# HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES

## CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

September 30, 2015 and 2014

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Crowe Horwath LLP
Independent Member Crowe Horwath International

# INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Hebrew Health Care, Incorporated and Affiliates:

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hebrew Health Care, Incorporated and Affiliates (the Organization), a Connecticut not-for-profit, non-stock corporation, which comprise the consolidated balance sheet as of September 30, 2015, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hebrew Health Care, Incorporated and Affiliates as of September 30, 2015, and the results of its consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Organization has suffered a significant deficit in net assets and has a net working capital deficiency. The Organization has also suffered recurring losses from operations as well as negative cash flows from operations. In addition, the Organization is in violation of certain covenants for 2015 with TD Bank under one of its line of credit agreements. The Organization did not receive a waiver for these violations as of the date of this report. These conditions raise substantial doubt about the Organization's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

**Other Matters**

The consolidated financial statements of Hebrew Health Care, Incorporated and Affiliates as of September 30, 2014, were audited by Saslow Lufkin & Buggy, LLP who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated January 13, 2015, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The consolidating balance sheet as of September 30, 2015 and consolidating statements of operations and changes in net assets for the year then ended is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 2015 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 consolidating information is fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole.

The consolidating balance sheet as of September 30, 2014 and the consolidating statement of operations and changes in net assets for the year then ended is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. The 2014 consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 consolidated financial statements. The information has been subjected to the auditing procedures applied by other auditors in the audit of the 2014 consolidated financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and whose report dated January 13, 2015 expressed an opinion that such information was fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 15, 2016

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES

CONSOLIDATED BALANCE SHEETS

September 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 94,813 | $ 190,802 |
| Assets limited as to use, current portion | 619,397 | 564,946 |
| Patient accounts receivable, net of allowance for doubtful accounts of $1,013,720 in 2015 and $1,154,424 in 2014 | 3,875,374 | 3,892,409 |
| Pledges receivable | 45,675 | 78,060 |
| Other current assets | 1,570,230 | 1,135,770 |
| Total current assets | 6,205,489 | 5,861,987 |
| Assets limited as to use, net of current portion: | | |
| Donor restricted investments | 2,052,023 | 2,162,196 |
| Board designated investments | 357,243 | 866,077 |
| Investments restricted under debt agreements | 1,297,074 | 1,140,642 |
| Total assets limited as to use, net of current portion | 3,706,340 | 4,168,915 |
| Property, plant and equipment, net | 15,907,923 | 16,446,109 |
| Other assets: | | |
| Cash surrender value of life insurance | 160,895 | 137,660 |
| Investments | 5,344,424 | 5,604,806 |
| Deposits | 207,869 | 207,869 |
| Mortgage acquisition costs, net | 1,153,313 | 970,714 |
| Due from affiliate - Auxiliary | 18,042 | 23,710 |
| Total other assets | 6,884,543 | 6,944,759 |
| Total assets | $ 32,704,295 | $ 33,421,770 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Notes and bonds payable, current portion | $ 1,173,570 | $ 20,269,514 |
| Capital lease obligations, current portion | 62,284 | 28,353 |
| Accounts payable and accrued expenses | 5,535,533 | 3,724,449 |
| Accrued vacation and employee benefits | 2,253,707 | 3,054,628 |
| Accrued interest expense | 86,992 | 1,965,338 |
| Lines of credit | 4,971,520 | 4,923,961 |
| Funds held in trust | 619,397 | 564,946 |
| Deferred revenue | 160,281 | 113,370 |
| Total current liabilities | 14,863,284 | 34,644,559 |
| Notes and bonds payable, net of current portion | 25,619,190 | 15,295,000 |
| Note payable to HUD | 11,050,811 | - |
| Capital lease obligations, net of current portion | 37,360 | 105,944 |
| Accrued pension liability | 3,767,810 | 2,757,186 |
| Total liabilities | 55,338,455 | 52,802,689 |
| Net assets: | | |
| Unrestricted deficit | (25,035,758) | (21,831,060) |
| Temporarily restricted | 88,285 | 141,828 |
| Permanently restricted | 2,313,313 | 2,308,313 |
| Total net assets | (22,634,160) | (19,380,919) |
| Total liabilities and net assets | $ 32,704,295 | $ 33,421,770 |

See accompanying notes to the consolidated financial statements.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended September 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Changes in unrestricted net assets: | | |
| Operating revenues: | | |
| Net patient service revenues | $ 38,287,591 | $ 38,651,700 |
| Home health care revenue | 5,868,793 | 6,135,685 |
| Adult day health center services | 519,885 | 457,619 |
| Net patient revenues | 44,676,269 | 45,245,004 |
| Member services and rental income - Hoffman SummerWood Community | 5,335,533 | 4,785,469 |
| Grants | 354,515 | 208,255 |
| Other income | 517,785 | 351,920 |
| Net assets released from restrictions used for operations | 22,125 | 189,587 |
| Total operating revenues | 50,906,227 | 50,780,235 |
| Operating expenses: | | |
| Nursing services | 19,978,184 | 19,854,489 |
| Administration | 10,158,222 | 10,359,674 |
| Health benefits | 4,478,596 | 5,425,609 |
| Nutritional services | 3,877,553 | 3,796,935 |
| Medical services | 2,535,026 | 3,018,582 |
| Building operations | 1,913,970 | 1,977,203 |
| Depreciation and amortization | 1,560,356 | 1,833,548 |
| Environmental services | 1,846,074 | 1,769,611 |
| Pharmacy services | 1,711,383 | 1,681,179 |
| Provider tax | 1,319,498 | 1,460,018 |
| Interest expense | 1,172,906 | 1,320,183 |
| Rehabilitation services | 1,234,736 | 1,069,496 |
| Development | 369,064 | 554,146 |
| Social services | 589,177 | 516,185 |
| Life enrichment services | 383,045 | 377,369 |
| Provision for bad debts | 448,499 | 398,427 |
| Health information management | 162,709 | 164,037 |
| Cognitive program services | 148,192 | - |
| Total operating expenses | 53,887,190 | 55,576,691 |
| **Loss from operations** | (2,980,963) | (4,796,456) |
| Non-operating gains (losses), net: | | |
| Interest and dividend income and distributions | 55,451 | 211,344 |
| Net realized gains on investments | 82,609 | 1,363,219 |
| Change in cash surrender value of life insurance | 23,235 | 22,308 |
| Gifts, bequests and special events | 732,399 | 696,346 |
| Investment fees | (43,769) | (75,317) |
| Total non-operating gains | 849,925 | 2,217,900 |
| **Deficiency of revenues under expenses** | $ (2,131,038) | $ (2,578,556) |

See accompanying notes to the consolidated financial statements.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
Years Ended September 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Other changes in unrestricted net assets: | | |
| Deficiency of revenues under expenses | $ (2,131,038) | $ (2,578,556) |
| Net unrealized losses on investments | (199,475) | (753,422) |
| Net asset transfer | - | (35,696) |
| Pension related changes other than net periodic pension cost | (874,185) | (492,691) |
| Change in unrestricted net assets | (3,204,698) | (3,860,365) |
| Changes in temporarily restricted net assets: | | |
| Contributions | 211 | 29,953 |
| Net asset transfer | - | 35,696 |
| Interest and dividend income | 28,317 | 33,378 |
| Net realized and unrealized losses | (59,946) | (4,209) |
| Net assets released from restrictions | (22,125) | (189,587) |
| Change in temporarily restricted net assets | (53,543) | (94,769) |
| Changes in permanently restricted net assets: | | |
| Contributions | 5,000 | 1,935 |
| Change in permanently restricted net assets | 5,000 | 1,935 |
| **Change in net assets** | (3,253,241) | (3,953,199) |
| Net assets, beginning of year | (19,380,919) | (15,427,720) |
| **Net assets, end of year** | $ (22,634,160) | $ (19,380,919) |

See accompanying notes to the consolidated financial statements.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ (3,253,241) | $ (3,953,199) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 1,560,356 | 1,833,548 |
| Bad debt expense | 448,499 | 398,427 |
| Pension related changes other than net periodic pension cost | 874,185 | 492,691 |
| Change in cash surrender value of life insurance policy | (23,235) | (22,308) |
| Net loss (gains) on investments | 176,812 | (605,588) |
| Changes in assets and liabilities: | | |
| Patient accounts receivable | (431,464) | 52,813 |
| Pledges receivable | 32,385 | 72,782 |
| Other current assets | (434,460) | 55,721 |
| Due from/to affiliates, net | 5,668 | (6,765) |
| Accounts payable, accrued expenses and accrued interest | (868,183) | 1,053,182 |
| Deferred revenue | 46,911 | 112,755 |
| Accrued pension liability | 136,439 | 134,380 |
| Net cash used in operating activities | (1,729,328) | (381,561) |
| **Cash flows from investing activities:** | | |
| Purchase of property, plant and equipment | (999,556) | (266,306) |
| Purchases of investments and assets limited as to use | (4,750,000) | (6,386,057) |
| Proceeds from investments and assets limited as to use | 5,296,145 | 6,879,628 |
| Net cash (used in) provided by investing activities | (453,411) | 227,265 |
| **Cash flows from financing activities:** | | |
| Issuance of notes and bonds payable | 2,707,952 | 500,000 |
| Mortgage acquisition costs related to debt restructure | (220,236) | (154,587) |
| Principal payments on notes and bonds payable | (428,895) | (382,114) |
| Principal payments on capital lease obligations | (19,630) | (15,312) |
| Payments on line of credits | (5,887,901) | (4,788,883) |
| Borrowings on line of credits | 5,935,460 | 4,933,122 |
| Net cash provided by financing activities | 2,086,750 | 92,226 |
| **Change in cash and cash equivalents** | (95,989) | (62,070) |
| Cash and cash equivalents, beginning of year | 190,802 | 252,872 |
| **Cash and cash equivalents, end of year** | $ 94,813 | $ 190,802 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | $ 226,540 | $ 373,817 |
| Non-cash financing activity, capital lease obligation | $ 15,023 | $ 93,957 |

See accompanying notes to the consolidated financial statements.

**NOTE 1 - GENERAL**

Hebrew Health Care, Incorporated and Affiliates (the Organization) consists of the following entities: Hebrew Health Care, Incorporated (HHC), Hebrew Home and Hospital, Incorporated (the Home), Hebrew Community Services, Inc. (HCS), Hebrew Life Choices, Inc. (Hoffman SummerWood Community), Hebrew Health Care Foundation, Inc. (the Foundation), Connecticut Geriatric Specialty Group, Inc. (CGSG) and Hebrew Health Care, Inc. (HHC). The entities, which are located in West Hartford, Connecticut, are incorporated as non-sectarian, not-for-profit organizations under the Non-Stock Corporation Act of the State of Connecticut and provide services to aged residents of the greater Hartford community, with the exception of CGSG, which is a medical foundation incorporated under the provisions of Chapter 594b of the Connecticut General Statutes.

HHC is the sole corporate member of each of the Home, HCS, Hoffman SummerWood Community, the Foundation and CGSG. It provides administrative support services for the related exempt organizations, as well as soliciting and receiving gifts, grants and contributions, and making gifts, grants and contributions to the related exempt organizations.

The Home operates a 302-bed skilled nursing and chronic disease hospital facility. HCS provides in-home health care services, hospice services, assisted living services and operates one adult day health center. Hoffman SummerWood Community operates a 106-unit assisted living facility.

The Foundation holds board-designated funds, temporarily restricted funds and permanently restricted endowment funds on behalf of the other affiliates within the Organization.

CGSG began operations in fiscal year 2008 as a for-profit medical practice. During 2012, CGSG amended and restated its certificate of incorporation and elected to become a medical foundation incorporated under the provisions of Chapter 594b of the Connecticut General Statutes. CGSG's purpose is to render professional medical services for the Home and other affiliates of HHC.

***Clinical Affiliation and Consulting Services Agreement with Hartford HealthCare:*** On March 26, 2014, the Organization entered into a Clinical Affiliation and Consulting Services Agreement (the Affiliation or Agreement) with Hartford HealthCare (Hartford HC), under which the Organization had a role in coordinating, managing and providing care for patients of the Hartford HealthCare Accountable Care Organization, Inc. (HHC ACO). Through the Affiliation, the Organization aimed to develop a relationship with the other parties in the HHC ACO in order to advance shared goals of delivering high-quality, coordinated and cost-effective chronic acute, post-acute, and long-term care services to HHC ACO patients and other patients. This Affiliation aimed to create operational efficiencies and cost savings by providing the Organization with access to the expertise and consulting capabilities available from Hartford HC and its affiliates and subsidiaries. Also, under the Agreement, Hartford HC provided certain consulting and marketing services.

Furthermore, in order to provide assurance to improve the Organization's operations and reduce the cost of care, Hartford HC included a performance guarantee under this Agreement for the first two years of the five year term of the Agreement. As part of its services under this Agreement, Hartford HC made recommendations to the Organization in regards to operating expense reduction initiatives for the Home and certain revenue cycle improvements to the Home's existing revenues. Following the end of each year of the Agreement in the first two years, the parties were to perform an accounting of the operating expense reductions and revenue cycle initiatives, as defined in the Agreement. To the extent the value of these initiatives is less than $1,250,000 in any of the first two years, Hartford HC would make a payment to the Organization equal to the difference (the "Shortfall Payment"). As part of this agreement, Hartford HC's duties and responsibilities included the provision of hospitalists professional services at the Home. The costs of these professional services, net of professional billings, was considered a part of the $1,250,000 expense reduction initiative. It was further agreed that the provision of these professional services would continue through the term of the Agreement.

**NOTE 1 - GENERAL** (Continued)

Hartford HC advanced $500,000 to the Organization under the Agreement, without interest, which was evidenced by a promissory note (the Advance), which is classified within "Notes and bonds payable, current portion" on the accompanying consolidated balance sheets as of September 30, 2015 and 2014. The Agreement stipulated that the amount of the Shortfall Payment for the year ended March 26, 2015 would be offset by the Advance. If the Advance exceeded the Shortfall Payment, the Organization would repay the remaining amount of the Advance to Hartford HC in equal monthly payments over a period of time mutually agreed upon by the parties not to exceed the term of the Agreement.

In compensation for the services provided under the Agreement, the Organization would pay an amount equal to 1% of the annual operating revenues of the Organization, not to exceed $600,000 in any year (the "Consulting Fee"). The Consulting Fee would be paid in equal monthly installments. Hartford HC waived payment of the Consulting Fee for the first two years of the Agreement. Thereafter, the annual compensation for the consulting services would only become payable if the Organization achieved an operating margin of 2%.

At the end of fiscal year 2015, the Organization and Hartford HC agreed the mutual benefits anticipated at the time of entering the Agreement were not realized and were unlikely to be achievable. Therefore, effective February 16, 2016, the Agreement was terminated. Refer to Note 25 for further details regarding this termination.

***Going Concern:*** As shown in the accompanying consolidated financial statements, the Organization has suffered recurring losses from operations and has a net working capital deficiency. In addition, the Organization is in violation of certain covenants for 2015 and 2014 with TD Bank under one of its line of credit agreements. The Organization did not receive a waiver for these violations as of the date of this report. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management considers these factors significant. Management believes it can reduce operating expenses during fiscal year 2016 and will search for a new clinical affiliate to create operational efficiencies and cost savings.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation: The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the FASB ASC. The consolidated financial statements include the accounts of the Hebrew Health Care, Incorporated and its affiliates, which include HCS, Hoffman SummerWood Community, the Foundation and CGSG. Since the Home has control of and financial interest in CGSG, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954-810, "*Consolidation*", CGSG has been consolidated within the Organization's financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents are comprised of money market funds. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Organization's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Organization maintains cash balances in excess of the FDIC insurance limit.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its one dollar per share value, it is possible that a money market fund's value can decrease below one dollar per share.

Accounts Receivable: Patient accounts receivable where a third-party payer is responsible for paying the amount are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payers.

Patient accounts receivable due directly from the residents are carried at the original charge for the service provided less amounts covered by third-party payers and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient receivables are written off in the provision for bad debts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of the provision for bad debts when received.

Assets Limited As To Use: Assets limited as to use include assets held by trustees under indenture agreements, funds held in trust, security deposits and donor restricted funds. Assets limited as to use that are required to meet current liabilities are reported as current assets.

Mortgage Acquisition Costs: Mortgage acquisition costs represent financing costs related to mortgage and bond financing. These costs are being amortized over the life of the mortgage and bonds.

Investments: The Organization is invested in a pooled fund held and managed by the Jewish Community Foundation of Greater Hartford, Inc. (JCF), which includes investments in non-marketable securities. These investments are recorded at fair value as reported by the JCF.

Non-marketable securities in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of alternative investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets (deficit). Management has reviewed the risk associated with these investments and has determined it is not material to the Organization as of September 30, 2015 and 2014.

Marketable securities with readily determinable fair values are measured at fair value in the consolidated balance sheets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Other Than Temporary Impairments on Investments: The Organization accounts for other than temporary impairments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairment losses recorded in 2015 or 2014.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property, Plant and Equipment: Property, plant and equipment acquisitions are recorded at cost. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated life of the equipment. Depreciation and amortization are provided over the estimated useful life of each class of depreciable assets and are computed using the straight-line method, as follows:

| | |
|---|---|
| Buildings | 40 years |
| Building improvements | 10-25 years |
| Furnishings and equipment | 3-10 years |
| Motor vehicles | 5 years |

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

The Organization follows FASB ASC 410, "*Asset Retirement and Environmental Obligations*", which requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of September 30, 2015 and 2014, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which they become aware of such liability and sufficient information is available to reasonably estimate the fair value.

Workers' Compensation, Professional and General Liability Insurance: The Organization maintains workers' compensation, medical malpractice and general liability insurance policies. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. GAAP requires that health care entities present insurance claim liabilities on a gross basis and not net insurance recoveries against the related claim liabilities. Accordingly, the Organization recorded $736,829 and $332,233 under the captions "Other current assets" and "Accounts payable and accrued expenses" in the accompanying consolidated balance sheets, as of September 30, 2015 and 2014, respectively, representing the Organization's estimate of liabilities and recoveries for certain workers' compensation and general liability claims. There are no known medical malpractice liability claims to record as of September 30, 2015 and 2014.

Net Assets: The Organization's consolidated financial statement presentation follows the recommendations of FASB ASC 958, "*Financial Statements of Not-for-Profit Organizations*", which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the three net asset classes follows:

*Unrestricted net assets* - Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

*Temporarily restricted net assets* - Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

*Permanently restricted net assets* - Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Deficiency of Revenues Under Expenses: The consolidated statements of operations and changes in net assets includes deficiency of revenues under expenses. Changes in unrestricted net assets, which are excluded from deficiency of revenues under expenses, consistent with industry practice, include unrealized gains and losses on investments on other than trading securities, assets released from restrictions for purchase of property, plant and equipment, net asset transfers and certain changes in pension liabilities.

Revenue Recognition: Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Revenue received under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of the settlement.

The payments received under the Medicaid and Medicare programs are less than the cost of providing the services. The differences between the costs incurred to provide services and reimbursements of these programs were approximately $5,158,000 in 2015 and $5,516,000 in 2014.

HCS's adult day health centers are funded by various state programs at agreed upon rates and from individuals or their responsible party at HCS published rates. Hoffman SummerWood Community is funded through private member service fees and rent. CGSG is funded through third-party payer agreements and a contract with the Home for the provision of medical direction and services. HHC's revenue consists of administrative fees from the Home, Hoffman SummerWood Community, HCS and CGSG and is eliminated in consolidation. Gifts received by HHC from donors are granted to the Affiliates and the intercompany donations are eliminated in consolidation.

Contributions: The Organization follows the requirements of GAAP for accounting for contributions received and contributions made. Contributions, including unconditional promises to give, are recognized as revenue in the period when the donor makes the promise to give. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Contributions to be received after one year are discounted at fair value using an appropriate rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution. An allowance for uncollectible contributions receivable is provided based upon management's consideration of such factors as prior collection history, type of contribution and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Contributions received with donor imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class when they are received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met.

Contributions of property, plant and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property, plant and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Donated Services: The Home benefits from significant volunteer services provided by professionals and individuals in the community. The Home estimates that they received the approximate value of $230,746 and $229,623 of volunteer services from the community during each of the years ended September 30, 2015 and 2014, respectively. The majority of these services do not qualify for recording in the statements of operations and changes in net assets under GAAP and are therefore not reported in the consolidated statements of operations and changes in net assets.

Advertising: The Organization's policy is to expense advertising costs as incurred. Advertising costs were $198,037 and $277,240 for the years ended September 30, 2015 and 2014, respectively.

Income Tax Status: Each entity, with the exception of CGSG is qualified under Section 501 (c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. While CGSG is in the process of applying for 501(c)(3) status, it's considered a Qualified Personal Service Corporation and as such, is subject to a 35% federal income tax rate. CGSG accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*". FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of certain assets and liabilities. No tax was recorded for the years ended September 30, 2015 and 2014 since CGSG was not profitable.

As of September 30, 2015, CGSG had a net operating loss carryforward available to reduce its future taxable income of approximately $3,300,368. The carryforward periods expire at various dates through 2035. The deferred tax asset of $1,369,653 associated with CGSG's loss carryforward was offset by a corresponding valuation allowance of $1,369,653, as realization of such loss carryforwards is not assured. As of September 30, 2014, CGSG had a net operating loss carryforward available to reduce its future taxable income of approximately $2,641,894. The carryforward periods expire at various dates through 2034. The deferred tax asset of $1,096,386 associated with CGSG's loss carryforwards was offset by a corresponding valuation allowance of $1,096,386, as realization of such loss carryforwards is not assured. The change in the valuation allowance was $273,267 and $251,628 for the years ended September 30, 2015 and 2014, respectively.

The Organization accounts for uncertain tax positions with provisions of FASB ASC 740, "*Income Taxes*", which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization does not have any uncertain tax positions as of September 30, 2015 and 2014. The Organization recognizes interest and/or penalties related to income tax matters within administration expenses. As of September 30, 2015 and 2014, the Organization did not record any penalties or interest associated with uncertain tax positions. The Organization's prior three tax years are open and subject to examination by the Internal Revenue Service.

Accounting Pronouncements Adopted:

In April 2013, the FASB issued ASU 2013-06, "*Services Received from Personnel of an Affiliate*". The amendments in this update require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The Organization adopted this ASU beginning October 1, 2014. This ASU did not have a material impact on the Organization's consolidated financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Accounting Pronouncements Pending Adoption: In May 2014, the FASB issued (ASU) 2014-09, "*Revenue from Contracts with Customers: Topic 606*". This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2017. The Organization has not yet implemented this ASU or determined the impact of adoption.

Reclassifications: Certain reclassifications to the 2014 consolidated financial statements have been made in order to conform with the 2015 presentation. Such reclassifications did not have any impact to total net assets or the change in net assets.

**NOTE 3 - NET PATIENT SERVICE REVENUES AND CONCENTRATIONS OF CREDIT RISK**

The following reconciles gross patient service revenues to net patient service revenues, for the years ended September 30, 2015 and 2014:

| **2015** | **Medicare** | **Medicaid** | **Other Payers** | **Total** |
|---|---|---|---|---|
| Gross revenues from services to patients | $ 16,458,811 | $ 27,876,402 | $ 14,625,212 | $ 58,960,425 |
| Deductions for allowances | (2,485,882) | (10,094,251) | (1,704,023) | (14,284,156) |
| Net revenues from services to patients | $ 13,972,929 | $ 17,782,151 | $ 12,921,189 | $ 44,676,269 |
| **2014** | **Medicare** | **Medicaid** | **Other Payers** | **Total** |
| Gross revenues from services to patients | $ 15,185,522 | $ 30,462,996 | $ 13,587,675 | $ 59,236,193 |
| Deductions for allowances | (2,968,345) | (9,956,370) | (1,066,474) | (13,991,189) |
| Net revenues from services to patients | $ 12,217,177 | $ 20,506,626 | $ 12,521,201 | $ 45,245,004 |

The Organization's gross revenues received from Medicare were 28% and 25% during the years ended September 30, 2015 and 2014, respectively. The Organization's gross revenues received from Medicaid were approximately 39% and 45% and during the years ended September 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Organization 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. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Organization.

**NOTE 3 - NET PATIENT SERVICE REVENUES AND CONCENTRATIONS OF CREDIT RISK**
(Continued)

Patient accounts receivable and revenues are recorded when patient services are performed. Revenues from services to patients include amounts estimated by management to be reimbursable by Medicare and Medicaid programs. These revenues are different from established billing rates, and these differences are accounted for as contractual allowances. Final determination of the amounts earned is subject to review by the third-party payers. Amounts due to third-party reimbursement agencies represent management's estimate of the final settlements.

Net patient service revenues represents the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patient accounts receivable balances are net of an allowance for doubtful accounts of $1,013,720 and $1,154,424 as of September 30, 2015 and 2014, respectively. The Organization's allowance for doubtful accounts for self-pay patients was 32% and 31% of self-pay accounts receivable as of September 30, 2015 and 2014, respectively. In addition, the Organization's self-pay write-offs were $399,503 and $336,898 for fiscal years 2015 and 2014, respectively. The Organization's allowance for doubtful accounts covers all patient accounts receivable balances greater than 151 days outstanding as of September 30, 2015 and 2014, respectively.

**NOTE 3 - NET PATIENT SERVICE REVENUES AND CONCENTRATIONS OF CREDIT RISK** (Continued)

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. Gross receivables from patients and third-party payers as of September 30, 2015 and 2014 are distributed as follows:

| | 2015 | 2014 |
|---|---|---|
| Medicaid | 37% | 37% |
| Medicare | 33% | 29% |
| Private patients and other third-party payers | 30% | 34% |
| Total | 100% | 100% |

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Organization is related to The Auxiliary of the Hebrew Home and Hospital, Incorporated (the Auxiliary), a not-for-profit corporation, through common board members. The Auxiliary was established to promote the religious, physical and financial well being of the Home by providing services, entertainment and additional physical comfort to the individuals it serves and by contributions to the Home. Included in unrestricted gifts and bequests in the accompanying consolidated statements of operations and changes in net assets was $20,000 received from the Auxiliary during both years ended September 30, 2015 and 2014. Non-interest bearing advances totaling $18,042 and $23,710 were due from the Auxiliary as of September 30, 2015 and 2014, respectively. Pledges receivable and temporarily restricted contributions from the Auxiliary were $0 and $26,315 as of September 30, 2015 and 2014, respectively.

Members of the Organization's Board of Trustees are members of law firms that the Organization used for legal services during 2015 and 2014. Total legal expenses paid to these firms during the years ended September 30, 2015 and 2014 were approximately $102,000 and $150,000, respectively. As of September 30, 2015 and 2014, there was $44,461 and $1,500 owed to these firms, respectively.

The Organization also purchases services from companies owned by or employing individual board members. Total amounts expended for such services, which primarily includes hospitalist and investment services, during the years ended September 30, 2015 and 2014 totaled approximately $144,000 and $83,000, respectively. As of September 30, 2015 and 2014, there was $50,087 and $2,500 owed to these companies, respectively.

## NOTE 5 - ASSETS LIMITED AS TO USE

The following is a summary of assets limited as to use, as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Current assets limited as to use: | | |
| Security deposits - cash | $ 459,413 | $ 412,980 |
| Patient funds held in trust - cash | 159,984 | 151,966 |
| | 619,397 | 564,946 |
| Investments restricted under debt agreements: | | |
| Mortgage reserve funds | 441,036 | 197,612 |
| Liquidity reserve fund | 360,006 | 880,415 |
| Replacement reserve funds | 496,032 | 62,615 |
| Donor and board restricted investments | 2,409,266 | 3,028,273 |
| | 3,706,340 | 4,168,915 |
| Total assets limited as to use | $ 4,325,737 | $ 4,733,861 |

The following is a summary of the asset allocation of assets limited to use, as of September 30, 2015 and 2014:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Cash and cash equivalents | $ 1,815,149 | 42% | $ 1,609,367 | 34% |
| U.S. obligations | 101,322 | 2% | 96,221 | 2% |
| Donor and board restricted investments | 2,409,266 | 56% | 3,028,273 | 64% |
| | $ 4,325,737 | 100% | $ 4,733,861 | 100% |

The asset allocations for the donor and board restricted investments are included in Note 7.

## NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the Organization's property, plant and equipment as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Land | $ 2,612,381 | $ 2,612,381 |
| Building and building improvements | 44,905,470 | 44,366,409 |
| Furnishings and equipment | 5,233,714 | 4,962,104 |
| Motor vehicles | 489,158 | 414,082 |
| Construction in progress | 322,948 | 186,525 |
| Total | 53,563,671 | 52,541,501 |
| Less: Accumulated depreciation | (37,655,748) | (36,095,392) |
| Net property, plant and equipment | $ 15,907,923 | $ 16,446,109 |

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT** (Continued)

Depreciation and amortization expense amounted to $1,560,356 and $1,833,458 for the years ended September 30, 2015 and 2014, respectively.

**NOTE 7 - INVESTMENTS**

Investments, which include donor and board restricted investments, are stated at fair value and consist of the following, as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Pooled funds held by JCF | $ 2,693,092 | $ 3,286,467 |
| Foreign bonds | 500 | 1,400 |
| Money market funds | 5,060,098 | 5,345,212 |
| Total | $ 7,753,690 | $ 8,633,079 |

As of September 30, 2015 and 2014, net realized and change in unrealized (losses) gains on investments and assets limited as to use totaled $(176,812) and $605,588, respectively.

The pooled funds represent approximately 2.7% and 3.0% of the units in a portfolio of investments managed by the JCF as of September 30, 2015 and 2014, respectively.

The following is a summary of the asset allocation of the pooled funds at JCF as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Equities | 63% | 63% |
| U.S. government securities | 22% | 21% |
| Alternative investments | 13% | 14% |
| Cash and equivalents | 2% | 2% |
| Total | 100% | 100% |

JCF holds several funds and split-interest agreements of which the Organization is the designated charitable beneficiary. Because JCF retains variance powers, these funds do not qualify for recording as unconditional promises to give or net assets under the provisions of FASB ASC 958-605. As of September 30, 2015 and 2014, JCF held $1,571,204 and $1,783,966, respectively, of certain designated and charitable gift annuities for the benefit of the Organization.

There were no individual securities that are in an unrealized loss position as of September 30, 2015 and 2014.

## NOTE 8 - FAIR VALUE MEASUREMENTS

FASB ASC 820, "*Fair Value Measurements and Disclosures*", provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

*Level 2* - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset.

*Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**NOTE 8 - FAIR VALUE MEASUREMENTS** (Continued)

The following table presents the financial instruments carried at fair value as of September 30, 2015 by the valuation hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments (including donor and board restricted): | | | | |
| Pooled funds held in custody | $ - | $ - | $ 2,693,092 | $ 2,693,092 |
| Foreign bonds | - | 500 | - | 500 |
| Money market funds | - | 5,060,098 | - | 5,060,098 |
| Total | - | 5,060,598 | 2,693,092 | 7,753,690 |
| Other assets limited as to use: | | | | |
| Cash and money market funds | 1,815,149 | - | - | 1,815,149 |
| U.S. government securities | - | 101,322 | - | 101,322 |
| Total | 1,815,149 | 101,322 | - | 1,916,471 |
| Pension plan assets: | | | | |
| Cash | 8,071 | - | - | 8,071 |
| Money market funds | - | 434,355 | - | 434,355 |
| Corporate and foreign bonds | - | 245,902 | - | 245,902 |
| Common equity mutual funds | 3,420,310 | - | - | 3,420,310 |
| Preferred equity securities | 78,492 | - | - | 78,492 |
| Equity mutual funds | 1,031,851 | - | - | 1,031,851 |
| Fixed income mutual funds | - | 773,121 | - | 773,121 |
| Total | 4,538,724 | 1,453,378 | - | 5,992,102 |
| Total | $ 6,353,873 | $ 6,615,298 | $ 2,693,092 | $ 15,662,263 |

**NOTE 8 - FAIR VALUE MEASUREMENTS** (Continued)

The following table presents the financial instruments carried at fair value as of September 30, 2014 by the valuation hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments (including donor and board restricted): | | | | |
| Pooled funds held in custody | $ - | $ - | $ 3,286,467 | $ 3,286,467 |
| Foreign bonds | - | 1,400 | - | 1,400 |
| Money market funds | - | 5,345,212 | - | 5,345,212 |
| Total | - | 5,346,612 | 3,286,467 | 8,633,079 |
| Other assets limited as to use: | | | | |
| Cash and cash equivalents | 1,609,367 | - | - | 1,609,367 |
| U.S. government securities | - | 96,221 | - | 96,221 |
| Total | 1,609,367 | 96,221 | - | 1,705,588 |
| Pension plan assets: | | | | |
| Cash | 10,947 | - | - | 10,947 |
| Money market funds | - | 334,623 | - | 334,623 |
| Corporate and foreign bonds | - | 333,909 | - | 333,909 |
| Common equity funds | 3,658,975 | - | - | 3,658,975 |
| Preferred equity securities | 78,027 | - | - | 78,027 |
| Equity mutual funds | 1,006,071 | - | - | 1,006,071 |
| Fixed income mutual funds | - | 1,035,429 | - | 1,035,429 |
| Total | 4,754,020 | 1,703,961 | - | 6,457,981 |
| Total | $ 6,363,387 | $ 7,146,794 | $ 3,286,467 | $ 16,796,648 |

A rollforward as of September 30, 2015 and 2014 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

| | Pooled Funds |
|---|---|
| Balance as of October 1, 2013 | $ 3,443,673 |
| Investment income: | |
| Net realized/unrealized gain on investments | 210,694 |
| Interest and dividends | 48,945 |
| Investment fees | (35,525) |
| Distributions | (1,010,000) |
| Purchase of investments | 628,680 |
| Balance as of September 30, 2014 | 3,286,467 |
| Investment income: | |
| Net realized/unrealized gain on investments | (133,353) |
| Interest and dividends | 36,772 |
| Investment fees | (32,906) |
| Distributions | (559,000) |
| Purchase of investments | 95,112 |
| Balance as of September 30, 2015 | $ 2,693,092 |

**NOTE 8 - FAIR VALUE MEASUREMENTS** (Continued)

The Organization's valuation methodologies used to measure financial assets at fair value are outlined below. Where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value (Level 1 inputs). This pricing methodology applies to cash and cash equivalents, equities and mutual funds.

If quoted prices in active markets for identical assets are not available, then quoted prices for similar assets, quoted prices for identical assets in inactive markets or inputs other than quoted prices that are observable for the asset, either directly or indirectly, will be used to determine fair value (Level 2 inputs). Securities typically priced using Level 2 inputs include government securities, corporate and foreign bonds, fixed income securities, mutual funds and public real estate trust funds, commodity mutual funds and money market funds.

The following is a description of the valuation methodologies used for investments measured at fair value with Level 2 inputs as of September 30, 2015 and 2014:

*Money market funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

*United States government securities, fixed income funds, and corporate and foreign bonds:* Certain government securities are valued at the closing price reported in the active market in which the bond is traded. Other fixed income securities are valued using standard inputs which include benchmark yields, reported trades, broker/dealer quotes, issuer spreads two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Structured securities are measured using new issue data, monthly payment information and collateral performance in addition to the standard inputs noted above.

Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models, or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Organization's pooled funds held in custody are classified within the Level 3 classification.

The Organization uses the net asset value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists the investment in the pooled fund held by the Foundation as of September 30, 2015 and 2014, which is disclosed in Level 3 above.

| 2015 | Fair Value | # of Funds | Unfunded Commitments | Timing to Draw Down | Redemption Period | Redemption Notice Period | Remaining Life |
|---|---|---|---|---|---|---|---|
| Pooled funds held in custody (a) | $ 2,693,092 | 1 | $ - | N/A | Monthly | 60 days or 6 months if 100% redemption | N/A |

| 2014 | Fair Value | # of Funds | Unfunded Commitments | Timing to Draw Down | Redemption Period | Redemption Notice Period | Remaining Life |
|---|---|---|---|---|---|---|---|
| Pooled funds held in custody (a) | $ 3,286,467 | 1 | $ - | N/A | Monthly | 60 days or 6 months if 100% redemption | N/A |

**NOTE 8 - FAIR VALUE MEASUREMENTS** (Continued)

(a) The pooled funds follow a total return approach to investing. This investment approach strives to balance income and potential for capital appreciation so that both components can contribute to the long-term total return of the pooled investment portfolio. The pooled funds investment policy and guidelines and spending guidelines are designed to operate in concert in order to provide a significant and stable flow of funds over the short-term to provide resources to meet current community needs and, at the same time, maintain the purchasing power of the funds over the long-term, so that the fund will be able to provide adequate resources to future generations to meet new and emerging needs.

FASB ASC 820 also permits as a practical expedient, an entity holding investments in certain entities that calculate NAV per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The Organization has applied this practical expedient measure in determining the fair value of its investment in the pooled fund held in custody as of September 30, 2015 and 2014.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended September 30, 2015 and 2014, there have been no significant transfers in or out of Levels 1, 2 or 3.

As of September 30, 2015 and 2014, the Organization’s other financial instruments included accounts receivable, other assets, accounts payable and accrued expenses, other liabilities and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

**NOTE 9 - PLEDGES RECEIVABLE**

Unconditional promises to give to the Organization are included in the consolidated financial statements as pledges receivable and revenue in the appropriate net asset category. The pledges are expected to be received equally over a five-year period. The pledges are recorded at their present value, discounted using a 5% rate.

The Organization began a fundraising initiative, entitled the Second Century Campaign during the year ended September 30, 2005. The pledges are due in various payment streams and have been recorded at their net present value using discount rates from 4% to 5%.

**NOTE 9 - PLEDGES RECEIVABLE** (Continued)

| | 2015 | 2014 |
|---|---|---|
| Pledges receivable, gross | $ 46,036 | $ 82,105 |
| Less: unamortized discount | (361) | (4,045) |
| Net unconditional promises to give | $ 45,675 | $ 78,060 |
| Due within one year | $ 46,036 | $ 82,105 |
| Due in one to five years | - | - |
| Total | $ 46,036 | $ 82,105 |

**NOTE 10 - LINES OF CREDIT**

As of September 30, 2015 and 2014, the Organization has three line of credit agreements with TD Bank. The first line of credit agreement has total availability of $3,500,000, with interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% as of September 30, 2015 and 2014. The first line of credit is secured by $5,009,232 of certificates of deposit and money market funds maintained at TD Bank and is subject to certain covenants as of September 30, 2015. As of September 30, 2014, the first line of credit was secured by $5,293,974 of marketable securities maintained at TD Wealth Management. In addition, the Organization has a limited guarantee by the Hebrew Health Care Foundation, Inc. on the first line of credit not to exceed $3,500,000.

The Home is subject to a debt service coverage ratio financial covenant under the terms of this line of credit agreement. The Home must maintain a debt service coverage ratio of 1.30. The Home was in violation of this financial covenant for the years ended September 30, 2015 and 2014, and has not received a waiver for these violations as of the date of this report.

The second line of credit agreement has a total availability of $1,500,000 payable on demand with no fixed term and interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% as of September 30, 2015 and 2014. The second line of credit is secured by investments of the Foundation. The Hoffman SummerWood Community is subject to a debt service coverage ratio financial covenant under the terms of this line of credit agreement. The Hoffman SummerWood Community must maintain a debt service coverage ratio of 1.25. The Hoffman SummerWood Community was in compliance with the financial covenant for the years ended September 30, 2015 and 2014. The line of credit agreement also requires submission of the audited consolidated financial statements within 120 days after year end. The Organization was in compliance with this requirement for the year ended September 30, 2014, however, it was not in compliance with this requirement for the year ended September 30, 2015 and has received a waiver for this financial reporting requirement.

The balances outstanding on these two lines of credit totaled $4,971,520 and $4,923,961 as of September 30, 2015 and 2014, respectively. The Home's line of credit expired on December 31, 2015 and an extension was currently being negotiated between the Home and the bank as of the date of this report.

**NOTE 10 - LINES OF CREDIT** (Continued)

The third line of credit agreement has a total availability of $150,000 and is to be used for letters of credit, with a 2% fee for each letter of credit issued, with interest at the Wall Street Journal's prime rate if drawn upon. The third line of credit had no outstanding balance as of September 30, 2015 and 2014.

## NOTE 11 - NOTES AND BONDS PAYABLE

The composition of notes and bonds payable of the Organization is as follows:

| | 2015 | 2014 |
|---|---|---|
| $20,242,000 Government National Mortgage Association (GNMA) mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association | $ 10,997,760 | $ 19,375,475 |
| $17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B | 15,295,000 | 15,680,000 |
| $500,000 note payable to Hartford Healthcare Corporation (See Note 1) | 500,000 | 500,000 |
| Note payable to the Metropolitan District Commission in annual installments totaling $13,611, including interest at 6%, maturing in June, 2015 | - | 9,039 |
| | 26,792,760 | 35,564,514 |
| Less: Current portion | (1,173,570) | (20,269,514) |
| Total | $ 25,619,190 | $ 15,295,000 |

As of September 30, 2015, the Home holds a note payable to the Secretary of Housing of Urban Development for $11,050,811 of Government National Mortgage Association (GNMA) mortgage-backed securities, in which payment of principal and interest is contingent on excess cash flow and is further described within this Note.

Anticipated future maturities of notes and bonds payable for the next five fiscal years and thereafter are as follows:

| | |
|---|---|
| 2016 | $ 1,173,570 |
| 2017 | 702,706 |
| 2018 | 732,154 |
| 2019 | 761,922 |
| 2020 | 797,024 |
| Thereafter | 33,676,195 |
| | $ 37,843,571 |

**NOTE 11 - NOTES AND BONDS PAYABLE** (Continued)

***Wells Fargo Mortgage:*** As of September 30, 2014, the mortgage was payable to Wells Fargo Bank in monthly installments of $105,435, including interest at 5.0% through October 2041. Effective June 22, 2015, the Organization refinanced this mortgage through a partial payment claim. This refinancing has been recorded as a troubled debt restructuring under FASB ASC 470-60, "*Troubled Debt Restructurings by Debtors*". As a result of the refinancing, $8,333,821 of the principal and $2,716,990 of accrued interest on the original mortgage was paid back to Wells Fargo Bank by the Department of Housing and Urban Development. Wells Fargo then provided a $11,041,000 loan for the remaining balance on the original mortgage. This mortgage is payable to Wells Fargo Bank in monthly installments of $52,741, including interest at 3.5% through October 2041 as of September 30, 2015. The mortgage is secured by land and buildings. The Federal Housing Administration under the Section 223(a)(7) Housing Program insures the note payable for the years ended September 30, 2015 and 2014.

Under the terms of the mortgage agreement with Wells Fargo and the Regulatory Agreement with the Federal Housing Administration, the Organization is required to fund a replacement reserve for the replacement of assets. There are certain other restrictions and covenants, relating to transfer and disposal of mortgaged property, maintenance of insurance coverage and methods of conducting the Organization's operations. The replacement reserve is held by the mortgagee and consists of cash and is included within assets limited as to use as described in Note 5.

As discussed in Note 2, the Organization was in default of its Wells Fargo mortgage note as of September 30, 2014 as the Organization did not pay its mortgage payments from October 2012 through June 2015. The non-payments caused an event of default and this default caused the mortgage note to be reclassified to current debt, as the debt was callable by the lender as of September 30, 2014. The amount of accrued interest due to the non-payments was $1,960,968 as of September 30, 2014.

***Housing of Urban Development (HUD) Mortgage:*** As a result of the Wells Fargo mortgage refinancing described above, the $11,050,811 of amounts paid by HUD to Wells Fargo were financed by a new loan that has an annual interest rate of 3.35% on the outstanding balance and is payable only to the extent that the Home has surplus cash remaining at the end of each payment period after the payment of: (i) all sums due or currently required to be paid under the terms of the loan, (ii) all amounts required to be deposited in the reserve fund for replacements; and (iii) all other obligations of the mortgage property other than the HUD mortgage. The loan is callable on July 22, 2035, however, the outstanding principal is due in full on October 1, 2041. There was no gain on the refinancing of the mortgage and there was no transfer of assets.

During the years ended September 30, 2015 and 2014, the Organization incurred $807,887 and $946,366, respectively, in interest expense related to the mortgage notes. Additionally, the amount of accrued interest was $82,622 and $1,960,968 as of September 30, 2015 and 2014, respectively.

***CHEFA Series B Bonds -*** The CHEFA Series B Bonds were issued in November 2007: (i) to refund the Series A Bonds; (ii) to finance and refinance the costs of the construction and equipping of a new wing at Hoffman SummerWood Community's assisted living facility to house an additional 43 assisted living units and to expand certain portions of the existing facility. The CHEFA bonds consist of Series B variable rate bonds due July 1, 2037. The bonds are secured by land, building and a letter of credit with an expiration date of November 7, 2017. During the years ended September 30, 2015 and 2014, the Organization incurred $135,325 and $150,733, respectively, in interest expense related to the bonds. The interest rate related to these bonds is a variable rate, which was .06% as of September 30, 2015 and 2014.

Principal payments to the bond principal account of $26,666 per month began in July 2010, with the agent making payments annually to bond holders beginning in July 2011. The payments increased to $27,916 in July 2011 and increased to $32,083 in July 2014.

**NOTE 11 - NOTES AND BONDS PAYABLE** (Continued)

The Organization is required to maintain a liquidity reserve under the terms of the CHEFA bond agreement, which is included within assets limited as to use as described in Note 5.

Hoffman SummerWood Community is subject to certain financial covenants under the terms of the CHEFA bond agreement. Hoffman SummerWood Community must maintain a debt service coverage ratio of 1.25. Hoffman SummerWood Community was in compliance with the debt service coverage ratio for the years ended September 30, 2015 and 2014. The CHEFA bond agreement also requires submission of the audited consolidated financial statements within 120 days after year end. The Organization was in compliance with this requirement for the year ended September 30, 2014, however, it was not in compliance with this requirement for the year ended September 30, 2015 and has received a waiver for this requirement.

**NOTE 12 - CAPITAL LEASE OBLIGATIONS**

During 2012, the Organization entered into a lease arrangement, due in monthly payments of $951 through November 2016, collateralized by the leased vehicle with a net book value of $1,097 and $14,257 as of September 30, 2015 and 2014, respectively. There was an outstanding balance of $12,909 and $23,397 as of September 30, 2015 and 2014, respectively.

During 2014, the Organization entered into three lease arrangements, due in monthly payments of $4,271 through November 2016, September 2018 and November 2018, collateralized by the leased telephone equipment with a net book value of $73,226 and $113,034 as of September 30, 2015 and 2014. There was an outstanding balance of $76,628 and $110,900 as of September 30, 2015 and 2014.

During 2015, the Organization entered into a lease arrangement, due in monthly payments of $415 through October 2017, collateralized by the leased vehicle with a net book value of $4,173 as of September 30, 2015. There was an outstanding balance of $10,107 as of September 30, 2015.

The value of minimum future lease payments under these capital lease obligations are as follows:

| | | |
|---|---|---|
| 2016 | $ | 67,641 |
| 2017 | | 31,043 |
| 2018 | | 19,269 |
| 2019 | | 983 |
| | | 118,936 |
| Less: Amounts representing interest | | (19,292) |
| Total | $ | 99,644 |

## NOTE 13 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses, as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Accounts payable | $ 4,046,789 | $ 2,652,965 |
| Accrued vacation | 1,581,649 | 2,399,689 |
| Accrued employee benefits | 672,058 | 654,939 |
| Accrued payroll | 859,752 | 823,189 |
| Provider tax | 628,992 | 248,295 |
| Total | $ 7,789,240 | $ 6,779,077 |

## NOTE 14 - PENSION PLANS

***Bargaining Unit Plan -*** Approximately 36% of the Organization's labor force is covered by a collective bargaining agreement. A new collective bargaining agreement was negotiated and approved by the Union membership effective October 1, 2011 through September 30, 2015 and was subsequently extended through September 30, 2016, which replaced the former agreement that was effective October 1, 2008 through September 30, 2011. Bargaining unit employees are covered under a multi-employer defined benefit pension plan administered by the bargaining unit. The Organization contributes monthly to this plan based on a negotiated flat rate per employee hour worked. The risks of participating in this multi-employer plan is different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer;
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining employers; and
- If the Organization chose to stop participating in the multi-employer plan, it would be required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

| Pension Trust Fund | Pension Plan EIN | Pension Protection Act ("PPA") Certified 2015 | Pension Protection Act ("PPA") Certified 2014 | FIP/RP Status Pending/ Implemented (2) | Contributions 2015 | Contributions 2014 | Surcharge Imposed | Expiration Date of Collective Bargaining Agreement (3) |
|---|---|---|---|---|---|---|---|---|
| Laborers' International Union of North American National Pension Fund | 52-6074345 | Red | Red | Implemented | $ 344,691 | $ 316,216 | No | September 30, 2016 |

1) The most recent PPA zone status available in 2015 and 2014 is for the plan's years ended December 31, 2014 and 2013, respectively. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the orange zone are less than 80% funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.
2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or rehabilitation plan ("RP") is either pending or has been implemented.

**NOTE 14 - PENSION PLANS** (Continued)

3) Lists the expiration dates of the collective bargaining agreements to which the plans are subject.

***Nonbargaining Unit Plan -*** The Organization has a noncontributory, defined benefit pension plan covering all nonbargaining unit employees who satisfied certain eligibility requirements. Employer contributions made to this plan were $216,827 and $122,350 for the years ended September 30, 2015 and 2014, respectively. This plan was frozen on September 30, 2007 and replaced by a 401(k) Retirement Plan that provides for an employer match of up to 2% of the employees annual salary for the years ended September 30, 2015 and 2014, respectively. In addition, the Organization has another defined contribution, non-matching, retirement plan covering substantially all employees. The Organization makes matching contributions to the plan at the discretion of the Board of Trustees, which amounted to $0 and $154,001 for the years ended September 30, 2015 and 2014, respectively.

Benefits under the defined benefit plan are based on years of service.

Significant disclosures relating to the defined benefit plan, as of September 30, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Changes in benefit obligations: | | |
| Benefit obligations at beginning of year | $ 9,215,167 | $ 8,120,222 |
| Interest cost | 398,382 | 400,764 |
| Benefits paid to participants | (648,019) | (325,562) |
| Actuarial loss (gain) | 794,382 | 1,019,743 |
| Benefit obligations at end of year | $ 9,759,912 | $ 9,215,167 |

| | 2015 | 2014 |
|---|---|---|
| Changes in plan assets: | | |
| Fair value of plan assets at beginning of year | $ 6,457,981 | $ 5,990,107 |
| Actual return on plan assets | (34,687) | 671,086 |
| Employer contributions | 216,827 | 122,350 |
| Benefits paid | (648,019) | (325,562) |
| Fair value of plan assets at end of year | $ 5,992,102 | $ 6,457,981 |
| Accrued pension liability (no current portion is due) | $ (3,767,810) | $ (2,757,186) |

The following were the weighted-average assumptions used to determine the pension benefit obligations as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 4.30% | 4.40% |
| Expected return on plan assets | 6.50% | 7.50% |

**NOTE 14 - PENSION PLANS** (Continued)

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 4.40% | 5.05% |
| Expected long-term return on plan assets | 6.50% | 7.50% |

Amounts recorded in unrestricted net assets as of September 30, 2015 and 2014, not yet amortized as components of net periodic benefit costs, are as follows:

| | 2015 | 2014 |
|---|---|---|
| Unamortized net actuarial loss | $ 3,664,045 | $ 2,789,860 |

The amortization of the above items expected to be recognized in net periodic benefit costs is $329,104 for the year ended September 30, 2016.

The components of net periodic benefit cost for the years ended September 30, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Interest cost | $ 398,382 | $ 400,764 |
| Expected return on plan assets | (363,438) | (386,862) |
| Recognized net loss | 318,322 | 242,828 |
| Net periodic benefit cost | $ 353,266 | $ 256,730 |

The changes in benefit obligations recognized in unrestricted net assets for the years ended September 30, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Change in net loss | $ 1,192,507 | $ 735,519 |
| Amortization of net loss | (318,322) | (242,828) |
| Total recognized in unrestricted net assets | $ 874,185 | $ 492,691 |

The expected long-term rate of return on plan assets reflects the plan sponsor’s estimate of future investment returns (expressed as an annual percentage), taking into account the allocation of plan assets among different investment classes and long-term expectations of future returns on each class.

**NOTE 14 - PENSION PLANS** (Continued)

The investment allocation of the defined benefit plan's assets is as follows:

| | 2015 | 2014 |
|---|---|---|
| Equity securities | 76% | 74% |
| Debt securities | 17% | 21% |
| Cash equivalents | 7% | 5% |
| Total | 100% | 100% |

The following benefit amounts, which reflect expected future service, as appropriate, are expected to be paid as follows:

| | | |
|---|---|---|
| 2016 | $ | 836,000 |
| 2017 | $ | 545,000 |
| 2018 | $ | 550,000 |
| 2019 | $ | 834,000 |
| 2020 | $ | 707,000 |
| 2021 - 2025 | $ | 3,355,000 |

The Organization has a sub-committee of Hebrew Health Care's board level Human Resources Committee that oversees the investment of pension assets for the Hebrew Home and Hospital Inc. Retirement Income Plan. Funds are currently invested and managed by Webster Financial Advisors, a division of Webster Bank. The investment approach taken by the Committee mirrors the investment philosophy of the Hebrew Health Care Foundation, Inc. The plan employs a total return on investment approach, whereby a mix of equity securities, debt securities and other assets is targeted to maximize the long-term return on assets. Investments are monitored through periodic portfolio reviews with Webster Financial Advisors and compared to annual actuarial liability measurements. The expected yield on plan assets is determined based on historical experience, market conditions and recommendations from the Organization's actuary.

**NOTE 15 - EMPLOYEE HEALTH INSURANCE**

The Organization maintains a self-insured health insurance plan for its employees. Under the plan, the Organization pays an insurance company certain fixed and variable costs, including administration fees, actual claims incurred and a premium for losses exceeding a negotiated amount. The Organization's cost for the plan totaled $4,478,596 and $5,425,609 for the years ended September 30, 2015 and 2014, respectively. The Organization has also recorded a liability for incurred but not reported claims of $475,000 and $438,880 as of September 30, 2015 and 2014, respectively. In addition, the Organization has purchased stop loss insurance coverage. The coverage is initiated when a loss reaches $150,000 on a per claim basis.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

***Operating Leases -*** The Organization leases various office equipment under operating leases expiring through September 2017. On August 10, 2010, the Organization entered into an operating lease beginning October 1, 2010 and through September 2015 for HCS's Home Health and Hospice office space. Effective September 2015, this lease runs month to month. Rental expense under these leases amounted to $83,049 and $98,915 for the years ended September 30, 2015 and 2014, respectively.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES** (Continued)

The value of future minimum lease payments under these lease agreements are as follows:

| | | |
|---|---|---|
| 2016 | $ | 56,969 |
| 2017 | $ | 56,969 |
| 2018 | $ | 56,969 |

***Litigation -*** The Organization is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management anticipates that these matters will be resolved without material adverse effect on the Organization’s future financial position or results from operations.

**NOTE 17 - SPECIAL EVENTS**

The following is a summary of special events income (included in gifts, bequests and special events) and expenses (included in development expenses) within the consolidated statements of operations and changes in net assets as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Ticket sales and sponsorships | $ 252,084 | $ 273,709 |
| Less: Expenses | (104,763) | (99,555) |
| Net special events income | $ 147,321 | $ 174,154 |

**NOTE 18 - TEMPORARILY RESTRICTED NET ASSETS**

The following is a summary of temporarily restricted net assets as of September 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Second Century Campaign | $ 3,239 | $ 5,189 |
| Other funds | 28,276 | 29,525 |
| Annual Fund | 42,437 | 64,196 |
| The Music Fund | 5,000 | 4,577 |
| The Rabbi Fund | 9,122 | 6,712 |
| Appreciation of permanently restricted net assets | 211 | 31,629 |
| Total | $ 88,285 | $ 141,828 |

Net assets were released from temporary donor-imposed restrictions by incurring program expenses, which satisfied the restricted purposes, by occurrence of events specified by the donors or by passage of time.

## NOTE 19 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets amounted to $2,313,313 and $2,308,313 as of September 30, 2015 and 2014, respectively, which include investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services.

## NOTE 20 - CONDITIONAL PROMISES TO CONTRIBUTE

As of September 30, 2015 and 2014, the Organization had received $989,105 and $1,214,184 of conditional promises to contribute, of which $1,012,340 related to the Organization's *Second Century Campaign* and $201,844 related to a grant from the State of Connecticut Office of Policy and Management for the purchase of buses for the Organization's adult day health center services for the year ended September 30, 2014. The buses purchased during fiscal year 2015, at which time, the Organization was reimbursed for these costs. The contributions related to the *Second Century Campaign* will be recorded as to donor intention when received or when the condition has been met.

## NOTE 21 - PROFESSIONAL LIABILITY INSURANCE

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through September 30, 2013, the Organization was covered by a claims-made policy. There are no known claims or incidents that may result in the assertion of additional claims. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the consolidated financial statements as of September 30, 2015 and 2014. The $736,829 and $332,233 of expected insurance liabilities and recoveries as of September 30, 2015 and 2014, discussed earlier in Note 2, relates to workers' compensation and general liability coverages.

## NOTE 22 - ENDOWMENT NET ASSETS

Changes in endowment net assets for the years ended September 30, 2015 and 2014 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance as of October 1, 2013 | $ 913,658 | $ 122,820 | $ 2,288,263 | $ 3,324,741 |
| Investment return: | | | | |
| Investment income | 14,077 | 33,378 | - | 47,455 |
| Net change in market value | 53,476 | (4,209) | - | 49,267 |
| Contributions | 7,913 | 718 | 20,050 | 28,681 |
| Distributions and fees | (300,993) | (120,878) | - | (421,871) |
| Balance as of September 30, 2014 | 688,131 | 31,829 | 2,308,313 | 3,028,273 |
| Investment return: | | | | |
| Investment income | 7,029 | 28,317 | - | 35,346 |
| Net change in market value | (172,554) | (59,946) | - | (232,500) |
| Contributions | 89,901 | 211 | 5,000 | 95,112 |
| Distributions and fees | (516,965) | - | - | (516,965) |
| Balance as of September 30, 2015 | $ 95,542 | $ 411 | $ 2,313,313 | $ 2,409,266 |

**NOTE 22 - ENDOWMENT NET ASSETS** (Continued)

The endowment net asset composition by type of fund as of September 30, 2015 and 2014 is as follows:

| 2015 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-resticted endowment funds | $ (261,701) | $ 411 | $ 2,313,313 | $ 2,052,023 |
| Board designated endowment funds | 357,243 | - | - | 357,243 |
| | $ 95,542 | $ 411 | $ 2,313,313 | $ 2,409,266 |

| 2014 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-resticted endowment funds | $ (177,946) | 31,829 | 2,308,313 | $ 2,162,196 |
| Board designated endowment funds | 866,077 | - | - | 866,077 |
| | $ 688,131 | $ 31,829 | $ 2,308,313 | $ 3,028,273 |

The Organization's endowment net assets consist of multiple funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Organization has interpreted the relevant laws 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization during its annual budgeting process.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Organization; and (7) the investment policies of the Organization.

***Spending Policy, Return Objectives and Risk Parameters:*** At the discretion of the Board, 5% of the average market value of the portfolio at September 30 of each of the preceding twenty quarters is applied to operations. As a result of that calculation, a portion of cumulative interest and dividends, cumulative net realized gains and net appreciation is allocated to operations in accordance with the Organization's investment policies and procedures.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a diversified manner to reduce the adverse impact that any single security or class of securities may have on the portfolio.

**NOTE 22 - ENDOWMENT NET ASSETS** (Continued)

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to maintain sufficient liquidity to satisfy near term cash flow needs and achieve its long-term return objectives within prudent risk constraints to keep pace with inflation over a full market cycle (3-5 years or longer). This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The amount of approved spending from Foundation investments was $200,000 and $430,000 for the years ended September 30, 2015 and 2014, respectively.

***Funds with Deficiencies:*** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or law requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature were $261,701 and $177,946 for the years ended September 30, 2015 and 2014, respectively, and have been accounted for in unrestricted realized and unrealized losses. During the year ended September 30, 2015 and 2014, gains of $0 and $9,470 associated with donor restricted funds were recorded as unrestricted to restore deficiency losses recorded in unrestricted net assets as of September 30, 2015 and 2014, respectively.

**NOTE 23 - FUNCTIONAL EXPENSES**

Expenses of the Organization incurred during the years ended September 30, 2015 and 2014, by functional area, were as follows:

| | 2015 | 2014 |
|---|---|---|
| Health care services | $ 36,254,060 | $ 38,528,899 |
| General and administrative | 17,472,241 | 16,890,259 |
| Fundraising | 160,889 | 157,533 |
| Total | $ 53,887,190 | $ 55,576,691 |

**NOTE 24 - SUBSEQUENT EVENTS**

The Organization evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date or disclosure in the notes to the consolidated financial statements.

Effective February 16, 2016, the Organization's Affiliation Agreement with Hartford HC was terminated as described within Note 1. Prior to the termination, no agreement on the accounting of the operating expense reductions and revenue cycle initiatives for the first two years of the Agreement was reached. Therefore, with the termination of the Agreement, Hartford HC cancelled the Organization's note payable of $500,000 in full consideration of the full and final settlement of any and all claims related to all matters and disputes pertaining to the Agreement.

The Organization has evaluated subsequent events through March 15, 2016, the date the consolidated financial statements were issued.

## HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
## CONSOLIDATING BALANCE SHEET
## September 30, 2015

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Current assets: | | | | | | | | | |
| Cash and cash equivalents | $ 26,624 | $ 14,417 | $ 906 | $ 49,527 | $ 3,339 | $ - | $ 94,813 | $ - | $ 94,813 |
| Assets limited as to use, current portion | - | 158,484 | - | 460,913 | - | - | 619,397 | - | 619,397 |
| Patient accounts receivable, net of allowance for doubtful accounts of $1,013,720 | - | 3,255,122 | 590,131 | 30,121 | - | - | 3,875,374 | - | 3,875,374 |
| Pledges receivable, current portion | 45,675 | - | - | - | - | - | 45,675 | - | 45,675 |
| Other current assets | 236,806 | 1,176,051 | 10,577 | 90,253 | 174,000 | 56,543 | 1,744,230 | (174,000) | 1,570,230 |
| Total current assets | 309,105 | 4,604,074 | 601,614 | 630,814 | 177,339 | 56,543 | 6,379,489 | (174,000) | 6,205,489 |
| Assets limited as to use, net of current portion: | | | | | | | | | |
| Donor restricted investments | - | - | - | - | 2,052,023 | - | 2,052,023 | - | 2,052,023 |
| Board designated investments | - | - | - | - | 357,243 | - | 357,243 | - | 357,243 |
| Investments restricted under debt agreements | - | 706,361 | - | 590,713 | - | - | 1,297,074 | - | 1,297,074 |
| Total assets limited as to use, net of current portion | - | 706,361 | - | 590,713 | 2,409,266 | - | 3,706,340 | - | 3,706,340 |
| Property, plant and equipment, net | - | 3,850,412 | 229,928 | 11,902,583 | - | - | 15,982,923 | (75,000) | 15,907,923 |
| Other assets: | | | | | | | | | |
| Cash surrender value of life insurance | - | - | - | - | 160,895 | - | 160,895 | - | 160,895 |
| Investments | - | 48,931 | - | - | 5,295,493 | - | 5,344,424 | - | 5,344,424 |
| Deposits | - | 198,278 | 9,591 | - | - | - | 207,869 | - | 207,869 |
| Mortgage acquisition costs, net | - | 687,265 | - | 466,048 | - | - | 1,153,313 | - | 1,153,313 |
| Due from affiliates | 1,137,106 | - | 106,628 | 2,215,534 | 1,608,099 | - | 5,067,367 | (5,049,325) | 18,042 |
| Total other assets | 1,137,106 | 934,474 | 116,219 | 2,681,582 | 7,064,487 | - | 11,933,868 | (5,049,325) | 6,884,543 |
| Total assets | $ 1,446,211 | $ 10,095,321 | $ 947,761 | $ 15,805,692 | $ 9,651,092 | $ 56,543 | $ 38,002,620 | $ (5,298,325) | $ 32,704,295 |

See accompanying Independent Auditor's Report.

## HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
## CONSOLIDATING BALANCE SHEET (CONTINUED)
## September 30, 2015

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Notes and bonds payable, current portion | $ 500,000 | $ 268,570 | $ - | $ 405,000 | $ - | $ - | $ 1,173,570 | $ - | $ 1,173,570 |
| Capital lease obligations, current portion | 14,557 | 36,662 | - | 11,065 | - | - | 62,284 | - | 62,284 |
| Accounts payable and accrued expenses | 491,057 | 4,431,271 | 187,560 | 396,292 | - | 29,353 | 5,535,533 | - | 5,535,533 |
| Accrued vacation and employee benefits | 834,609 | 1,021,160 | 162,427 | 138,999 | | 96,512 | 2,253,707 | - | 2,253,707 |
| Accrued interest expense | - | 82,622 | - | 4,370 | - | - | 86,992 | - | 86,992 |
| Lines of credit | - | 3,499,999 | - | 1,471,521 | - | - | 4,971,520 | - | 4,971,520 |
| Funds held in trust | - | 158,484 | - | 460,913 | - | - | 619,397 | - | 619,397 |
| Deferred revenue | 54,668 | - | 105,613 | - | - | - | 160,281 | - | 160,281 |
| Total current liabilities | 1,894,891 | 9,498,768 | 455,600 | 2,888,160 | - | 125,865 | 14,863,284 | - | 14,863,284 |
| Due to affiliates | 3,823,633 | - | 388,430 | 101,009 | 31,519 | 704,734 | 5,049,325 | (5,049,325) | - |
| Notes and bonds payable, net of current portion | - | 10,729,190 | 174,000 | 14,890,000 | - | - | 25,793,190 | (174,000) | 25,619,190 |
| Note payable to HUD | - | 11,050,811 | - | - | - | - | 11,050,811 | - | 11,050,811 |
| Capital lease obligations, net of current portion | - | 25,409 | - | 11,951 | - | - | 37,360 | - | 37,360 |
| Accrued pension liability | - | 3,767,810 | - | - | - | - | 3,767,810 | - | 3,767,810 |
| Total liabilities | 5,718,524 | 35,071,988 | 1,018,030 | 17,891,120 | 31,519 | 830,599 | 60,561,780 | (5,223,325) | 55,338,455 |
| Net assets: | | | | | | | | | |
| Unrestricted deficit | (4,314,750) | (25,022,304) | (75,269) | (2,085,428) | 7,311,049 | (774,056) | (24,960,758) | (75,000) | (25,035,758) |
| Temporarily restricted | 42,437 | 45,637 | - | - | 211 | - | 88,285 | - | 88,285 |
| Permanently restricted | - | - | 5,000 | - | 2,308,313 | - | 2,313,313 | - | 2,313,313 |
| Net assets | (4,272,313) | (24,976,667) | (70,269) | (2,085,428) | 9,619,573 | (774,056) | (22,559,160) | (75,000) | (22,634,160) |
| Total liabilities and net assets | $ 1,446,211 | $ 10,095,321 | $ 947,761 | $ 15,805,692 | $ 9,651,092 | $ 56,543 | $ 38,002,620 | $ (5,298,325) | $ 32,704,295 |

See accompanying Independent Auditor's Report.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATING BALANCE SHEET
September 30, 2014

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Current assets: | | | | | | | | | |
| Cash and cash equivalents | $ 27,327 | $ 75,442 | $ 80,835 | $ 3,863 | $ 3,335 | $ - | $ 190,802 | $ - | $ 190,802 |
| Assets limited as to use, current portion | - | 149,466 | - | 415,480 | - | - | 564,946 | - | 564,946 |
| Patient accounts receivable, net of allowance for doubtful accounts of $1,154,424 | - | 3,168,169 | 719,281 | 4,959 | - | - | 3,892,409 | - | 3,892,409 |
| Pledges receivable, current portion | 71,745 | 6,315 | - | - | - | - | 78,060 | - | 78,060 |
| Other current assets | 273,982 | 710,038 | 8,523 | 89,858 | 174,000 | 53,369 | 1,309,770 | (174,000) | 1,135,770 |
| Total current assets | 373,054 | 4,109,430 | 808,639 | 514,160 | 177,335 | 53,369 | 6,035,987 | (174,000) | 5,861,987 |
| Assets limited as to use, net of current portion: | | | | | | | | | |
| Donor restricted investments | - | - | - | - | 2,162,196 | - | 2,162,196 | - | 2,162,196 |
| Board designated investments | - | - | - | - | 866,077 | - | 866,077 | - | 866,077 |
| Investments restricted under debt agreements | - | 34,417 | - | 1,106,225 | - | - | 1,140,642 | - | 1,140,642 |
| Total assets limited as to use, net of current portion | - | 34,417 | - | 1,106,225 | 3,028,273 | - | 4,168,915 | - | 4,168,915 |
| Property, plant and equipment, net | - | 3,950,197 | 66,191 | 12,504,721 | - | - | 16,521,109 | (75,000) | 16,446,109 |
| Other assets: | | | | | | | | | |
| Cash surrender value of life insurance | - | - | - | - | 137,660 | - | 137,660 | - | 137,660 |
| Investments | - | 50,191 | - | - | 5,554,615 | - | 5,604,806 | - | 5,604,806 |
| Deposits | - | 198,278 | 9,591 | - | - | - | 207,869 | - | 207,869 |
| Mortgage acquisition costs, net | - | 481,415 | - | 489,299 | - | - | 970,714 | - | 970,714 |
| Due from affiliates | 370,007 | 28,967 | 106,628 | 745,418 | 1,049,095 | - | 2,300,115 | (2,276,405) | 23,710 |
| Total other assets | 370,007 | 758,851 | 116,219 | 1,234,717 | 6,741,370 | - | 9,221,164 | (2,276,405) | 6,944,759 |
| Total assets | $ 743,061 | $ 8,852,895 | $ 991,049 | $ 15,359,823 | $ 9,946,978 | $ 53,369 | $ 35,947,175 | $ (2,525,405) | $ 33,421,770 |

See accompanying Independent Auditor's Report.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
September 30, 2014

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Notes and bonds payable, current portion | $ 500,000 | $ 19,375,475 | $ - | $ 394,039 | $ - | $ - | $ 20,269,514 | $ - | $ 20,269,514 |
| Capital lease obligations, current portion | 17,821 | - | - | 10,532 | - | - | 28,353 | - | 28,353 |
| Accounts payable and accrued expenses | 259,519 | 3,010,631 | 199,064 | 209,849 | - | 45,386 | 3,724,449 | - | 3,724,449 |
| Accrued vacation and employee benefits | 859,219 | 1,538,239 | 354,343 | 179,262 | - | 123,565 | 3,054,628 | - | 3,054,628 |
| Accrued interest expense | - | 1,960,968 | - | 4,370 | - | - | 1,965,338 | - | 1,965,338 |
| Lines of credit | - | 3,499,999 | - | 1,423,962 | - | - | 4,923,961 | - | 4,923,961 |
| Funds held in trust | - | 149,466 | - | 415,480 | - | - | 564,946 | - | 564,946 |
| Deferred revenue | 53,528 | - | 59,842 | - | - | - | 113,370 | - | 113,370 |
| Total current liabilities | 1,690,087 | 29,534,778 | 613,249 | 2,637,494 | - | 168,951 | 34,644,559 | - | 34,644,559 |
| Due to affiliates | 1,794,513 | 320,397 | 28,967 | 101,009 | 31,519 | - | 2,276,405 | (2,276,405) | - |
| Notes and bonds payable, net of current portion | - | - | 174,000 | 15,295,000 | - | - | 15,469,000 | (174,000) | 15,295,000 |
| Capital lease obligations, net of current portion | - | 93,933 | - | 12,011 | - | - | 105,944 | - | 105,944 |
| Accrued pension liability | - | 2,757,186 | - | - | - | - | 2,757,186 | - | 2,757,186 |
| Total liabilities | 3,484,600 | 32,706,294 | 816,216 | 18,045,514 | 31,519 | 168,951 | 55,253,094 | (2,450,405) | 52,802,689 |
| Net assets: | | | | | | | | | |
| Unrestricted deficit | (2,805,735) | (23,899,402) | 169,833 | (2,685,691) | 7,580,517 | (115,582) | (21,756,060) | (75,000) | (21,831,060) |
| Temporarily restricted | 64,196 | 46,003 | - | - | 31,629 | - | 141,828 | - | 141,828 |
| Permanently restricted | - | - | 5,000 | - | 2,303,313 | - | 2,308,313 | - | 2,308,313 |
| Net assets | (2,741,539) | (23,853,399) | 174,833 | (2,685,691) | 9,915,459 | (115,582) | (19,305,919) | (75,000) | (19,380,919) |
| Total liabilities and net assets | $ 743,061 | $ 8,852,895 | $ 991,049 | $ 15,359,823 | $ 9,946,978 | $ 53,369 | $ 35,947,175 | $ (2,525,405) | $ 33,421,770 |

See accompanying Independent Auditor's Report.

# HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
### For the Year Ended September 30, 2015

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| Changes in unrestricted net assets: | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| Net patient service revenues | $ - | $ 37,920,452 | $ - | $ - | $ - | $ 517,139 | $ 38,437,591 | $ (150,000) | $ 38,287,591 |
| Home health care revenue | - | 22,706 | 5,846,087 | - | - | - | 5,868,793 | - | 5,868,793 |
| Adult day health center services | - | - | 519,885 | - | - | - | 519,885 | - | 519,885 |
| Net patient revenues | - | 37,943,158 | 6,365,972 | - | - | 517,139 | 44,826,269 | (150,000) | 44,676,269 |
| Member services and rental income - Hoffman SummerWood Community | - | - | - | 5,335,533 | - | - | 5,335,533 | - | 5,335,533 |
| Grants | 355,473 | 610,936 | 178,447 | - | - | - | 1,144,856 | (790,341) | 354,515 |
| Management fees | 1,621,911 | - | - | - | - | - | 1,621,911 | (1,621,911) | - |
| Other income | 33,305 | 84,235 | 9,532 | 453,337 | - | - | 580,409 | (62,624) | 517,785 |
| Net assets released from restrictions used for operations | 21,759 | 366 | - | - | - | - | 22,125 | - | 22,125 |
| Total operating revenues | 2,032,448 | 38,638,695 | 6,553,951 | 5,788,870 | - | 517,139 | 53,531,103 | (2,624,876) | 50,906,227 |
| Operating expenses: | | | | | | | | | |
| Nursing services | - | 17,647,301 | 2,375,911 | - | - | 54,972 | 20,078,184 | (100,000) | 19,978,184 |
| Administration | 1,859,364 | 4,089,171 | 3,337,889 | 2,010,948 | - | 482,761 | 11,780,133 | (1,621,911) | 10,158,222 |
| Health benefits | 216,386 | 3,421,287 | 537,799 | 215,120 | - | 88,004 | 4,478,596 | - | 4,478,596 |
| Nutritional services | - | 2,851,895 | 62,624 | 1,025,658 | - | - | 3,940,177 | (62,624) | 3,877,553 |
| Medical services | - | 2,020,829 | 14,321 | - | - | 549,876 | 2,585,026 | (50,000) | 2,535,026 |
| Building operations | - | 1,273,412 | 45,864 | 594,694 | - | - | 1,913,970 | - | 1,913,970 |
| Depreciation and amortization | - | 567,486 | 58,145 | 934,725 | - | - | 1,560,356 | - | 1,560,356 |
| Environmental services | - | 1,644,033 | 3,230 | 198,811 | - | - | 1,846,074 | - | 1,846,074 |
| Pharmacy services | - | 1,711,383 | - | - | - | - | 1,711,383 | - | 1,711,383 |
| Provider tax | - | 1,319,498 | - | - | - | - | 1,319,498 | - | 1,319,498 |
| Interest expense | 2,560 | 962,661 | - | 207,685 | - | - | 1,172,906 | - | 1,172,906 |
| Rehabilitation services | - | 1,020,510 | 214,226 | - | - | - | 1,234,736 | - | 1,234,736 |
| Development | 1,159,405 | - | - | - | - | - | 1,159,405 | (790,341) | 369,064 |
| Social services | - | 541,803 | 47,374 | - | - | - | 589,177 | - | 589,177 |
| Life enrichment services | - | 383,045 | - | - | - | - | 383,045 | - | 383,045 |
| Provision for bad debts | | 346,829 | 101,670 | - | - | - | 448,499 | - | 448,499 |
| Health information management | - | 162,709 | - | - | - | - | 162,709 | - | 162,709 |
| Cognitive program services | | 148,192 | - | - | - | - | 148,192 | - | 148,192 |
| Total operating expenses | 3,237,715 | 40,112,044 | 6,799,053 | 5,187,641 | - | 1,175,613 | 56,512,066 | (2,624,876) | 53,887,190 |
| (Loss) income from operations | (1,205,267) | (1,473,349) | (245,102) | 601,229 | - | (658,474) | (2,980,963) | - | (2,980,963) |
| Non-operating gains (losses): | | | | | | | | | |
| Interest and dividend income and distributions | - | 387 | - | 7,826 | 47,238 | - | 55,451 | - | 55,451 |
| Net realized gains (losses) on investments | - | - | - | (1,100) | 83,709 | - | 82,609 | - | 82,609 |
| Change in cash surrender value of life insurance | - | - | - | - | 23,235 | - | 23,235 | - | 23,235 |
| Donation expense | - | - | - | - | (199,996) | - | (199,996) | 199,996 | - |
| Gifts, bequests, and special events | 921,023 | 12 | - | - | 11,360 | - | 932,395 | (199,996) | 732,399 |
| Investment fees | - | (414) | - | - | (43,355) | - | (43,769) | - | (43,769) |
| Total non-operating gains | 921,023 | (15) | - | 6,726 | (77,809) | - | 849,925 | - | 849,925 |
| Excess of revenues over (under) expenses | $ (284,244) | $ (1,473,364) | $ (245,102) | $ 607,955 | $ (77,809) | $ (658,474) | $ (2,131,038) | $ - | $ (2,131,038) |

See accompanying Independent Auditor's Report.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
For the Year Ended September 30, 2015

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| Other changes in unrestricted net assets (deficit): | | | | | | | | | |
| Excess of revenues over (under) expenses | $ (284,244) | $ (1,473,364) | $ (245,102) | $ 607,955 | $ (77,809) | $ (658,474) | $ (2,131,038) | $ - | $ (2,131,038) |
| Net unrealized gains (losses) on investments | - | (124) | - | (7,692) | (191,659) | - | (199,475) | - | (199,475) |
| Net asset transfer to HHH from HHC | (1,224,771) | 1,224,771 | - | - | - | - | - | - | - |
| Change in pension instrument | - | (874,185) | - | - | - | - | (874,185) | - | (874,185) |
| Change in unrestricted net assets (deficit) | (1,509,015) | (1,122,902) | (245,102) | 600,263 | (269,468) | (658,474) | (3,204,698) | - | (3,204,698) |
| Temporarily restricted net assets: | | | | | | | | | |
| Contributions | - | - | - | - | 211 | - | 211 | - | 211 |
| Interest and dividend income | - | - | - | - | 28,317 | - | 28,317 | - | 28,317 |
| Net realized and unrealized losses | - | - | - | - | (59,946) | - | (59,946) | - | (59,946) |
| Net assets released from restrictions | (21,759) | (366) | - | - | - | - | (22,125) | - | (22,125) |
| Change in temporarily restricted net assets | (21,759) | (366) | - | - | (31,418) | - | (53,543) | - | (53,543) |
| Permanently restricted net assets: | | | | | | | | | |
| Contributions | - | - | - | - | 5,000 | - | 5,000 | - | 5,000 |
| Change in permanently restricted net assets | - | - | - | - | 5,000 | - | 5,000 | - | 5,000 |
| Change in net assets (deficit) | (1,530,774) | (1,123,268) | (245,102) | 600,263 | (295,886) | (658,474) | (3,253,241) | - | (3,253,241) |
| Net assets (deficit), beginning of year | (2,741,539) | (23,853,399) | 174,833 | (2,685,691) | 9,915,459 | (115,582) | (19,305,919) | (75,000) | (19,380,919) |
| Net assets (deficit), end of year | $ (4,272,313) | $ (24,976,667) | $ (70,269) | $ (2,085,428) | $ 9,619,573 | $ (774,056) | $ (22,559,160) | $ (75,000) | $ (22,634,160) |

See accompanying Independent Auditor's Report.

## HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
## For the Year Ended September 30, 2014

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| Changes in unrestricted net assets: | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| Net patient service revenues | $ - | $ 38,196,613 | $ - | $ - | $ - | $ 755,087 | $ 38,951,700 | $ (300,000) | $ 38,651,700 |
| Home health care revenue | - | 35,095 | 6,100,590 | - | - | - | 6,135,685 | - | 6,135,685 |
| Adult day health center services | - | - | 457,619 | - | - | - | 457,619 | - | 457,619 |
| Net patient revenues | - | 38,231,708 | 6,558,209 | - | - | 755,087 | 45,545,004 | (300,000) | 45,245,004 |
| Member services and rental income - Hoffman SummerWood Community | - | - | - | 4,785,469 | - | - | 4,785,469 | - | 4,785,469 |
| Grants | 114,385 | 282,750 | 81,370 | - | - | - | 478,505 | (270,250) | 208,255 |
| Management fees | 1,815,951 | - | - | - | - | - | 1,815,951 | (1,815,951) | - |
| Other income | 9,057 | 81,066 | 7,962 | 309,203 | - | - | 407,288 | (55,368) | 351,920 |
| Net assets released from restrictions used for operations | - | 68,509 | - | - | 121,078 | - | 189,587 | - | 189,587 |
| Total operating revenues | 1,939,393 | 38,664,033 | 6,647,541 | 5,094,672 | 121,078 | 755,087 | 53,221,804 | (2,441,569) | 50,780,235 |
| Operating expenses: | | | | | | | | | |
| Nursing services | - | 17,271,506 | 2,626,014 | - | - | 56,969 | 19,954,489 | (100,000) | 19,854,489 |
| Administration | 1,955,436 | 4,057,808 | 3,734,947 | 1,944,403 | - | 639,795 | 12,332,389 | (1,972,715) | 10,359,674 |
| Health benefits | 256,986 | 4,173,436 | 631,094 | 267,001 | - | 97,092 | 5,425,609 | - | 5,425,609 |
| Nutritional services | - | 2,882,794 | 55,368 | 914,141 | - | - | 3,852,303 | (55,368) | 3,796,935 |
| Medical services | - | 2,499,837 | 22,499 | - | - | 539,482 | 3,061,818 | (43,236) | 3,018,582 |
| Building operations | - | 1,351,565 | 61,121 | 564,517 | - | - | 1,977,203 | - | 1,977,203 |
| Depreciation and amortization | - | 894,715 | 29,603 | 909,230 | - | - | 1,833,548 | - | 1,833,548 |
| Environmental services | - | 1,560,655 | 3,928 | 205,028 | - | - | 1,769,611 | - | 1,769,611 |
| Pharmacy services | - | 1,681,179 | - | - | - | - | 1,681,179 | - | 1,681,179 |
| Provider tax | - | 1,460,018 | - | - | - | - | 1,460,018 | - | 1,460,018 |
| Interest expense | 2,028 | 1,101,140 | - | 217,015 | - | - | 1,320,183 | - | 1,320,183 |
| Rehabilitation services | - | 876,573 | 192,923 | - | - | - | 1,069,496 | - | 1,069,496 |
| Development | 824,396 | - | - | - | - | - | 824,396 | (270,250) | 554,146 |
| Social services | - | 504,128 | 12,057 | - | - | - | 516,185 | - | 516,185 |
| Provision for bad debts | - | 349,999 | 48,428 | - | - | - | 398,427 | - | 398,427 |
| Life enrichment services | - | 377,369 | - | - | - | - | 377,369 | - | 377,369 |
| Health information management | - | 164,037 | - | - | - | - | 164,037 | - | 164,037 |
| Total operating expenses | 3,038,846 | 41,206,759 | 7,417,982 | 5,021,335 | - | 1,333,338 | 58,018,260 | (2,441,569) | 55,576,691 |
| (Loss) income from operations | (1,099,453) | (2,542,726) | (770,441) | 73,337 | 121,078 | (578,251) | (4,796,456) | - | (4,796,456) |
| Non-operating gains (losses): | | | | | | | | | |
| Interest and dividend income and distributions | - | 4,343 | - | 5,094 | 201,907 | - | 211,344 | - | 211,344 |
| Net realized gains on investments | - | (18) | - | 24,789 | 1,338,448 | - | 1,363,219 | - | 1,363,219 |
| Change in cash surrender value of life insurance | - | - | - | - | 22,308 | - | 22,308 | - | 22,308 |
| Donation expense | - | - | - | - | (430,027) | - | (430,027) | 430,027 | - |
| Gifts, bequests, and special events | 1,086,756 | 16 | - | - | 39,601 | - | 1,126,373 | (430,027) | 696,346 |
| Investment fees | - | (316) | - | - | (75,001) | - | (75,317) | - | (75,317) |
| Total non-operating gains | 1,086,756 | 4,025 | - | 29,883 | 1,097,236 | - | 2,217,900 | - | 2,217,900 |
| Excess of revenues over (under) expenses | $ (12,697) | $ (2,538,701) | $ (770,441) | $ 103,220 | $ 1,218,314 | $ (578,251) | $ (2,578,556) | $ - | $ (2,578,556) |

See accompanying Independent Auditor's Report.

HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
For the Year Ended September 30, 2014

| | Hebrew Health Care, Inc. | Hebrew Home and Hospital, Incorporated | Hebrew Community Services, Inc. | Hebrew Life Choices, Inc. | Hebrew Health Care Foundation, Inc. | Connecticut Geriatric Specialty Group, Inc. | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| Other changes in unrestricted net assets (deficit): | | | | | | | | | |
| Excess of revenues over (under) expenses | $ (12,697) | $ (2,538,701) | $ (770,441) | $ 103,220 | $ 1,218,314 | $ (578,251) | $ (2,578,556) | $ - | $ (2,578,556) |
| Net unrealized gains (losses) on investments | - | 7,026 | - | (19,936) | (740,512) | - | (753,422) | - | (753,422) |
| Net asset transfer to HCS and CGSG from HHC | (1,885,644) | - | 1,322,085 | - | - | 563,559 | - | - | - |
| Net asset transfer | (35,696) | - | - | - | - | - | (35,696) | - | (35,696) |
| Change in pension instrument | - | (492,691) | - | - | - | - | (492,691) | - | (492,691) |
| Change in unrestricted net assets (deficit) | (1,934,037) | (3,024,366) | 551,644 | 83,284 | 477,802 | (14,692) | (3,860,365) | - | (3,860,365) |
| Temporarily restricted net assets: | | | | | | | | | |
| Contributions | - | 22,040 | - | - | 7,913 | - | 29,953 | - | 29,953 |
| Net asset transfer | 35,696 | - | - | - | - | - | 35,696 | - | 35,696 |
| Interest and dividend income | - | - | - | - | 33,378 | - | 33,378 | - | 33,378 |
| Net realized and unrealized gains | - | - | - | - | (4,209) | - | (4,209) | - | (4,209) |
| Net assets released from restrictions | - | (68,509) | - | - | (121,078) | - | (189,587) | - | (189,587) |
| Change in temporarily restricted net assets | 35,696 | (46,469) | - | - | (83,996) | - | (94,769) | - | (94,769) |
| Permanently restricted net assets: | | | | | | | | | |
| Contributions | - | - | - | - | 1,935 | - | 1,935 | - | 1,935 |
| Change in permanently restricted net assets | - | - | - | - | 1,935 | - | 1,935 | - | 1,935 |
| Change in net assets (deficit) | (1,898,341) | (3,070,835) | 551,644 | 83,284 | 395,741 | (14,692) | (3,953,199) | - | (3,953,199) |
| Net assets (deficit), beginning of year | (843,198) | (20,782,564) | (376,811) | (2,768,975) | 9,519,718 | (100,890) | (15,352,720) | (75,000) | (15,427,720) |
| Net assets (deficit), end of year | $ (2,741,539) | $ (23,853,399) | $ 174,833 | $ (2,685,691) | $ 9,915,459 | $ (115,582) | $ (19,305,919) | $ (75,000) | $ (19,380,919) |

See accompanying Independent Auditor's Report.