adequate financial strength to fund or borrow for those projects.

Each community is its own separate legal entity and is solely responsible for its own financial performance. There is no co-mingling of assets. As participants in the RiverWoods System, these underlying organizations will each contribute, albeit in different ways, to the greater good.

On an annual basis, general, basic financial tenets* include:

RiverWoods Exeter

- While RWE is our largest and longest-in-operation community, its three distinct campuses structure does lead to certain operational inefficiencies. P&L financial ratios may lag those of RWD.
- RWE will generate total cash revenue that is sufficient, at a minimum, to produce a positive Net Operating Margin (NOM). A positive NOM should generate a Total Cash Margin sufficient to offset a portion of the current year’s debt principal payment.

- In a normal year, cash from net entrance fees will cover cash needed for capital expenditures as well as the portion of the current year’s debt principal payment not covered by total cash margin.

RiverWoods Manchester

- RWM will generate total cash revenue that is sufficient, at a minimum, to pay all cash operating expenses, excluding benevolence expense.
- In a normal year, cash from net entrance fees will cover cash needed for capital expenditures, the current year’s debt principal payment, and benevolence expense.
- RWM’s model differs slightly from RWE’s and RWD’s models due to its Type B contract, mix and number of total units, primary market, and higher proportion of benevolence expense.

RiverWoods Durham

- RWD is in the early stage of its life cycle, with very high ILU occupancy, a significant number of joint contracts, and an extraordinarily high proportion of direct admit contracts contributing to its health center revenue. Short-term,
 - Net entrance fee cash is expected to remain muted. Accordingly, reserves are available to pay capital expenditures and debt principal payments not covered by net entrance fee cash.
 - Total Cash Margin should be sufficiently positive, with positive P&L financial ratios driven by the health center revenue mix.
- Long-term, RWD will generate total cash revenue that is sufficient, at a minimum, to produce a positive NOM. A positive NOM should generate a Total Cash Margin sufficient to offset a portion of the current year’s debt principal payment.
- As the turnover of the IL units becomes steadier, we expect cash from net entrance fees will cover cash needed for capital expenditures and the portion of the current year’s debt principal payment not covered by total cash margin, as well as build reserves.

** Non-cash items such as earned entrance fee revenue, depreciation and amortization expense, changes in the fair value of interest rate swap agreements, and changes in unrealized gains/losses on investments are excluded.*

As our communities age, capital reinvestment is important to maintain high occupancy rates. There will be “milestone” years where additional reinvestment is needed. In these years reserves from the balance sheet will be utilized to cover the short fall.

Projects related to larger renovations or repositioning may require an investment of not only a community’s cash and investments (through capital reserves), but also of long- or short- term borrowing. Each community will maintain adequate financial resources to either directly fund these larger projects or to provide collateral for borrowing at appropriate rates of interest.

For each community, if cash operating expenses rise in any given year there will likely be an associated increase in resident monthly service fees.

RWE, RWM and RWD will use industry accepted financial ratios and actuarial calculations to be the practical measure of its basic financial goals. Actuarial studies will be commissioned on at least a triennial basis to ensure that each community has sufficiently planned to meet all of its resident obligations. The organizations may choose to have this work performed off-cycle as business conditions warrant (such as evaluating new resident contracts, undertaking large projects, etc.). “Funded status” is the appropriate actuarially based target. A funded status surplus indicates that the combination of net actuarial assets and the present value of projected monthly fees for the residents as of the fiscal year end will exceed the present value of the contractual liabilities of these residents over the course of their lifetimes. Continuing Care Actuaries, our actuary, targets a Funded Status of 110% to allow for an appropriate buffer should adverse situations arise. We target a Funded Status range of 108% - 115%.

Each organization pays a System Development Fee (SDF) to The RiverWoods Group (TRWG) to fund system initiatives and/or serve unmet needs. The SDF is a calculation derived from a percentage of cash proceeds received from new entrance fees at each community. The quarterly net asset transfers occur “below the line” and do not directly factor into the calculation of monthly service fee increases. Should a community be in violation of a lending covenant, that quarter’s net asset transfer will be suspended until such a time that there is no violation.

Financial Goals- Ratios – The System has identified key ratios from CARF International that are pertinent to its communities. Depending on the community, expectations are to perform, in the aggregate, in the 25th to 75th percentile of “like communities” (accredited single site communities with Type A (all-inclusive) or Type B (modified) contracts. Establishing performance as such provides a confidence level that each community is performing in a manner that will ensure long term existence and the ability to meet the contractual obligations it has made and will continue to make to current and future residents. To eliminate annual fluctuations and allow for more consistent expected performance, we utilize a five-year rolling average of the CARF International reported performance to set the targets. As a secondary measure, we also evaluate Fitch investment grade rated communities for ratio comparisons. The ratio formulas and associated goals are detailed in the appendix. It is important to note that these ratios are interdependent and should be evaluated as a group. The most important ratios we have chosen to measure our businesses are as follows:

- **Capital Expenditures as a Percentage of Depreciation Ratio (CED)**- which evaluates the annual physical plant and program reinvestments. Favorable performance here ensures that our buildings and programming will support both current and future residents.
- **Cash to Debt Ratio (C to D)**- Shows the relationship between unrestricted cash/investments and total debt. Type A, and high refundable contracts, require higher cash balances than communities with other types of refunds/contract styles. Therefore, strength in this ratio shows that the

entrance fee cash has not been eroded by funding excess operating losses or capital expenses. This ratio is typically required by the lender.

- **Days Cash on Hand Ratio (DCOH)**- which reflects how many days of cash operating expenses can be covered by unrestricted cash and investments. Given a reliance on entrance fee turnover in the business model, this ratio ensures sufficient liquidity to cover operations.
- **Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio (DSTR)** – which evaluates the amount of debt service funded by revenues. As costs of capital increase consumer demand and preferences drive capital investment, this ratio provides a sanity check that such investment is not overly dependent upon revenues (i.e., monthly service fees).
- **Debt Service Coverage Ratio (DSCR)** – which shows the ability to fund annual debt service (principal and interest) with cash flow from net cash revenues (cash revenues less cash expense) AND net cash from entrance fees (new entrance fees less refunds). This ratio is typically required by the lender.
- **Debt Service Coverage Ratio- Revenue Basis (DSCR-RB)** – which shows the ability to fund annual debt service (principal and interest) with cash flow from net cash revenues (cash revenues less cash expenses). When this ratio is > 1.0 it provides comfort that the community can pay all of its cash outflows (expenses + mortgage principal) with no reliance on entrance fee cash. This is important as entrance fee cash can be uneven year to year as it is heavily reliant on items outside of the organizations control, like turnover and the real estate market.
- **Net Operating Margin (NOM)** - which measures the core, sustainable business and excludes interest expense, investment earnings, contributions and all non-cash items. NOM defines our ability to pay core, controllable expenses with core, controllable revenue. When NOM is sufficiently positive it provides a level of comfort that the community can continue as an operating entity based on its current financial trajectory. Positive NOM performance is important as it reflects the organization’s ability to run the business without being overly reliant on investment markets (which are not in our control).
- **Operating Ratio (OR)** – which compares cash operating expenses to cash operating revenues. The operating ratio is more robust than NOM, as it also includes net assets released from restriction revenue, investment interest and dividends, and interest expense. An organization’s ability to pay careful attention to its balance sheet, specifically managing its cash/investments and debt positions, will be reflected in the OR.

Each organization will typically select five key measures from the above list that are most relevant to its community. Further, during each budget cycle Management will highlight the most important metric (the “one thing”) to focus on in the coming year.

Budget Process – below is a general description of the budget process which is reviewed annually in conjunction with the Summary of Significant Assumptions in the Budget presentation.

Upon the establishment of financial goals, we will evaluate external market conditions to determine the potential impact on the following year’s budget. Major assumptions include:

- Occupancy at all of levels of care. This is an important consideration as it not only impacts operating revenue but also entrance fee cash flow (and related investment earnings). While the industry considers 95% independent living (IL) occupancy full capacity, we will consider budgeting at a higher level after carefully evaluating current occupancy levels, the size of the wait list, real estate market conditions, and projected move-in activity.
- Health center utilization – this includes the number of direct admits expected to be in the census (as direct admits pay market-rate fees), the number of spousal transfers, the number of temporary transfers and the number of permanent single person transfers which will then require a unit resale. Each of these potential health center residents may pay a different rate. It is our goal to run the health centers at approximately 90% occupancy, allowing a reasonable buffer for spikes in resident movements. We utilize information derived from the actuarial studies.
- We budget 100% of the expected long-term yield as interest and dividend income (available to partially offset monthly service fee increases).
- With respect to capital gains, we budget for the long-term portfolio average return with the expectation that between 10% - 40% of these capital gains will be realized to the income statement in any given year as a non-operating gain (and thus available to partially offset monthly service fee increases). The determination will be vetted by the Finance Committee, with input from the Investment Committee, each year during the budget process with careful consideration given to market conditions as well as the value of unrealized gains/ losses residing on the balance sheet.
- All expenses are evaluated by the Executive Directors, supported by TRWG financial and operational personnel, with a mindset to deliver high quality service in the coming year as inexpensively as possible. Periodically we will engage an external study of a community’s operating expenses (an “Operations Audit”) to determine costs in conjunction with industry norms for like kind communities.
- The communities purchase certain services that are centralized within the system and are expected to provide sustainable savings over time. These costs are agreed upon annually during the budget process, as required by the Memoranda of Understanding.
- Annual pricing changes are a product of the major revenue assumptions (occupancy, health center utilization, and investment income) and major expense inflation assumptions (salary, benefits, insurances, food, property taxes, utilities, interest expense).

- Capital Expenditures are normally evaluated on a rolling ten-year basis. Significant reinvestments are forecast in addition to normal replacement of equipment, furniture, fixtures, and vehicles. Similar to financial performance ratios, we regularly evaluate reinvestment metrics as compared to other comparable communities to ensure our buildings and programming support both current and future residents. Such metrics include Capital Expenditures as a Percentage of Depreciation and Average Age of Plant. Periodically we will engage an external study of our facilities (a “Facilities Audit”) to provide an independent opinion on the current state of the campuses as well as the future plans of reinvestment.
- To ensure a transparent and informed annual budget process, the organizations will undertake a comprehensive approach throughout the fiscal year to educate, and be informed by, its residents. This approach is documented in the CCRC Board’s **CCRC Community Annual Budget Process Policy**.

Other Tenets

In any given year a financially solid organization could provide a 0% monthly service fee increase with no major impact to its short-term financial health. The impact, however, would be felt in the future by allowing expenses to grow at a faster rate than revenues. This has an adverse compounding effect on cash margin. Additionally, forgoing cash flow from new monthly service fees results in a drawdown of cash reserves which can also have a long-term adverse balance sheet effect (fewer reserves as well as reduced investment earnings). Hence, we do not utilize the cash on the balance sheet in lieu of a monthly service fee increase.

Each community attempts to strike a balance in its financial business model approach. Serving our Mission for today’s and tomorrow’s residents and staff is something we think about every day. We utilize a prudent approach to budgeting because we are always engaged in long-range planning. With this approach, we can be proactive should difficult situations arise. Should prosperous situations arise, such as higher occupancy than budget or lower operating costs, RWE has a mechanism, the MSF Rebate Policy (“Spring Break Credit”), for returning a portion of the monthly service fee back to our residents. Additionally, its Staff Discretionary Bonus Plan Policy provides the option of additional retirement funding to our staff. These programs are not currently adopted for RWD or RWM but could be adopted in the future.

Appendix A- Ratio Calculations

Capital Expenditures as a Percentage of Depreciation Ratio

(Annual Capital Expenditures)
(Annual Depreciation Expense)

Cash to Debt Ratio

Total Unrestricted Cash and Investments
Total Debt Outstanding

Days Cash on Hand Ratio

Total Unrestricted Cash and Investments
Daily Cash Operating Expenses

Debt Service Coverage Ratio

(Total Cash Margin + Interest Expense+ Net Cash from Entrance Fees)
(Interest Expense + Principal Repayment)

Debt Service Coverage Ratio- Revenue Basis

(Total Cash Margin + Interest Expense)
(Interest Expense + Principal Repayment)

Net Operating Margin

(Cash from Resident Revenues – Cash from Resident Operating Expenses)
(Cash from Resident Revenues)

Operating Ratio

(Total Cash Operating Expenses)
(Cash from Resident Revenues + Interest & Dividends + Net Assets Released from Restriction)

Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio

Annual Debt Service
Total Operating Revenue + Net Nonoperating Gains and Losses

Appendix B- Community Metrics.

RWE Guidelines CARF Single Site Type A Metrics - 5 Yr Avg			
		FY26B	
Metric	Percentile	Min Ratio	
Operating Ratio	50th to 75th%	99.7%	or lower
Debt Service Coverage Ratio	50th %	2.67	or greater
Cash to Debt	50th to 75th%	119.9%	or greater
Net Operating Margin	50th to 75th%	3.2%	or greater
CapEx as a % of Depreciation Ratio	50th to 75th%	166.0%	or greater

RWM Guidelines CARF Single Site Type B Metrics - 5 Yr Avg			
		FY26B	
Metric	Percentile	Min Ratio	
Days Cash On Hand	25th %	333	or greater
Operating Ratio	25th %	104.4%	or lower
Debt Service Coverage Ratio	25th to 50th %	2.08	or greater
Cash to Debt	50th %	58.1%	or greater
Net Operating Margin	25th %	-1.1%	or greater

RWD Guidelines CARF Single Site Type A Metrics - 5 Yr Avg			
		FY26B	
Metric	Percentile	Min Ratio	
Days Cash On Hand	50th %	548	or greater
Operating Ratio	50th to 75th%	99.7%	or lower
Debt Service Coverage Ratio	25th %	1.87	or greater
Cash to Debt	25th to 50th%	64.8%	or greater
Net Operating Margin	50th to 75th%	3.2%	or greater

Last Revised: March 27, 2025