UNITED CHURCH OF CHRIST
RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
United Church of Christ Retirement Community, Inc.
Concord, New Hampshire

We have audited the accompanying financial statements of United Church of Christ Retirement Community, Inc., dba: Havenwood-Heritage Heights, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
United Church of Christ Retirement Community, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Church of Christ Retirement Community, Inc., dba: Havenwood-Heritage Heights, as of December 31, 2018 and 2017, 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.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, United Church of Christ Retirement Community, Inc. adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the financial statements. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
April 11, 2019

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,473,465	$ 2,633,874
Investments	21,640,948	20,973,896
Resident Funds	10,710	10,746
Resident Accounts Receivable (Net of Allowance for Uncollectible Accounts of $117,216 in 2018 and $112,493 in 2017)	718,244	713,815
Due from Havenwood-Heritage Heights Trust Fund	122,446	35,763
Inventories	39,582	46,141
Prepaid Expenses and Other Current Assets	328,850	306,391
Other Receivables	192,643	186,587
Pledges Receivable	-	610
Total Current Assets	25,526,888	24,907,823
PROPERTY AND EQUIPMENT, NET	33,492,843	34,707,413
ASSETS LIMITED AS TO USE		
Other Restricted Cash and Investments	14,601	14,601
Total Assets Limited as to Use	14,601	14,601
OTHER ASSETS		
Interest in Havenwood-Heritage Heights Trust Fund	19,004,630	20,426,145
Cash Surrender Value of Life Insurance	209,486	191,231
Resident Deposits	953,278	899,775
Total Other Assets	20,167,394	21,517,151
Total Assets	$ 79,201,726	$ 81,146,988

See accompanying Notes to Financial Statements.

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 1,131,186	$ 1,097,655
Current Portion of Capital Lease Obligations	64,611	59,167
Accounts Payable and Accrued Expenses	2,589,721	2,455,111
Resident Funds	10,710	10,746
Total Current Liabilities	3,796,228	3,622,678
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion and Bond Issuance Costs	35,514,887	35,702,312
Capital Lease Obligations, Net of Current Portion	160,436	220,082
Refundable Entrance Fees	83,200	95,400
Deferred Revenue from Entrance Fees	11,587,851	11,157,752
Resident Deposits	953,278	899,775
Interest Rate Swap Agreements	868,228	1,514,471
Other Long-Term Liabilities	5,473	3,628
Total Long-Term Liabilities	49,173,353	49,593,420
Total Liabilities	52,969,581	53,216,098
NET ASSETS		
Without Donor Restrictions	6,918,038	7,236,697
With Donor Restrictions	19,314,107	20,694,193
Total Net Assets	26,232,145	27,930,890
Total Liabilities and Net Assets	$ 79,201,726	$ 81,146,988

See accompanying Notes to Financial Statements.

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
REVENUE AND OTHER SUPPORT		
Net Retirement Community Revenue	$ 10,357,863	$ 10,023,309
Net Health Services Revenue	11,517,115	11,582,855
Amortization of Deferred Revenue from Entrance Fees	1,798,101	1,708,577
Other Operating Revenues	1,008,819	950,072
Net Assets Released from Restrictions Used for Operations	453,970	149,968
Total Revenue and Other Support	25,135,868	24,414,781
OPERATING EXPENSES		
Salaries and Wages	10,977,315	10,729,599
Fringe Benefits	4,430,880	4,093,230
Supplies and Maintenance	1,055,371	1,117,848
Purchased Services	1,095,922	1,065,245
Ancillary Services	152,980	137,371
Food	838,179	832,108
Utilities	1,550,463	1,392,776
Depreciation	2,972,796	2,961,502
Interest Expense	1,530,308	1,529,619
Nursing Facility Assessment Tax	461,105	472,749
Other Operating Expenses	984,665	996,704
Total Operating Expenses	26,049,984	25,328,753
GAIN ON INTEREST RATE SWAP AGREEMENTS	646,243	470,558
LOSS FROM OPERATIONS	(267,873)	(443,414)
OTHER INCOME (LOSS)		
Investment Income	583,678	460,954
Net Realized and Unrealized Gains (Losses) on Investments	(893,610)	1,839,293
Gain (Loss) on Disposal of Fixed Assets	99	(18,381)
Gifts and Bequests	199,567	31,110
Total Other Income (Loss)	(110,266)	2,312,976
EXCESS (DEFICIT) OF REVENUE AND OTHER SUPPORT OVER EXPENSES	$ (378,139)	$ 1,869,562

See accompanying Notes to Financial Statements.

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (Deficit) of Revenue and Other Support Over Expenses	$ (378,139)	$ 1,869,562
Net Assets Released from Restrictions Used for Capital Purchases	59,480	45,000
Increase (Decrease) in Net Assets Without Donor Restrictions	(318,659)	1,914,562
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	554,879	220,911
Interest in Havenwood-Heritage Heights Trust Fund	(1,421,515)	3,032,061
Net Assets Released from Restrictions Used for Operations	(453,970)	(149,968)
Net Assets Released from Restrictions Used for Capital Purchases	(59,480)	(45,000)
Increase (Decrease) in Net Assets With Donor Restrictions	(1,380,086)	3,058,004
INCREASE (DECREASE) IN NET ASSETS	(1,698,745)	4,972,566
Net Assets - Beginning of Year	27,930,890	22,958,324
NET ASSETS - END OF YEAR	$ 26,232,145	$ 27,930,890

See accompanying Notes to Financial Statements.

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ (1,698,745)	$ 4,972,566
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,972,796	2,961,502
Amortization of Deferred Financing Costs	77,844	77,843
Proceeds from Entrance Fees and Deposits, Net of Refunds	2,216,000	1,915,000
Amortization of Deferred Revenue from Entrance Fees	(1,798,101)	(1,708,577)
Noncash Contribution	(126,977)	-
Gain on Interest Rate Swap Agreements	(646,243)	(470,558)
Reinvested Investment Income	(570,570)	(429,655)
Noncash Investment Expense	94,363	81,698
Net Realized and Unrealized (Gains) Losses on Investments	899,864	(1,833,444)
(Gain) Loss on Disposal of Fixed Assets	(99)	18,381
Change in Interest in Trust Fund	1,421,515	(3,032,061)
Bad Debt Expense, Net	50,004	50,001
Changes in Operating Assets and Liabilities:		
Resident Accounts Receivable	(54,433)	(302,037)
Due from Havenwood-Heritage Heights Trust Fund	(86,683)	10,570
Inventories	6,559	(5,309)
Prepaid Expenses and Other Current Assets and Other Receivables	(22,459)	(33,303)
Other Assets	(6,056)	(45,540)
Accounts Payable and Accrued Expenses	134,611	69,863
Other Long-Term Liabilities	1,845	(2,181)
Net Cash Provided by Operating Activities	2,865,033	2,294,759
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(1,751,359)	(1,214,212)
Purchases of Investments	(5,562,707)	(5,100,617)
Proceeds from Sale of Investments	4,598,976	4,100,617
Cash Surrender Value of Life Insurance	(18,255)	(12,000)
Net Cash Used by Investing Activities	(2,733,345)	(2,226,212)

See accompanying Notes to Financial Statements.

UNITED CHURCH OF CHRIST RETIREMENT COMMUNITY, INC.
DBA: HAVENWOOD-HERITAGE HEIGHTS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Pledges Receivable	$ 610	$ 9,540
Proceeds from Issuance of Bonds	865,918	1,099,889
Principal Payment on Bonds	(1,097,656)	(1,049,753)
Payments of Capital Lease Obligations	(60,969)	(50,877)
Net Cash Provided (Used) by Financing Activities	(292,097)	8,799
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(160,408)	77,346
Cash and Cash Equivalents - Beginning of Year	2,633,874	2,556,528
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,473,465	$ 2,633,874
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Cash Paid During the Year for Interest	$ 1,460,559	$ 1,452,168
Incurrence of Capital Lease Obligations	$ 6,768	294,198

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The United Church of Christ Retirement Community, Inc. (Havenwood campus) was organized on April 18, 1966. The United Church of Christ Retirement Community II, Inc. (Heritage Heights campus) was organized on May 2, 1978. In February 1988, the United Church of Christ Retirement Community II, Inc. merged into the United Church of Christ Retirement Community, Inc., dba: Havenwood-Heritage Heights, to form the "Community," a nonprofit organization which owns and operates retirement facilities located in Concord, New Hampshire. The Community consists of 367 independent living units (370 units in 2017), 56 assisted living units (56 units in 2017), and 88 skilled nursing facility beds (90 beds in 2017). The residents of the Community are provided with a variety of services ranging from assisted or full nursing care to services for those who are able to live independently.

Residents have the option of entering into a continuing care retirement community (CCRC) contract. Under this contract, residents pay a one-time entrance fee in addition to ongoing monthly fees which, should they outlive their financial resources, allows them to occupy a unit at any level of care for 12 months at a rate based on their ability to pay. Residents who entered the Community under the CCRC contract prior to January 1, 1999 are also guaranteed a maximum of 10 nursing-bed days per year for 10 years, at no charge. Residents who entered the Community under the CCRC contract on or after January 1, 1999 are guaranteed a maximum of 10 nursing-bed days in total. The entrance fee is refundable only within the first six months after occupancy begins.

The Havenwood-Heritage Heights Trust Fund (the Trust Fund) was established on August 16, 1982 to provide financial assistance to the residents of the Community. Requests for resident assistance are made to the Trust Fund by the Community's board of directors. Payments are made at the discretion of the Trust Fund's trustees (see Note 9).

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 requires that a specified beneficiary recognize its rights to assets held by a recipient organization as an asset unless the donor has explicitly granted the recipient organization variance power. Management of the Community and the Trust Fund has determined that the Trust Fund has not been granted such variance power. Therefore, the Community's interest in the net assets of the Trust Fund has been recognized at estimated fair value in the statements of financial position. Changes in the fair market value of the Community's interest are reflected in the statements of changes of net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated endowment or other purposes. At December 31, 2018 and 2017, the governing board has not made this designation.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

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. Estimates also affect the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which subject the Community to credit risk consist of cash and cash equivalents, accounts receivable, and investments. The risk with respect to cash equivalents is minimized by the Community's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Community's accounts receivable are primarily due from third-party payors and amounts are presented net of expected contractual allowances and uncollectible amounts. The Community's investment portfolio consists of diversified investment funds, which are subject to market, interest rate, and credit risks, among others. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in value will occur in the short-term and that such changes could be material. See Notes 3 and 15 for additional information related to investments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents generally include bank checking, savings, and money market accounts. The total cash and cash equivalents balance may at times exceed federal depository insurance limits.

Resident Accounts Receivable

Resident accounts receivable is recorded at the estimated net collectible amount. Third-party payors have restrictions on time limits for billings. Management reviews the outstanding resident accounts receivable and establishes an allowance for uncollectible accounts based on the aging of specific outstanding accounts, bad debt write offs experienced in the past, and contract terms with third-party payors. Resident accounts receivable are charged against the allowance account when such receivables are deemed to be uncollectible. Delinquency status is determined based on contractual terms.

Approximately 64% and 53% of gross resident accounts receivable at December 31, 2018 and 2017, respectively, are due from the state of New Hampshire (Medicaid program) and the federal government (Medicare program). The Community does not require collateral for the extension of credit.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories, as of December 31, 2018 and 2017, consist primarily of food, medical supplies, and other dining service supplies.

Assets Limited as to Use

Assets limited as to use include donor-restricted investments.

Investments

Investments are valued at fair value in the statements of financial position. See Note 15 for further discussion regarding fair value. Investment income or loss (including realized and unrealized gains and losses on investments and interest and dividends) is included in the accompanying statements of operations unless the income is restricted by donor or law.

Property and Equipment

The Community capitalizes all expenditures for property and equipment costing over $1,000 if purchased or at estimated fair market value at the date of receipt if donated. Expenditures for normal repairs and maintenance are charged to expense as incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The Community provides for depreciation using the straight-line method by charges to operations in amounts estimated to amortize the cost or donated value of the assets over their estimated useful lives, which are as follows:

Land Improvements	20 to 30 Years
Buildings	10 to 40 Years
Furniture and Fixtures	5 to 10 Years
Equipment	5 to 10 Years
Capital Leased Equipment	Shorter of the Estimated Useful Life or Lease Term
Computer Software (Included in Equipment)	3 Years

Depreciation expense for 2018 and 2017 was $2,972,796 and $2,961,502, respectively.

The Community records impairment loss on property and equipment when events and circumstances indicate that it is probable that assets are impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Based on management's estimation process, no impairment losses have been recorded as of December 31, 2018 and 2017.

Bond Issuance Costs

The Community provides for amortization of bond issuance costs on the straight-line method, which approximates the effective interest method over the terms of the bonds which is recorded within interest expense. Amortization expense amounted to $77,844 for 2018 and 2017, respectively, and is included as a component of interest expense on the statements of operations.

Deferred Revenue from Entrance Fees

Entrance fees paid by residents under the CCRC contracts are recorded as deferred revenue. The fees are amortized and recorded as revenue on the straight-line method over the actuarially determined remaining average life expectancy of the resident. Amortization of deferred revenue for the years ended December 31, 2018 and 2017 amounted to $1,798,101 and $1,708,577, respectively.

Obligation to Provide Future Services

The estimated obligation to provide future services is based on an actuarial calculation of the present value of the net estimated cost of future services and the use of facilities to be provided to current residents under the CCRC contracts. The excess (if any) of this amount over the balance of deferred revenue is reported as a liability in the statements of financial position. Changes in the estimated liability are included in operations. The obligation is discounted at 5.5% based, in part, on the expected annual increases in monthly fees. No liability was required to be recognized at December 31, 2018 or 2017. Monthly service fees are generally increased annually based upon the projected needs of the Community and are recognized in the month earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments

ASC Topic 815, *Accounting for Derivative Instruments and Hedging Activities*, requires that all derivative instruments be reported on the statements of financial position at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Community uses interest rate swap agreements for risk management purposes. The Community does not use derivative financial instruments for trading or speculative purposes. The Community is exposed to credit loss in the event of nonperformance by the swap counterparty. The Community has not assessed the effectiveness of the hedging relationship of the swaps and, therefore, has voluntarily designated these as ineffective. As such, the entire change in fair value of the interest rate swap agreements has been recorded within the accompanying statements of operations as a component of excess (deficit) of revenue and other support over expenses. See also Note 7.

The Community had a liability of $868,228 as of December 31, 2018 and $1,514,471 as of December 31, 2017, representing the estimated fair value of the Community's outstanding interest rate swap agreements. The annual change in the fair value of these derivative financial instruments is recognized within income (loss) from operations in the statements of operations. For the years ended December 31, 2018 and 2017, the Community recognized a gain on the interest rate swap agreements of $646,243 and $470,558, respectively.

Certain investment funds may use derivative financial instruments to hedge against their exposure to the stock market, to foreign currency markets, and to fluctuations in interest rates. These financial instruments may include futures contracts, swap agreements, and forward currency contracts. As these instruments are owned within the funds, the amounts associated with the Community's holdings in these funds cannot be readily determined, but are estimated by management to be immaterial to the Community's overall investments.

Service Revenue

The Community has agreements with third-party payors that provide for payments to the Community at amounts different from its established rates. Net resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. Amounts received for services provided to residents covered under these programs are generally based on prospectively determined rates. The Community's policy is to record the difference between the revenue, recorded at established rates and the estimated amounts receivable as a contractual adjustment during the period in which the related services are provided.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service Revenue (Continued)

Revenues from the Medicare and Medicaid programs accounted for approximately 5% and 5%, respectively, of the Community's net resident service revenue in 2018 and 5% and 5%, respectively, in 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Community 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.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as an increase in net assets without donor restrictions. Income earned on net assets with donor restrictions, including capital appreciation, is recognized in the period earned.

Performance Indicator

The statements of operations indicate the excess (deficit) of revenue and other support over expenses as the performance indicator. Included in the performance indicator are gifts and bequests, investment income, realized and unrealized gains and losses on investments, and losses on disposal of fixed assets, consistent with industry practice. Net assets released from restrictions used for capital purchases are excluded from the performance indicator.

Charity Care

The Community occasionally provides care to residents without charge or at amounts less than its established rates. The Community does not pursue collection of amounts determined to qualify as charity care and, therefore, such amounts are not reported as revenue. The Community determines the costs associated with providing charity care by calculating a ratio of cost to gross charges and then multiplying that ratio by gross uncompensated charges associated with providing care to residents eligible for free care. The costs of providing services to charity care residents for the years ended December 31, 2018 and 2017 were approximately $69,000 and $112,000, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2018 and 2017 were approximately $83,000 and $130,000, respectively. Of this funding, approximately $83,000 and $130,000 is from the Trust Fund in 2018 and 2017, respectively. See Note 9. The Community also receives Medicaid Gap Funding which is designated to offset the gap between Medicaid and private pay rates for Medicaid residents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expense

Advertising costs are expensed as incurred and totaled approximately $54,000 and $76,000, respectively, for the years ended December 31, 2018 and 2017.

Functional Allocation of Expenses

The disclosure of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated amount the programs and supporting services benefitted (see Note 13).

Income Taxes

The Community is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). It qualifies as a publicly supported organization under IRC Section 509 and, therefore, qualifies as a public charity. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. There was no unrelated business income tax for the years ended December 31, 2018 and 2017.

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

New Accounting Pronouncements

Not-For-Profit Financial Statements – ASU 2016-14

During the year ended December 31, 2018, the Community adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions). The adoption of this accounting standard did not have an impact on the Organization's financial position, but did change the presentation of various classifications and disclosures within the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Accounting Pronouncements

Revenue Recognition – ASU 2014-09

In May 2014, the FASB issued amended guidance to clarify the principles of recognizing revenue from contracts with customers as discussed within ASU No. 2014-09 – *Revenue from Contracts with Customers*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an account that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgement, and assets recognized from the costs to obtain or fulfill a contract.

The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

Leases – ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Community on January 1, 2020, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Community is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements.

Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform with the 2018 financial statement presentation.

Subsequent Events

In preparing these financial statements, the Community has evaluated events and transactions for potential recognition or disclosure through April 11, 2019, the date the financial statements were issued. The results of this evaluation indicated that there are no subsequent events or transactions that are required to be disclosed in these financial statements.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Community regularly monitors the availability of resources required to meet its operating need and other commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing financial resources to meet expenses over a 12-month period, the Community considers all expenses related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are compromised of the following:

	2018	2017
Financial Assets at Year-End:		
Cash and Cash Equivalents	$ 2,473,465	$ 2,633,874
Investments	21,640,948	20,973,896
Resident Accounts Receivable, Net	718,244	713,815
Other Receivables	192,643	186,587
Total Financial Assets	$ 25,025,300	$ 24,508,172

NOTE 3 INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at December 31, 2018 and 2017 is set forth in the following table:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash Equivalents and Certificates of Deposit	$ 1,706,065	$ 1,698,997	$ 1,521,607	$ 1,517,773
U.S. Government Obligations	4,141,606	4,179,107	1,246,400	1,254,352
Corporate Bonds	4,142,974	4,018,896	5,159,411	5,146,921
Foreign Bonds	313,656	303,905	319,522	325,184
Municipal Obligations	718,883	720,301	944,212	945,317
Fixed Income Mutual Funds	1,379,814	1,334,138	1,495,449	1,490,315
Common Equity Securities	7,572,732	9,400,205	7,493,708	10,308,636
Total	$ 19,975,730	$ 21,655,549	$ 18,180,308	$ 20,988,497

NOTE 3 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Investments are included in the accompanying statements of financial position as follows:

	2018	2017
Current Assets:		
Investments	$ 21,640,948	$ 20,973,896
Other Restricted Cash and Investments	14,601	14,601
Total	$ 21,655,549	$ 20,988,497

Total interest income, realized gains and losses, and net unrealized appreciation/ depreciation for investments and assets limited as to use reported within the statements of operations and changes in net assets for the years ended December 31 are as follows:

	2018	2017
Investment Income	$ 583,678	$ 460,954
Net Realized and Unrealized Gains (Losses) on Investments	(893,610)	1,839,293
Total	$ (309,932)	$ 2,300,247

NOTE 4 RESIDENT ACCOUNTS RECEIVABLE

Net resident accounts receivable consist of the following at December 31:

	2018	2017
Private Pay Residents	$ 189,061	$ 259,121
Medicaid Residents	57,846	98,768
Medicare Residents	473,973	339,770
Other	114,580	128,649
Total	835,460	826,308
Less: Allowance for Uncollectible Accounts	(117,216)	(112,493)
Net Resident Accounts Receivable	$ 718,244	$ 713,815

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2018	2017
Land and Land Improvements	$ 2,928,423	$ 2,900,112
Buildings and Improvements	65,371,018	63,929,223
Furniture and Fixtures	2,577,855	2,498,463
Equipment	8,742,571	8,677,309
Construction in Process	33,046	70,132
Total	79,652,913	78,075,239
Less: Accumulated Depreciation and Amortization	(46,160,070)	(43,367,826)
Total Property and Equipment	$ 33,492,843	$ 34,707,413

NOTE 6 CAPITAL LEASE OBLIGATIONS

The Community has various capital lease obligations related to certain vehicles and equipment. Future minimum annual payments under the capital lease agreements at December 31, 2018 are as follows:

Year Ending December 31,	Amount
2019	$ 74,406
2020	66,528
2021	61,800
2022	43,223
Total	245,957
Less: Amounts Representing Interest	(20,910)
Present Value of Total Minimum Lease Payments	225,047
Less: Current Maturities	(64,611)
Long-Term Capital Lease Obligations	$ 160,436

The cost of assets recorded under capital leases, which are included in property and equipment, totaled $312,118 and $302,350 December 31, 2018 and 2017, respectively. Accumulated amortization associated with these leases was $97,295 and $161,240 as of December 31, 2018 and 2017, respectively.

NOTE 7 LONG-TERM DEBT

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

Description	2018	2017
The Authority Variable Rate Revenue Bonds, Havenwood-Heritage Heights Issue, Series 2009; maturity at various dates through 2035	$ 13,110,000	$ 13,500,000
The Authority Variable Rate Revenue Bonds, Havenwood-Heritage Heights Issue, Series 2013B; maturity at various dates through 2042	14,410,089	14,437,705
The Authority Variable Rate Revenue Bonds, Havenwood-Heritage Heights Issue, Series 2016A; maturity at various dates through 2042	6,935,039	7,615,078
The Authority Variable Rate Revenue Bonds, Havenwood-Heritage Heights Issue, Series 2016B; maturity at various dates through 2042	2,590,972	1,725,054
Total Debt	37,046,100	37,277,837
Less: Unamortized Debt Issuance Costs	(400,027)	(477,870)
Total Debt, Net Unamortized Debt Issuance Costs	36,646,073	36,799,967
Less: Current Portion	(1,131,186)	(1,097,655)
Total Long-Term Debt	$ 35,514,887	$ 35,702,312

During 2009, the Authority issued the Series 2009 bonds with an original principal amount of $15,675,000 to repay the Series 2006B bonds and to pay the costs of certain capital improvements. The Series 2009 bonds were privately placed with the Community's financial institution. The Series 2009 bonds mature on January 1, 2035 and initially bore interest through September 16, 2014 at a rate equal to 68% of the sum of adjusted London Interbank Offered Rate (LIBOR), as defined, plus 2.5%. The bonds were subject to mandatory tender for purchase on September 16, 2014, at a price equal to the principal amount plus accrued interest, unless such date was extended as mutually agreed. The bonds were extended on November 1, 2013 to November 1, 2023 and the variable rate became 72% of the sum of adjusted LIBOR, as defined, plus 2.3%. As a part of the Series 2016 financing, the interest rate became 72% of the sum of adjusted LIBOR, as defined, plus 2.15% (3.24% at December 31, 2018). If the bonds are subsequently remarketed, the interest rate will become a variable rate or a fixed rate, as provided for in the bond indenture. The bonds are collateralized by a security interest in substantially all of the Community's assets, as well as its gross receipts.

NOTE 7 LONG-TERM DEBT (CONTINUED)

The Community must annually redeem the Series 2009 bonds beginning July 1, 2011 through January 1, 2035 in increasing annual amounts ranging from $200,000 to $1,670,000. The bonds may be redeemed prior to maturity by the Community at its option under the terms of the bond indenture.

During 2013, the Authority issued the Series 2013 bonds in the aggregate principal amount of $17,470,000 to assist the Community in the funding of the construction of new units on the Heritage Heights campus, as well as renovation of existing units. The Series 2013 bond issuance consists of two sub-series, which include $3,000,000 of Series 2013A bonds and $14,470,000 of Series 2013B bonds. Proceeds from the issuance of the bonds were deposited into an escrow fund established to pay the cost of the construction project. The $3,000,000 was drawn-down under the Series 2013A bonds and was repaid in full in 2016.

As of December 31, 2015, the Series 2013B bonds had been drawn-down in the full amount of $14,470,000. The amount outstanding as of December 31, 2018 and 2017 is included in the accompanying statements of financial position.

The Series 2013B bonds are subject to mandatory redemption and are redeemable annually in amounts ranging from $27,291 to $2,281,821, commencing November 1, 2017 through November 1, 2041, at which time the bonds mature. Both series bear interest commencing December 1, 2013, at a variable rate equal to 72% of LIBOR, as defined, plus 2.3%. As a part of the Series 2016 financing, the interest rate became 72% of the sum of adjusted LIBOR, as defined, plus 2.15% (3.24% at December 31, 2018).

The Community paid bond issuance costs totaling $277,380 associated with the Series 2013 issuance during 2013.

In the event that interest earned on the bonds ceases to qualify as tax-exempt under the IRC, all bonds are subject to mandatory redemption. Bonds are to be redeemed at a redemption price equal to the principal amount of the bonds, plus interest accrued to the date fixed for redemption.

During 2016, the New Hampshire Health and Education Facilities Authority issued $11,006,000 of its revenue bonds, the proceeds of which were loaned by the Authority to the Community. Two series of bonds were issued, Series 2016A and Series 2016B. The original principal amount of each series of bonds was $8,415,028 and $2,590,972, respectively. The primary purposes of the bond proceeds were to refinance the previously outstanding Series 2006A bonds and to pay the costs of certain capital improvements to be made by the Community. The 2016B bonds will be reserved for future draws. As of December 31, 2018 and 2017, $2,590,972 and $1,725,054 has been drawn down on the Series 2016B bonds. The Series 2016 bonds mature on December 1, 2039 and initially bear interest through the earlier of the first conversion date or November 1, 2023 at a rate equal to 65% of the sum of LIBOR, as defined, plus 65% times 2.15% (2.92% at December 31, 2018).

NOTE 7 LONG-TERM DEBT (CONTINUED)

The Community paid bond issuance costs totaling $265,544 associated with the Series 2016 issuance during 2016.

All the outstanding bonds are collateralized by a security interest in substantially all of the Community's assets, as well as its gross receipts. The loan agreement includes various covenants and restrictions, as well as a requirement to meet various financial ratios, including long-term debt service coverage ratio and liquidity covenants, as defined. Management is not aware of any violations of the covenants as of December 31, 2018.

Effective January 2, 2014, the Community entered into a swap with RBS Citizens N.A. The swap was entered into for risk management purposes and was not designated as a hedge. The original notional amount of the swap was $14,825,000 ($13,110,000 at December 31, 2018). The swap has a termination date of November 1, 2023. The swap effectively fixes the rate on the Series 2009 bonds at 2.354%. The Community pays interest at a fixed rate of 2.354% over the term of the swap contract and receives interest at a rate equal to 72% of LIBOR, as defined in the swap agreement (1.69% at December 31, 2018 and 0.98% at December 31, 2017). The resulting difference is charged or credited to interest expense. During 2018 and 2017, such charges were $221,612 and $218,751, respectively. The Community recorded a liability equal to the fair value of the swap of $344,508 and $566,120 as of December 31, 2018 and 2017, respectively.

On January 14, 2014, the Community entered into another interest rate swap agreement with RBS Citizens, N.A. with an original notional amount of $14,470,000 ($14,410,090 at December 31, 2018). The swap was executed for risk management purposes and was not designated as a hedge. The swap has an effective date of December 1, 2014 and terminates on November 1, 2033. The swap also contains an optional early termination date of November 1, 2023 and the first of each month thereafter to and including October 1, 2033. The swap effectively fixes the variable rate on the Series 2013B bonds. The Community will pay interest at a fixed rate of 3.13% over the term of the swap contract and receive interest at a variable rate equal to 65% of LIBOR as defined in the swap agreement (1.69% at December 31, 2018 and 0.98% at December 31, 2017). The resulting difference is charged or credited to interest expense. During 2018 and 2017, such charges were $393,481 and $345,341, respectively. The Community recorded a liability equal to the fair value of the swap of $730,263 and $1,123,744 as of December 31, 2018 and 2017, respectively.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Effective September 1, 2016, the Community entered into a swap with RBS Citizens N.A. The swap was entered into for risk management purposes and was not designated as a hedge. The original notional amount of the swap was $8,415,028 ($6,935,038 at December 31, 2018). The swap has a termination date of December 1, 2027. The swap effectively fixes the rate on the Series 2016A bonds. The Community will pay interest at a fixed rate of 0.97% over the term of the swap contract and receive interest at a variable rate equal to 65% of LIBOR as defined in the swap agreement (1.53% at December 31, 2018 and 0.88% at December 31, 2017). The resulting difference is charged or credited to interest expense. Such charges were $31,150 and $22,269 during 2018 and 2017, respectively. The Community recorded an offset to the total liability of all the interest rate swap agreements equal to the fair value of the swap of $206,542 and $175,393 as of December 31, 2018 and 2017, respectively.

The scheduled combined future principal maturities and sinking fund requirements on the mortgage bonds and other long-term debt for the next five years and in the aggregate are as follows at December 31:

Year Ending December 31,	Amount
2019	$ 1,131,186
2020	1,136,488
2021	1,174,427
2022	1,218,335
2023	1,254,123
Thereafter	31,131,541
Total	$ 37,046,100

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with donor restrictions were available for the following purposes at December 31:

	2018	2017
Grounds Improvement	$ 117,443	$ 140,497
Staff Development	2,396	2,396
Resident Support	17,217	17,217
Supplies and Equipment Benefiting Residents	172,421	107,938
Designated Programs/Projects and Resident Support (Interest in the Trust Fund)	19,004,630	20,426,145
Total	$ 19,314,107	$ 20,694,193

The grounds improvement, staff development, resident support, and supplies and equipment benefiting residents' net assets have been restricted by donors to a specific time period or purpose.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

A portion of the Trust Fund has been restricted by donors to be maintained by the Community in perpetuity and a portion is restricted by donors to a specific purpose. The Trust Fund is governed by an independent board of trustees. The Community must apply to the Trust Fund to receive funds and the decisions rest solely with the board of trustees. The trustees of the Trust Fund invest the Trust Fund assets and determine the amount of funds for appropriation under its spending policy. The Community reflects the Trust Fund's presentation of its net asset classification consistently within its statements of financial position.

NOTE 9 RELATED PARTY TRANSACTIONS

The Community receives contributions from the Trust Fund on behalf of residents who apply for assistance, and whose applications are approved by the Budget and Finance Committee of the board of directors of the Community. Amounts received to fund a portion of the Community's charity care, as disclosed in Note 1, for the years ended December 31, 2018 and 2017 totaled approximately $83,000 and $130,000, respectively. In addition, the Community provides management services to the Trust Fund. Amounts received by the Community for these services amounted to $75,000 per year for 2018 and 2017. As of December 31, 2018 and 2017, the Community had amounts due from the Trust Fund totaling $122,446 and $35,763, respectively, related to support and services which are expected to be paid in 2019.

NOTE 10 TAX DEFERRED ANNUITY

The Community has established a tax deferred annuity program, which covers substantially all employees. The Community makes matching contributions to the program of up to 4% of an employee's base wage after the employee has completed one year of service. After six years of service, the employees become 100% vested in these matching contributions under a graded vesting schedule. Community contributions for the years ended December 31, 2018 and 2017 amounted to $222,624 and $240,395, respectively.

NOTE 11 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

During 2004, the Community established a supplemental executive retirement plan for the benefit of a senior management employee of the Community. The plan is an unfunded deferred compensation arrangement intended to qualify as an eligible deferred compensation plan within the meaning of IRC Section 457(b). The plan is maintained for the purpose of providing the participant with benefits equal to the account balance (as defined) upon retirement or other severance from employment. Amounts are credited to the participant’s account annually, at the sole discretion of the Executive Committee of the board of directors. Any and all property purchased with such amounts and related income is subject to the claims of the Community’s general creditors. The plan does not allow the participant to defer any of his compensation. The participant account is also credited with interest at a rate to be set by the Executive Committee (2.5% minimum rate, but not to exceed the applicable federal rate, as defined). During both 2018 and 2017, approximately $17,000 was credited to the participant’s account and recorded as deferred compensation expense. The liability related to this obligation totaled approximately $233,000 and $215,000 at December 31, 2018 and 2017, respectively.

NOTE 12 VOLUNTEER SERVICES (UNAUDITED)

Total volunteer service hours received by the Community were approximately 10,000 and 7,000 in 2018 and 2017, respectively. The volunteers provide various nonspecialized services to the Community, none of which has been recognized as revenue or expense in the statements of operations and changes in net assets.

NOTE 13 FUNCTIONAL EXPENSES

The Community provides residential and health care services to residents. The functional allocation of these expenses related to these services is as follows for the years ended December 31:

	2018				
	Program Services		Management and	Fundraising and	
	Residential	Healthcare	Administrative	Development	Total
Salaries	$ 2,189,315	$ 7,295,404	$ 1,463,227	$ 29,368	$ 10,977,314
Benefits	918,206	2,854,250	644,257	14,161	4,430,874
Services	378,142	291,383	424,726	1,671	1,095,922
Supplies	1,064,912	1,141,177	503,872	4,065	2,714,026
Occupancy and Utilities	1,448,701	799,850	80,196	-	2,328,747
Depreciation	2,350,985	485,413	136,397	-	2,972,795
Interest/Amortization	1,279,974	219,177	31,155	-	1,530,306
Total Expenses	$ 9,630,235	$ 13,086,654	$ 3,283,830	$ 49,265	$ 26,049,984

NOTE 13 FUNCTIONAL EXPENSES (CONTINUED)

	2017				
	Program Services		Management and	Fundraising and	
	Residential	Healthcare	Administrative	Development	Total
Salaries	$ 2,124,538	$ 7,191,753	$ 1,385,408	$ 27,902	$ 10,729,601
Benefits	853,559	2,676,094	551,366	12,211	4,093,230
Services	401,162	297,237	365,234	1,611	1,065,244
Supplies	1,115,717	1,118,489	520,672	8,327	2,763,205
Occupancy and Utilities	1,326,565	792,325	67,462	-	2,186,352
Depreciation	2,344,487	482,278	134,737	-	2,961,502
Interest/Amortization	1,283,845	218,425	27,349	-	1,529,619
Total Expenses	$ 9,449,873	$ 12,776,601	$ 3,052,228	$ 50,051	$ 25,328,753

Certain expenses are directly allocated to either program services, management and administrative or fundraising and development. Expenses are also allocated to either program services, management and administrative or fundraising and development based on various factors such as square footage, hours worked, number of meals and number of units.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Compliance

Laws and regulations governing the Medicare program are complex and subject to interpretation. The Community believes it is in compliance with all other applicable laws and regulations and is not aware of any other current pending or threatened investigations involving allegations of potential wrongdoing. 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 program.

Legal

There are various legal actions that can occur in the ordinary course of business and management is not aware of any such matters that would have a material effect on the financial condition or results of operations of the Community. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse affect on the Community's financial position.

Other

The Community has purchased a commercial insurance policy that provides for comprehensive general liability and professional liability coverage on a claims-made basis. As of December 31, 2018, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage nor are there any unasserted claims or incidents for which a loss accrual has not been made. The Community intends to continue coverage on a claims made basis with a commercial carrier and anticipates that such coverage will be available.

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk including the Community's own credit risk.

The fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are, therefore, determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following describes the valuation methodologies used to measure different financial assets and liabilities at fair value.

Investments: The fair value of investments in certificates of deposit, U.S. government obligations, corporate bonds, foreign bonds, municipal obligations, fixed income mutual funds, and common equity securities are based upon quoted prices in active markets for identical assets and are reflected as Level 1.

Interest in Havenwood-Heritage Heights Trust Fund: The fair value is determined based upon the net asset value of the Trust Fund based upon audited statements of the Trust Fund as of December 31, 2018 and 2017. The Trust Fund assets consist primarily of investments based upon quoted market prices in active or inactive markets. The interest in the Trust Fund is reflected as Level 3.

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Swaps: The fair value of the swaps is calculated using an industry standard valuation model which incorporates the sum of the present value of the future interest rate differential payments between the floating rate and fixed swap rates of 2.354%, 3.13%, and 0.97% through the maturity of the swaps (November 1, 2023, December 1, 2027, and November 1, 2033). The floating rates are based upon the current implied LIBOR yield curve (the rates at which the market currently expects LIBOR to reset for each future period) and ranged from 1.44% to 2.25% during 2018 and from 1.361% to 2.545% during 2017. The discount rates used to determine the fair value of the swaps are a function of the projections for LIBOR at that point in time. The swaps are reflected as Level 2.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Community's assets and liabilities measured at fair value on a recurring basis at December 31, 2018:

	Level 1	Level 2	Level 3	Balance
Assets:				
Cash Equivalents and Certificates of Deposit	$ 1,698,997	$ -	$ -	$ 1,698,997
U.S. Government Obligations	4,179,107	-	-	4,179,107
Corporate Bonds	4,018,896	-	-	4,018,896
Foreign Bonds	303,905	-	-	303,905
Municipal Obligations	720,301	-	-	720,301
Fixed Income Mutual Funds	1,334,138	-	-	1,334,138
Common Equity Securities:				
Consumer Nondurables	1,199,700	-	-	1,199,700
Consumer Services	413,451	-	-	413,451
Business Products and Services	2,233,056	-	-	2,233,056
Capital Goods	939,459	-	-	939,459
Industrial Electronics	1,078,977	-	-	1,078,977
Energy	454,326	-	-	454,326
Basic Industries	304,990	-	-	304,990
Transportation	94,960	-	-	94,960
Financial	879,196	-	-	879,196
Utilities	216,900	-	-	216,900
International and Other	1,587,190	-	-	1,587,190
Interest in Havenwood-Heritage Heights Trust Fund	-	-	19,004,630	19,004,630
Total Assets	$ 21,657,549	$ -	$ 19,004,630	$ 40,662,179
Liabilities:				
Interest Rate Swaps	$ -	$ 868,228	$ -	$ 868,228

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (Continued)

The following table presents the Community's assets and liabilities measured at fair value on a recurring basis at December 31, 2017:

	Level 1	Level 2	Level 3	Balance
Assets:				
Cash Equivalents and Certificates of Deposit	$ 1,517,773	$ -	$ -	$ 1,517,773
U.S. Government Obligations	1,254,352	-	-	1,254,352
Corporate Bonds	5,146,921	-	-	5,146,921
Foreign Bonds	325,184	-	-	325,184
Municipal Obligations	945,317	-	-	945,317
Fixed Income Mutual Funds	1,490,315	-	-	1,490,315
Common Equity Securities:				
Consumer Nondurables	1,264,150	-	-	1,264,150
Consumer Services	428,412	-	-	428,412
Business Products and Services	2,017,088	-	-	2,017,088
Capital Goods	1,160,525	-	-	1,160,525
Industrial Electronics	1,437,312	-	-	1,437,312
Energy	645,709	-	-	645,709
Basic Industries	309,952	-	-	309,952
Transportation	130,900	-	-	130,900
Financial	990,884	-	-	990,884
Utilities	162,450	-	-	162,450
International and Other	1,761,254	-	-	1,761,254
Interest in Havenwood-Heritage Heights Trust Fund	-	-	20,426,145	20,426,145
Total Assets	$ 20,988,497	$ -	$ 20,426,145	$ 41,414,642
Liabilities:				
Interest Rate Swaps	$ -	$ 1,514,471	$ -	$ 1,514,471

The following table presents the change in Level 3 instruments for the years ended December 31, 2018 and 2017:

	2018 Interest in Trust Fund	2017 Interest in Trust Fund
Balance - Beginning of Period	$ 20,426,145	$ 17,394,084
Total Realized and Unrealized Gains (Losses):		
Included in Changes in Net Assets	(1,421,515)	3,032,061
Balance - End of Period	$ 19,004,630	$ 20,426,145

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