

Hebrew Health Care, Incorporated and Affiliates

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2013 and 2012



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

Hebrew Health Care, Incorporated and Affiliates
Independent Auditors' Report, Consolidated Financial
Statements and Supplemental Information
As of and for the Years Ended September 30, 2013 and 2012

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations and Changes in Net Assets (Deficit)	4
Consolidated Statements of Cash Flows.....	6
Notes to the Consolidated Financial Statements.....	7
Supplemental Information:	
Consolidating Balance Sheet as of September 30, 2013	33
Consolidating Balance Sheet as of September 30, 2012	35
Consolidating Statement of Operations and Changes in Net Assets (Deficit) for the Year Ended September 30, 2013	37
Consolidating Statement of Operations and Changes in Net Assets (Deficit) for the Year Ended September 30, 2012	39



Independent Auditors' Report

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

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 balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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, 2013 and 2012, and the results of its consolidated changes in its net assets and its cash flows for the years 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 2 to the consolidated financial statements, the Organization has suffered recurring losses from operations and has a net working capital deficiency. The Organization is in default with its \$20.2 million Government National Mortgage Association (GNMA)/Wells Fargo mortgage note, which has caused a significant portion of the Organization's long-term debt to be reclassified to current debt, as the debt is now callable by the lender. In addition, the Organization is in violation of certain covenants for 2013 with TD Bank under its line of credit agreement. The Organization did not receive a waiver for these violations as of the date of this report. The Organization was in violation of certain debt covenants with its CHEFA/TD Bank debt, which were waived for 2012. 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 2. 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.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information listed within the table of contents 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 it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual entities. The 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 consolidated financial statements. Such 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 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

January 23, 2014

Hebrew Health Care, Incorporated and Affiliates
Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 252,872	\$ 101,189
Assets limited as to use, current portion	457,902	670,199
Patient accounts receivable, net of allowance for doubtful accounts of \$1,398,952 in 2013 and \$1,070,482 in 2012	4,343,649	4,772,209
Pledges receivable, current portion	120,840	200,700
Other receivables	521,962	557,977
Inventory	256,397	242,846
Prepaid expenses	413,132	369,033
Total current assets	6,366,754	6,914,153
Assets limited as to use, net of current portion:		
Donor restricted investments	2,207,894	2,433,731
Board designated investments	228,198	426,101
Investments restricted under debt agreements	1,220,252	1,803,261
Total assets limited as to use, net of current portion	3,656,344	4,663,093
Property, plant and equipment, net	17,904,251	19,364,218
Other assets:		
Pledges receivable, long-term	30,002	36,102
Cash surrender value of life insurance	115,352	94,019
Investments	6,005,189	5,729,446
Deposits	207,869	207,869
Mortgage acquisition costs, net	831,470	876,194
Due from affiliates	16,945	24,944
Total other assets	7,206,827	6,968,574
Total assets	\$ 35,134,176	\$ 37,910,038
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Notes and bonds payable, current portion	\$ 19,756,903	\$ 19,824,455
Capital lease obligations, current portion	15,423	33,461
Accounts payable and accrued expenses	7,691,233	7,722,492
Lines of credit	4,779,722	4,802,910
Funds held in trust	457,931	670,228
Deferred revenue	615	4,019
Total current liabilities	32,701,827	33,057,565
Notes and bonds payable, net of current portion	15,689,725	16,071,799
Capital lease obligations, net of current portion	40,229	34,189
Accrued pension liability	2,130,115	3,912,819
Total liabilities	50,561,896	53,076,372
Net assets (deficit):		
Unrestricted	(17,959,975)	(18,074,254)
Temporarily restricted	243,992	621,592
Permanently restricted	2,288,263	2,286,328
Total net assets (deficit)	(15,427,720)	(15,166,334)
Total liabilities and net assets (deficit)	\$ 35,134,176	\$ 37,910,038

The accompanying notes are an integral part of these consolidated financial statements.

Hebrew Health Care, Incorporated and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (Deficit)
For the Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Net patient service revenues	\$ 39,304,774	\$ 39,636,855
Home health care revenue	7,055,931	6,958,916
Adult day health center services	544,770	714,384
Net patient revenues	46,905,475	47,310,155
Provision for bad debts	(366,257)	(371,809)
Net patient revenues less provision for bad debts	46,539,218	46,938,346
Member services - SummerWood	4,157,367	3,987,385
Grants	191,740	630,581
Other income	443,446	470,664
Net assets released from restrictions used for operations	544,255	351,412
Total operating revenues	51,876,026	52,378,388
Operating expenses:		
Nursing services	19,669,966	20,399,800
Administration	9,731,732	9,533,503
Health benefits	6,214,571	6,139,302
Nutritional services	3,940,232	4,139,990
Medical services	3,274,799	3,517,348
Building operations	2,014,347	1,962,922
Depreciation and amortization	1,832,543	1,849,349
Environmental services	1,719,118	1,837,155
Pharmacy services	1,643,820	1,683,904
Provider tax	1,433,893	1,500,712
Interest expense	1,335,628	1,374,968
Rehabilitation services	1,097,566	1,234,725
Development	529,075	582,680
Social services	481,025	609,013
Life enrichment services	333,534	449,941
Health information management	172,891	229,116
Total operating expenses	55,424,740	57,044,428
Loss from operations	(3,548,714)	(4,666,040)
Non-operating gains (losses):		
Interest and dividend income and distributions	192,211	230,853
Net realized gains on investments	241,553	148,368
Change in cash surrender value of life insurance	21,333	20,591
Gifts, bequests and special events	930,110	767,660
Investment fees	(73,991)	(76,815)
Total non-operating gains	1,311,216	1,090,657
Deficiency of revenues under expenses	\$ (2,237,498)	\$ (3,575,383)

The accompanying notes are an integral part of these consolidated financial statements.

Hebrew Health Care, Incorporated and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (Deficit) (continued)
For the Years Ended September 30, 2013 and 2012

	2013	2012
Unrestricted net assets (deficit):		
Deficiency of revenues under expenses	\$ (2,237,498)	\$ (3,575,383)
Net unrealized gains on investments	449,637	781,847
Donation for capital campaign	-	2,001
Pension related changes other than net periodic pension cost	1,902,140	275,372
Change in unrestricted net assets (deficit)	114,279	(2,516,163)
Temporarily restricted net assets:		
Contributions	15,059	19,581
Interest and dividend income	37,178	45,169
Net realized and unrealized gains	114,418	103,579
Net assets released from restrictions	(544,255)	(351,412)
Change in temporarily restricted net assets	(377,600)	(183,083)
Permanently restricted net assets:		
Contributions	1,935	155
Change in permanently restricted net assets	1,935	155
Change in net assets (deficit)	(261,386)	(2,699,091)
Net assets (deficit), beginning of year	(15,166,334)	(12,467,243)
Net assets (deficit), end of year	\$ (15,427,720)	\$ (15,166,334)

The accompanying notes are an integral part of these consolidated financial statements.

Hebrew Health Care, Incorporated and Affiliates
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets (deficit)	\$ (261,386)	\$ (2,699,091)
Adjustments to reconcile change in net assets (deficit) to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,832,543	1,849,349
Change in value of beneficial interest in charitable remainder trust	-	43,024
Change in cash surrender value of life insurance policy	(21,333)	(20,591)
Net gain on investments	(805,608)	(1,033,794)
Changes in assets and liabilities:		
Patient accounts receivable	428,560	807,687
Pledges receivable	85,960	215,125
Other receivables	36,015	(15,236)
Inventory	(13,551)	11,467
Prepaid expenses	(44,099)	94,462
Due from affiliates	7,999	(7,291)
Accounts payable and accrued expenses	(31,259)	1,130,994
Deferred revenue	(3,404)	18
Accrued pension liability	(1,782,704)	(166,582)
Net cash (used in) provided by operating activities	(572,267)	209,541
Cash flows from investing activities:		
Purchase of property, plant and equipment	(305,580)	(427,315)
Net proceeds from investments and assets limited as to use	1,536,614	762,373
Net cash provided by investing activities	1,231,034	335,058
Cash flows from financing activities:		
Repayments of notes and bonds payable	(449,626)	(674,407)
Principal payments on capital lease obligations	(34,270)	(36,990)
Net change in lines of credit	(23,188)	101,271
Net cash used in financing activities	(507,084)	(610,126)
Change in cash and cash equivalents	151,683	(65,527)
Cash and cash equivalents, beginning of year	101,189	166,716
Cash and cash equivalents, end of year	\$ 252,872	\$ 101,189
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,335,628	\$ 1,374,968
Non-cash financing activity, capital lease obligation	\$ 22,272	\$ 42,881

The accompanying notes are an integral part of these consolidated financial statements.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 1 - General

Hebrew Health Care, Incorporated and Affiliates (the Organization) consists of the following entities: 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, PC (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 for-profit organization.

Hebrew Health Care, Incorporated is the sole corporate member of each of the Home, HCS, Hoffman SummerWood Community and the Foundation while three of its staff members serve as Board members of CGSG's five member Board. 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 322-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 108-unit assisted living facility.

The Foundation holds board-designated funds, temporarily restricted funds and permanently restricted endowment funds on behalf of its Affiliates.

CGSG began operations in fiscal year 2008, and is a for-profit medical practice, owned by two physician shareholders, whose purpose is to render professional medical services.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hebrew Health Care, Incorporated and Affiliates. All significant inter-company balances and transactions have been eliminated in consolidation.

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 default with its \$20.2 million Government National Mortgage Association (GNMA)/Wells Fargo mortgage note, which has caused a significant portion of the Organization's long-term debt to be reclassified to current debt, as the debt is now callable by the lender. In addition, the Organization is in violation of certain covenants for 2013 with TD Bank under its line of credit agreement. The Organization did not receive a waiver for these violations as of the date of this report. The Organization was in violation of certain debt covenants with its CHEFA/TD Bank debt, which were waived for 2012. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management believes it can renegotiate the mortgage debt with the Department of Housing and Urban Development in 2014. In addition, the Organization is in the process of requesting pension relief for the unfunded pension liability with the Federal government. Management also has plans to reduce operating expenses, however, without State rate relief, there is no assurance to restore operating profitability.

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense 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 bonds.

Charitable Remainder Trust - The Home was named as the final trust beneficiary under an irrevocable charitable remainder trust. During 2012, the trust was exhausted, therefore, the value of the asset was expensed as a change in value of beneficial interest in charitable remainder trust in the consolidated statement of operations and changes in net assets (deficit).

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, 2013 and 2012.

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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 2013 or 2012.

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, 2013 and 2012, 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 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 \$424,056 and \$477,000 under the captions “Other receivables” and “Accounts payable and accrued expenses” in the accompanying consolidated balance sheets, as of September 30, 2013 and 2012, respectively. The balances represent the Organization’s estimate of liabilities and recoveries for certain workers’ compensation and general liability claims. There are no known professional liability claims to record as of September 30, 2013 and 2012.

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Deficiency of Revenues Under Expenses - The consolidated statements of operations and changes in net assets (deficit) 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 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.

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.

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 \$5,500,370 in 2013 and \$6,857,535 in 2012.

Hoffman SummerWood Community is funded through private member service fees.

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 \$254,474 and \$237,266 of volunteer services from the community during each of the years ended September 30, 2013 and 2012, respectively. The majority of these services do not qualify for recording in the statements of operations and changes in net assets (deficit) under GAAP and are therefore not reported in the consolidated statements of operations and changes in net assets (deficit).

Advertising - The Organization's policy is to expense advertising costs as incurred. Advertising costs were \$173,176 and \$233,508 for the years ended September 30, 2013 and 2012, 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. CGSG is a Qualified Personal Service Corporation and as such is subject to a 35% federal income tax rate.

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, 2013 and 2012. As of September 30, 2013 and 2012, 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 May 2011, FASB issued Accounting Standards Update (ASU) 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS", which amends FASB ASC 820, "Fair Value Measurements and Disclosures". ASU 2011-04 amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the consolidated financial statements, but for which the fair value is required to be disclosed. This guidance became effective for the Organization beginning on October 1, 2012. The adoption of this guidance had no impact on the consolidated financial statements.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU 2011-07, "*Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision of Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*". This guidance establishes accounting and disclosure requirements for health care entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entity does not assess a patient's ability to pay. Specifically, the guidance requires that health care entities present bad debt expense associated with net patient service revenue as an offset to net patient service revenue within the consolidated statements of operations and changes in net assets (deficit). Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance requires retrospective application to all prior periods presented. This guidance became effective for the Organization beginning on October 1, 2012. The adoption of this guidance had no impact on the Organization's operating income in the consolidated statements of operations and changes in net assets (deficit), but resulted in additional disclosures in Note 3. All years included have been presented in accordance with the provisions of ASU 2011-07.

Accounting Pronouncements Pending Adoption - In December 2011, the FASB issued ASU 2011-11, "*Disclosures about Offsetting Assets and Liabilities*". This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Organization beginning October 1, 2013, and retrospective application is required. The Organization does not expect this guidance to have an impact on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*". This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance is effective for the Organization beginning October 1, 2013, with early adoption permitted. The Organization does not expect this guidance to have a material impact on its consolidated statements of cash flows.

In January 2013, the FASB issued ASU 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*". This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance is effective for the Organization beginning October 1, 2013, with early adoption permitted. The Organization does not expect this guidance to have a material impact on its consolidated balance sheets.

In February 2013, the FASB issued ASU 2013-04, "*Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*". This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for the Organization beginning October 1, 2014, with early adoption permitted. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

Reclassifications - Certain reclassifications to the 2012 consolidated financial statements have been made in order to conform with the 2013 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Subsequent Events -Subsequent events have been evaluated through January 23, 2014, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross revenues from services to patients	\$ 59,080,335	\$ 59,538,610
Deductions for allowances	<u>(12,174,860)</u>	<u>(12,228,455)</u>
Net revenues from services to patients	<u>\$ 46,905,475</u>	<u>\$ 47,310,155</u>

The Organization's gross revenues received from Medicare and Medicaid were approximately 65% and 72% during the years ended September 30, 2013 and 2012, 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.

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 3 - Net Patient Service Revenues and Concentrations of Credit Risk (continued)

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 \$1,398,952 and \$1,070,482 as of September 30, 2013 and 2012, respectively. The Organization's allowance for doubtful accounts for self-pay patients was 64% and 46% of self-pay accounts receivable as of September 30, 2013 and 2012, respectively. In addition, the Organization's self-pay writeoffs were \$56,036 and \$168,885 for fiscal years 2013 and 2012, respectively. The Organization does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant writeoffs from third-party payers.

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, 2013 and 2012 are distributed as follows:

	2013	2012
Medicaid	49%	37%
Medicare	33%	29%
Private patients and other third-party payers	18%	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 (deficit) was \$15,000 received from the Auxiliary during both of the years ended September 30, 2013 and 2012. Non-interest bearing advances totaling \$16,945 and \$24,944 were due from the Auxiliary as of September 30, 2013 and 2012, respectively. Pledges receivable and temporarily restricted contributions from the Auxiliary were \$26,315 and \$36,315 as of September 30, 2013 and 2012, respectively.

Members of the Organization's Board of Trustees are members of law firms that the Organization used for legal services during 2013 and 2012. Total legal expenses paid to these firms during the years ended September 30, 2013 and 2012 were approximately \$158,000 and \$17,000, respectively. As of September 30, 2013 and 2012, there was \$18,944 and \$31,578 owed to these firms, respectively.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Related Party Transactions (continued)

The Organization also purchases services from companies owned by or employing individual board members. Total amounts expended for such services, which primarily includes insurance services, during the years ended September 30, 2013 and 2012 totaled approximately \$92,000 and \$585,000, respectively. As of September 30, 2013 and 2012, there was \$191 and \$62,430 owed to these companies, respectively. There is one member of the Board of the Foundation who holds a position at Farmington Bank, an institution with which the Organization had a note payable as of September 30, 2012. The note was paid in its entirety as of September 30, 2013.

Note 5 - Assets Limited as to Use

The following is a summary of assets limited as to use, as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Current assets limited as to use:		
Security deposits - cash	\$ 343,149	\$ 339,843
Patient funds held in trust - cash	114,753	330,356
	<u>457,902</u>	<u>670,199</u>
Investments restricted under debt agreements:		
Mortgage reserve funds	193,828	439,780
Liquidity reserve fund	956,313	858,821
Other reserves - Farmington Bank	7,496	132,055
Replacement reserve funds	62,615	372,605
Donor and board restricted investments	<u>2,436,092</u>	<u>2,859,832</u>
	<u>3,656,344</u>	<u>4,663,093</u>
Total assets limited as to use	<u>\$ 4,114,246</u>	<u>\$ 5,333,292</u>

The following is a summary of the asset allocation of assets limited to use, as of September 30, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Cash and cash equivalents	\$ 629,947	15%	\$ 1,279,661	24%
U.S. obligations	942,825	23%	851,180	16%
Fixed income	27,575	1%	28,917	1%
Time deposits	-	-	250,000	5%
Equities	77,807	2%	63,702	1%
Donor and board restricted investments	<u>2,436,092</u>	<u>59%</u>	<u>2,859,832</u>	<u>53%</u>
	<u>\$ 4,114,246</u>	<u>100%</u>	<u>\$ 5,333,292</u>	<u>100%</u>

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 6 - Property, Plant and Equipment

The following is a summary of the Organization's property, plant and equipment as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 2,612,381	\$ 2,612,381
Building and building improvements	44,191,251	44,035,556
Furnishings and equipment	4,710,775	4,565,996
Motor vehicles	414,082	414,082
Construction in progress	237,606	210,228
Total	<u>52,166,095</u>	<u>51,838,243</u>
Less: Accumulated depreciation	<u>(34,261,844)</u>	<u>(32,474,025)</u>
Net property, plant and equipment	<u>\$ 17,904,251</u>	<u>\$ 19,364,218</u>

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Pooled funds held by JCF	\$ 3,443,673	\$ 3,764,471
Domestic equity securities	3,483,335	3,018,527
International equity securities	24,399	17,715
Bonds	1,900	29,900
Money market funds	161,537	207,635
Domestic fixed income	1,287,108	1,536,707
International fixed income	16,871	4,538
Hedge funds	10,154	-
Public REITs	10,868	6,497
Commodity funds	1,436	3,288
Total	<u>\$ 8,441,281</u>	<u>\$ 8,589,278</u>

As of September 30, 2013 and 2012, net realized and change in unrealized gains on investments and assets limited as to use totaled \$805,608 and \$1,033,794, respectively.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 7 - Investments (continued)

The pooled funds represent approximately 3.6% and 4.5% of the units in a portfolio of investments managed by the JCF as of September 30, 2013 and 2012, respectively.

The following is a summary of the asset allocation of the pooled funds at JCF as of September 30, 2013 and 2012:

	2013	2012
Equities	60%	59%
U.S. obligations and bonds	23%	25%
Alternative investments	13%	14%
Cash and equivalents	4%	2%
	100%	100%
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, 2013 and 2012, JCF held \$1,704,983 and \$1,522,999, respectively, of certain designated and charitable gift annuities for the benefit of the Organization.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2013:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2013						
Equities:						
Consumer staples	\$ -	\$ -	\$ 49,623	\$ (625)	\$ 49,623	\$ (625)
Energy	45,390	(2,114)	-	-	45,390	(2,114)
Materials	21,952	(1,538)	35,726	(11,423)	57,678	(12,961)
Mutual funds	-	-	7,512	(1,039)	7,512	(1,039)
Fixed income	470,396	(10,980)	338,738	(16,793)	809,134	(27,773)
Commodity funds	-	-	1,436	(639)	1,436	(639)
Total	\$ 537,738	\$ (14,632)	\$ 433,035	\$ (30,519)	\$ 970,773	\$ (45,151)

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 7 - Investments (continued)

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2012:

<u>2012</u>	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities:						
Consumer discretionary	\$ 35,910	\$ (560)	\$ -	\$ -	\$ 35,910	\$ (560)
Consumer staples	51,585	(773)	31,257	(9,334)	82,842	(10,107)
Energy	82,954	(2,551)	-	-	82,954	(2,551)
Health care	15,663	(3,418)	-	-	15,663	(3,418)
Industrial	21,471	(502)	-	-	21,471	(502)
Information technology	30,422	(3,071)	87,557	(16,939)	117,979	(20,010)
Materials	44,330	(5,042)	-	-	44,330	(5,042)
Mutual funds	-	-	383,408	(6,131)	383,408	(6,131)
Fixed income	483,939	(5,972)	-	-	483,939	(5,972)
Commodity funds	-	-	3,288	(712)	3,288	(712)
Total	<u>\$ 766,274</u>	<u>\$ (21,889)</u>	<u>\$ 505,510</u>	<u>\$ (33,116)</u>	<u>\$ 1,271,784</u>	<u>\$ (55,005)</u>

In 2013 and 2012, these unrealized losses were determined not to be other than temporary impaired based on the guidance provided in FASB ASC 320, "Investments - Debt and Equity Securities".

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 8 - Fair Value Measurements (continued)

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.

The following table presents the financial instruments carried at fair value as of September 30, 2013 by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (including donor and board restricted):				
Pooled funds held in custody	\$ -	\$ -	\$ 3,443,673	\$ 3,443,673
Domestic equity securities	3,483,335	-	-	3,483,335
International equity securities	24,399	-	-	24,399
Bonds	-	1,900	-	1,900
Money market funds	-	161,537	-	161,537
Domestic fixed income	-	1,287,108	-	1,287,108
International fixed income	-	16,871	-	16,871
Hedge funds	-	10,154	-	10,154
Public REITs	-	10,868	-	10,868
Commodity funds	-	1,436	-	1,436
Total	<u>3,507,734</u>	<u>1,489,874</u>	<u>3,443,673</u>	<u>8,441,281</u>
Other assets limited as to use:				
Cash and cash equivalents	629,947	-	-	629,947
U.S. obligations	-	942,825	-	942,825
Fixed income	-	27,575	-	27,575
Equities	77,807	-	-	77,807
Total	<u>707,754</u>	<u>970,400</u>	<u>-</u>	<u>1,678,154</u>
Pension plan assets:				
Cash	11,263	-	-	11,263
Money market funds	-	47,835	-	47,835
Corporate and foreign bonds	-	531,001	-	531,001
Common equity funds	3,369,224	-	-	3,369,224
Preferred equity securities	104,973	-	-	104,973
Mutual funds	966,066	959,745	-	1,925,811
Total	<u>4,451,526</u>	<u>1,538,581</u>	<u>-</u>	<u>5,990,107</u>
Total	<u>\$ 8,667,014</u>	<u>\$ 3,998,855</u>	<u>\$ 3,443,673</u>	<u>\$ 16,109,542</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 8 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2012 by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (including donor and board restricted):				
Pooled funds held in custody	\$ -	\$ -	\$ 3,764,471	\$ 3,764,471
Domestic equity securities	3,018,527	-	-	3,018,527
International equity securities	17,715	-	-	17,715
Bonds	-	29,900	-	29,900
Money market funds	-	207,635	-	207,635
Domestic fixed income	-	1,536,707	-	1,536,707
International fixed income	-	4,538	-	4,538
Public REITs	-	6,497	-	6,497
Commodity funds	-	3,288	-	3,288
Total	<u>3,036,242</u>	<u>1,788,565</u>	<u>3,764,471</u>	<u>8,589,278</u>
Other assets limited as to use:				
Cash and cash equivalents	1,279,661	-	-	1,279,661
U.S. obligations	-	851,180	-	851,180
Fixed income	-	28,917	-	28,917
Time deposits	-	250,000	-	250,000
Equities	63,702	-	-	63,702
Total	<u>1,343,363</u>	<u>1,130,097</u>	<u>-</u>	<u>2,473,460</u>
Pension plan assets:				
Cash	6,409	-	-	6,409
Money market funds	-	111,362	-	111,362
Corporate and foreign bonds	-	491,424	-	491,424
Common equity funds	3,105,945	-	-	3,105,945
Preferred equity securities	129,655	-	-	129,655
Mutual funds	647,124	910,594	-	1,557,718
Total	<u>3,889,133</u>	<u>1,513,380</u>	<u>-</u>	<u>5,402,513</u>
Total	<u>\$ 8,268,738</u>	<u>\$ 4,432,042</u>	<u>\$ 3,764,471</u>	<u>\$ 16,465,251</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 8 - Fair Value Measurements (continued)

A rollforward as of September 30, 2013 and 2012 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

	<u>Pooled Funds</u>	<u>Beneficial Interest</u>	<u>Total</u>
Balance as of October 1, 2011	\$ 3,658,987	\$ 43,024	\$ 3,702,011
Change in beneficial interest	-	(43,024)	(43,024)
Investment income:			
Net realized/unrealized gain on investments	516,324	-	516,324
Interest and dividends	84,305	-	84,305
Investment fees	(41,054)	-	(41,054)
Distributions	(485,000)	-	(485,000)
Purchase of investments	30,909	-	30,909
	<u>3,764,471</u>	<u>-</u>	<u>3,764,471</u>
Balance as of September 30, 2012	3,764,471	-	3,764,471
Investment income:			
Net realized/unrealized gain on investments	399,443	-	399,443
Interest and dividends	62,256	-	62,256
Investment fees	(36,835)	-	(36,835)
Distributions	(840,472)	-	(840,472)
Purchase of investments	94,810	-	94,810
	<u>94,810</u>	<u>-</u>	<u>94,810</u>
Balance as of September 30, 2013	<u>\$ 3,443,673</u>	<u>\$ -</u>	<u>\$ 3,443,673</u>

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 investment trust funds, commodity funds, time deposits and money market funds.

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 8 - Fair Value Measurements (continued)

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 Endowment Foundation, which is disclosed in Level 3 above.

	<u>Fair Value</u>	<u># of Funds</u>	<u>Unfunded Commitments</u>	<u>Timing to Draw Down</u>	<u>Redemption Period</u>	<u>Redemption Notice Period</u>	<u>Remaining Life</u>
Pooled funds held in custody (a)	\$ 3,443,673	1	\$ -	N/A	Monthly	60 days or 6 months if 100% redemption	N/A

- (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 net asset value (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, 2013 and 2012.

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, 2013 and 2012, there have been no significant transfers in or out of Levels 1, 2 or 3.

As of September 30, 2013 and 2012, 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 were recorded at their present value, discounted using a 5% rate.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pledges Receivable (continued)

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 approximately 4% to approximately 5%.

	<u>2013</u>	<u>2012</u>
Pledges receivable, gross	\$ 199,275	\$ 267,400
Less: unamortized discount	<u>(48,433)</u>	<u>(30,598)</u>
Net unconditional promises to give	<u>\$ 150,842</u>	<u>\$ 236,802</u>
Due within one year	\$ 120,840	\$ 200,700
Due in one to five years	<u>78,435</u>	<u>66,700</u>
Total	<u>\$ 199,275</u>	<u>\$ 267,400</u>

Note 10 - Lines of Credit

As of September 30, 2013 and 2012, the Organization had three line of credit agreements with TD Bank. The first line of credit agreement has total availability of \$3,500,000 payable on demand, with interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% as of September 30, 2013 and 2012. The first line of credit is secured by \$4,796,900 and \$4,607,067 of marketable securities maintained at TD Wealth Management and is subject to certain covenants as of September 30, 2013 and 2012, respectively. 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 Organization 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 Organization was in violation of this financial covenant for the years ended September 30, 2013 and 2012, however, this violation is in the process of being waived by the bank for 2013 and was waived by the bank for 2012.

The second line of credit agreement has a total availability of \$1,500,000 payable on demand, with interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% as of September 30, 2013 and 2012. The second line of credit is secured by investments of the Foundation. The Organization 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 Organization was in violation of its financial covenant under this agreement for the year ended September 30, 2012, however, this covenant was waived by TD Bank. The Organization was in compliance with the financial covenant for the year ended September 30, 2013.

The balances outstanding on these two lines of credit totaled \$4,779,722 and \$4,802,910 as of September 30, 2013 and 2012, respectively, and are subject to annual review. These lines of credit expired on May 31, 2013 and are in the process of renegotiation and pending renewal. It is uncertain as to whether these lines of credit will be renewed by the bank. These lines of credit are included within current liabilities on the consolidated balance sheets.

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, 2013 and 2012.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 11 - Notes and Bonds Payable

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

	2013	2012
\$20,242,000 Government National Mortgage Association (GNMA) mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association	\$ 19,375,475	\$ 19,424,575
\$17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B	16,050,000	16,400,000
Note payable to the Metropolitan District Commission in annual installments totaling \$13,611, including interest at 6%, maturing in June, 2015	21,153	32,581
Note payable to Farmington Bank in monthly installments totaling \$7,858, including interest at 5.6%, matured in February, 2013	-	39,098
	35,446,628	35,896,254
Less: Current portion	(19,756,903)	(19,824,455)
Total	\$ 15,689,725	\$ 16,071,799

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

2014	\$ 19,756,903
2015	394,725
2016	405,000
2017	425,000
2018	445,000
Thereafter	14,020,000
	\$ 35,446,628

Wells Fargo Mortgage - The mortgage is payable to Wells Fargo Bank in monthly installments of \$105,435, including interest at 5.0% through October 2041 and is secured by land and buildings. The Federal Housing Administration under the Section 223(a)(7) Housing Program insures the note payable. During the years ended September 30, 2013 and 2012, the Organization incurred \$961,885 and \$976,649, respectively, in interest expense related to the mortgage. The fair value of the debt is approximately equal to its carrying value as of September 30, 2013 and 2012.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 11 - Notes and Bonds Payable (continued)

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 is in default of its mortgage note as the Organization has stopped paying its mortgage payments since October 2012. The non-payments are an event of default and this default has caused the mortgage note to be reclassified to current debt, as the debt is now callable by the lender.

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, 2015. During the years ended September 30, 2013 and 2012, the Organization incurred \$166,253 and \$168,004, respectively, in interest expense related to the bonds. The interest rate related to these bonds is a variable rate, which was .09% and .17% as of September 30, 2013 and 2012, respectively. The fair value of the debt is approximately equal to its carrying value as of September 30, 2013 and 2012.

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.

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.

The Organization 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 and an operating ratio of 1.00. The Organization was in violation of the debt service coverage ratio covenant for the year ended September 30, 2012, however, the Organization received a waiver for this covenant violation. During 2013, there was an amendment to the covenants, which eliminated the operating ratio requirement. The Organization was in compliance with the debt service coverage ratio for the year ended September 30, 2013.

Note 12 - Capital Lease Obligations

During 2008, the Organization entered into a lease arrangement, due in monthly payments of \$2,700 through May 2013, collateralized by telemetry equipment with a net book value of \$29,275 as of September 30, 2012. There was an outstanding balance of \$21,280 as of September 30, 2012. There was no net book value or outstanding balance on the obligation as of September 30, 2013.

During 2009, the Organization entered into a lease arrangement, due in monthly payments of \$643 through January 2013, collateralized by the leased equipment with a net book value \$1,632 as of September 30, 2012. There was an outstanding balance of \$3,489 as of September 30, 2012. There was no net book value or outstanding balance on the obligation as of September 30, 2013.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 12 - Capital Lease Obligations (continued)

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 \$27,417 and \$40,578 as of September 30, 2013 and 2012, respectively. There was an outstanding balance of \$33,380 and \$42,881 as of September 30, 2013 and 2012, respectively.

During 2013, the Organization entered into a lease arrangement, due in monthly payments of \$1,009 through August 2016, collateralized by the leased equipment with a net book value of \$24,385 as of September 30, 2013. There was an outstanding balance of \$22,272 as of September 30, 2013.

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

2014	\$	23,519
2015		23,519
2016		22,262
2017		1,903
		71,203
Less: Amounts representing interest		(15,551)
Total	\$	55,652

Note 13 - Accounts Payable and Accrued Expenses

The following is a summary of accounts payable and accrued expenses, as of September 30, 2013 and 2012:

	2013	2012
Accounts payable	\$ 3,496,098	\$ 3,668,755
Accrued vacation	2,439,229	2,526,229
Accrued employee benefits	684,588	514,290
Accrued payroll	708,570	630,254
Provider tax	362,748	382,964
Total	\$ 7,691,233	\$ 7,722,492

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, 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. Contributions to the plan totaled \$262,942 and \$305,748 for the years ended September 30, 2013 and 2012, respectively. Information as to the amount of net assets available for benefits is not available.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 14 - Pension Plans (continued)

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 \$278,560 and \$299,703 for the years ended September 30, 2013 and 2012, 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 1% and 2% of the employees annual salary in 2013 and 2012, 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 Directors, which amounted to \$157,824 and \$169,321 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012 are as follows:

	2013	2012
Changes in benefit obligations:		
Benefit obligations at beginning of year	\$ 9,315,332	\$ 8,647,182
Interest cost	374,819	395,949
Benefits paid to participants	(373,187)	(350,364)
Actuarial (gain) loss	(1,196,742)	622,565
	\$ 8,120,222	\$ 9,315,332
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 5,402,513	\$ 4,567,781
Actual return on plan assets	682,221	885,393
Employer contributions	278,560	299,703
Benefits paid	(373,187)	(350,364)
	\$ 5,990,107	\$ 5,402,513
Accrued pension liability (no current portion is due)	\$ (2,130,115)	\$ (3,912,819)

The following were the weighted-average assumptions used to determine the pension benefit obligations as of September 30, 2013 and 2012:

	2013	2012
Discount rate	5.05%	4.10%
Expected return on plan assets	7.50%	7.50%

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 14 - Pension Plans (continued)

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Discount rate	4.10%	4.65%
Expected long-term return on plan assets	8.00%	8.00%

Amounts recorded in unrestricted net assets as of September 30, 2013 and 2012, not yet amortized as components of net periodic benefit costs, are as follows:

	<u>2013</u>	<u>2012</u>
Net actuarial loss	<u>\$ 2,297,169</u>	<u>\$ 4,199,309</u>

The amortization of the above items expected to be recognized in net periodic benefit costs is \$242,828 for the year ended September 30, 2014.

The components of net periodic benefit cost for the years ended September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Components of net periodic benefit cost:		
Interest cost	\$ 374,819	\$ 395,949
Expected return on plan assets	(366,866)	(347,110)
Recognized net loss	<u>390,043</u>	<u>359,654</u>
Net periodic benefit cost	<u>\$ 397,996</u>	<u>\$ 408,493</u>

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.

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

	<u>2013</u>	<u>2012</u>
Equity securities	74%	72%
Debt securities	25%	26%
Cash equivalents	<u>1%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 14 - Pension Plans (continued)

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

2014	\$	852,000
2015	\$	497,000
2016	\$	714,000
2017	\$	532,000
2018	\$	470,000
2019 - 2023	\$	3,468,000

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 approximately \$6,214,571 and \$6,139,302 for the years ended September 30, 2013 and 2012, respectively. The Organization has also recorded a liability for incurred but not reported claims of \$456,994 and \$325,000 as of September 30, 2013 and 2012, 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 2015. 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. Rental expense under these leases amounted to \$84,702 and \$86,510 for the years ended September 30, 2013 and 2012, respectively.

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

2014	\$	86,384
2015	\$	87,717
2016	\$	33,069

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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 (deficit) as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Ticket sales and sponsorships	\$ 312,455	\$ 251,363
Less: Expenses	<u>(121,256)</u>	<u>(58,685)</u>
Net special events income	<u>\$ 191,199</u>	<u>\$ 192,678</u>

Note 18 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Harry and Jeanette Weinberg Foundation Challenge	\$ -	\$ 354,930
Second Century Campaign	45,637	159,435
Other funds	27,885	28,080
Annual Fund	28,500	28,500
The Music Fund	18,950	13,800
The Rabbi Fund	-	3,302
Appreciation of permanently restricted net assets	<u>123,020</u>	<u>33,545</u>
Total	<u>\$ 243,992</u>	<u>\$ 621,592</u>

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 \$2,288,263 and \$2,286,328 as of September 30, 2013 and 2012, 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, 2013 and 2012, the Organization had received \$1,035,000 and \$1,056,000 of conditional promises to contribute to the Organization's *Second Century Campaign*. These contributions will be recorded as donor intention when received or when the condition has been met.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012. The \$424,056 and \$477,000 of expected insurance liabilities and recoveries as of September 30, 2013 and 2012, 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, 2013 and 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 2011	\$ 340,676	\$ 1,962	\$ 2,286,173	\$ 2,628,811
Investment return:				
Investment income	16,645	45,169	-	61,814
Net change in market value	102,268	103,579	-	205,847
Contributions	23,199	7,532	155	30,886
Distributions and fees	<u>(56,687)</u>	<u>(124,697)</u>	<u>-</u>	<u>(181,384)</u>
Balance as of September 30, 2012	426,101	33,545	2,286,328	2,745,974
Investment return:				
Investment income	14,771	37,178	-	51,949
Net change in market value	94,453	114,418	-	208,871
Contributions	88,536	4,339	1,935	94,810
Distributions and fees	<u>(395,663)</u>	<u>(66,460)</u>	<u>-</u>	<u>(462,123)</u>
Balance as of September 30, 2013	<u>\$ 228,198</u>	<u>\$ 123,020</u>	<u>\$ 2,288,263</u>	<u>\$ 2,639,481</u>

The Organization's endowment net assets consist of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors 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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 22 - Endowment Net Assets (continued)

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. During the years ended September 30, 2013 and 2012, the Board of Trustees approved an appropriation in the amount of \$462,123 and \$181,384, respectively.

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.

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 \$400,000 for the years ended September 30, 2013 and 2012.

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 approximately \$173,519 and \$240,016 for the years ended September 30, 2013 and 2012, respectively, and have been accounted for in unrestricted realized and unrealized losses. During the year ended September 30, 2013 and 2012, gains of approximately \$66,497 and \$86,997 associated with donor restricted funds were recorded as unrestricted to restore deficiency losses recorded in unrestricted net assets as of September 30, 2013 and 2012, respectively.

Note 23 - Functional Expenses

Expenses of the Organization incurred during the years ended September 30, 2013 and 2012, by functional area, were as follows:

	<u>2013</u>	<u>2012</u>
Health care services	\$ 38,004,734	\$ 38,891,956
General and administrative	17,214,964	17,890,087
Fundraising	<u>205,042</u>	<u>262,385</u>
Total	<u>\$ 55,424,740</u>	<u>\$ 57,044,428</u>

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet
September 30, 2013

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Assets									
Current assets:									
Cash and cash equivalents	\$ 156,722	\$ 29,235	\$ 63,583	\$ -	\$ 3,332	\$ -	\$ 252,872	\$ -	\$ 252,872
Assets limited as to use, current portion	-	112,253	-	345,649	-	-	457,902	-	457,902
Patient accounts receivable, net of allowance for doubtful accounts of \$1,398,952	-	3,478,478	854,179	10,992	-	-	4,343,649	-	4,343,649
Pledges receivable, current portion	110,840	10,000	-	-	-	-	120,840	-	120,840
Other receivables	56,598	426,278	-	-	174,000	39,086	695,962	(174,000)	521,962
Inventory	-	256,397	-	-	-	-	256,397	-	256,397
Prepaid expenses	15,585	279,474	4,022	98,344	-	15,707	413,132	-	413,132
Total current assets	339,745	4,592,115	921,784	454,985	177,332	54,793	6,540,754	(174,000)	6,366,754
Assets limited as to use, net of current portion:									
Donor restricted investments	-	-	-	-	2,207,894	-	2,207,894	-	2,207,894
Board designated investments	-	-	-	-	228,198	-	228,198	-	228,198
Investments restricted under debt agreements	-	41,913	-	1,178,339	-	-	1,220,252	-	1,220,252
Total assets limited as to use, net of current portion	-	41,913	-	1,178,339	2,436,092	-	3,656,344	-	3,656,344
Property, plant and equipment, net	-	4,599,661	86,692	13,292,898	-	-	17,979,251	(75,000)	17,904,251
Other assets:									
Pledges receivable, long-term	13,687	16,315	-	-	-	-	30,002	-	30,002
Cash surrender value of life insurance	-	-	-	-	115,352	-	115,352	-	115,352
Investments	-	198,250	-	-	5,806,939	-	6,005,189	-	6,005,189
Deposits	-	198,278	9,591	-	-	-	207,869	-	207,869
Mortgage acquisition costs, net	-	337,574	-	493,896	-	-	831,470	-	831,470
Due from affiliates	947,637	740,867	106,628	-	1,015,522	-	2,810,654	(2,793,709)	16,945
Total other assets	961,324	1,491,284	116,219	493,896	6,937,813	-	10,000,536	(2,793,709)	7,206,827
Total assets	\$ 1,301,069	\$ 10,724,973	\$ 1,124,695	\$ 15,420,118	\$ 9,551,237	\$ 54,793	\$ 38,176,885	\$ (3,042,709)	\$ 35,134,176

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet (continued)
September 30, 2013

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Notes and bonds payable, current portion	\$ -	\$ 19,375,475	\$ -	\$ 381,428	\$ -	\$ -	\$ 19,756,903	\$ -	\$ 19,756,903
Capital lease obligations, current portion	-	5,441	-	9,982	-	-	15,423	-	15,423
Accounts payable and accrued expenses	387,878	6,367,423	483,805	296,444	-	155,683	7,691,233	-	7,691,233
Lines of credit	-	3,499,999	-	1,279,723	-	-	4,779,722	-	4,779,722
Funds held in trust	-	112,253	-	345,678	-	-	457,931	-	457,931
Deferred revenue	-	-	615	-	-	-	615	-	615
Total current liabilities	387,878	29,360,591	484,420	2,313,255	-	155,683	32,701,827	-	32,701,827
Due to affiliates	1,756,389	-	843,086	162,715	31,519	-	2,793,709	(2,793,709)	-
Notes and bonds payable, net of current portion	-	-	174,000	15,689,725	-	-	15,863,725	(174,000)	15,689,725
Capital lease obligations, net of current portion	-	16,831	-	23,398	-	-	40,229	-	40,229
Accrued pension liability	-	2,130,115	-	-	-	-	2,130,115	-	2,130,115
Total liabilities	2,144,267	31,507,537	1,501,506	18,189,093	31,519	155,683	53,529,605	(2,967,709)	50,561,896
Net assets (deficit):									
Unrestricted	(871,698)	(20,875,036)	(381,811)	(2,768,975)	7,113,435	(100,890)	(17,884,975)	(75,000)	(17,959,975)
Temporarily restricted	28,500	92,472	-	-	123,020	-	243,992	-	243,992
Permanently restricted	-	-	5,000	-	2,283,263	-	2,288,263	-	2,288,263
Net assets (deficit)	(843,198)	(20,782,564)	(376,811)	(2,768,975)	9,519,718	(100,890)	(15,352,720)	(75,000)	(15,427,720)
Total liabilities and net assets (deficit)	\$ 1,301,069	\$ 10,724,973	\$ 1,124,695	\$ 15,420,118	\$ 9,551,237	\$ 54,793	\$ 38,176,885	\$ (3,042,709)	\$ 35,134,176

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet
September 30, 2012

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Assets									
Current assets:									
Cash and cash equivalents	\$ 67,870	\$ 25,749	\$ 837	\$ 3,404	\$ 3,329	\$ -	\$ 101,189	\$ -	\$ 101,189
Assets limited as to use, current portion	-	326,856	-	343,343	-	-	670,199	-	670,199
Patient accounts receivable, net of allowance for doubtful accounts of \$1,070,482	-	3,983,608	786,975	1,626	-	-	4,772,209	-	4,772,209
Pledges receivable, current portion	190,700	10,000	-	-	-	-	200,700	-	200,700
Other receivables	12,796	545,181	-	-	174,000	-	731,977	(174,000)	557,977
Inventory	-	242,846	-	-	-	-	242,846	-	242,846
Prepaid expenses	3,654	220,109	10,853	113,421	-	20,996	369,033	-	369,033
Total current assets	275,020	5,354,349	798,665	461,794	177,329	20,996	7,088,153	(174,000)	6,914,153
Assets limited as to use, net of current portion:									
Donor restricted investments	-	-	-	-	2,433,731	-	2,433,731	-	2,433,731
Board designated investments	-	-	-	-	426,101	-	426,101	-	426,101
Investments restricted under debt agreements	-	725,705	-	1,077,556	-	-	1,803,261	-	1,803,261
Total assets limited as to use, net of current portion	-	725,705	-	1,077,556	2,859,832	-	4,663,093	-	4,663,093
Property, plant and equipment, net	-	5,310,970	113,271	14,014,977	-	-	19,439,218	(75,000)	19,364,218
Other assets:									
Pledges receivable, long-term	9,787	26,315	-	-	-	-	36,102	-	36,102
Cash surrender value of life insurance	-	-	-	-	94,019	-	94,019	-	94,019
Investments	-	215,282	-	-	5,514,164	-	5,729,446	-	5,729,446
Deposits	-	198,278	9,591	-	-	-	207,869	-	207,869
Mortgage acquisition costs, net	-	349,574	-	526,620	-	-	876,194	-	876,194
Due from affiliates	498,755	248,245	78,420	-	258,926	-	1,084,346	(1,059,402)	24,944
Total other assets	508,542	1,037,694	88,011	526,620	5,867,109	-	8,027,976	(1,059,402)	6,968,574
Total assets	\$ 783,562	\$ 12,428,718	\$ 999,947	\$ 16,080,947	\$ 8,904,270	\$ 20,996	\$ 39,218,440	\$ (1,308,402)	\$ 37,910,038

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet (continued)
September 30, 2012

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Notes and bonds payable, current portion	\$ -	\$ 19,463,673	\$ -	\$ 360,782	\$ -	\$ -	\$ 19,824,455	\$ -	\$ 19,824,455
Capital lease obligations, current portion	-	24,769	-	8,692	-	-	33,461	-	33,461
Accounts payable and accrued expenses	369,477	6,282,274	474,526	304,649	-	291,566	7,722,492	-	7,722,492
Lines of credit	-	3,499,999	-	1,302,911	-	-	4,802,910	-	4,802,910
Funds held in trust	-	326,856	-	343,372	-	-	670,228	-	670,228
Deferred revenue	-	-	4,019	-	-	-	4,019	-	4,019
Total current liabilities	369,477	29,597,571	478,545	2,320,406	-	291,566	33,057,565	-	33,057,565
Due to affiliates	481,271	-	473,811	72,801	31,519	-	1,059,402	(1,059,402)	-
Notes and bonds payable, net of current portion	-	-	174,000	16,071,799	-	-	16,245,799	(174,000)	16,071,799
Capital lease obligations, net of current portion	-	-	-	34,189	-	-	34,189	-	34,189
Accrued pension liability	-	3,912,819	-	-	-	-	3,912,819	-	3,912,819
Total liabilities	850,748	33,510,390	1,126,356	18,499,195	31,519	291,566	54,309,774	(1,233,402)	53,076,372
Net assets (deficit):									
Unrestricted	(95,686)	(21,641,219)	(131,409)	(2,418,248)	6,557,878	(270,570)	(17,999,254)	(75,000)	(18,074,254)
Temporarily restricted	28,500	559,547	-	-	33,545	-	621,592	-	621,592
Permanently restricted	-	-	5,000	-	2,281,328	-	2,286,328	-	2,286,328
Net assets (deficit)	(67,186)	(21,081,672)	(126,409)	(2,418,248)	8,872,751	(270,570)	(15,091,334)	(75,000)	(15,166,334)
Total liabilities and net assets (deficit)	\$ 783,562	\$ 12,428,718	\$ 999,947	\$ 16,080,947	\$ 8,904,270	\$ 20,996	\$ 39,218,440	\$ (1,308,402)	\$ 37,910,038

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit)
For the Year Ended September 30, 2013

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Operating revenues:									
Net patient service revenues	\$ -	\$ 38,669,209	\$ -	\$ -	\$ -	\$ 1,050,564	\$ 39,719,773	\$ (414,999)	\$ 39,304,774
Home health care revenue	-	31,772	7,024,159	-	-	-	7,055,931	-	7,055,931
Adult day health center services	-	-	544,770	-	-	-	544,770	-	544,770
Net patient revenues	-	38,700,981	7,568,929	-	-	1,050,564	47,320,474	(414,999)	46,905,475
Provision for bad debts	-	(349,999)	(16,258)	-	-	-	(366,257)	-	(366,257)
Net patient revenues less provision for bad debts	-	38,350,982	7,552,671	-	-	1,050,564	46,954,217	(414,999)	46,539,218
Member services - SummerWood	-	-	-	4,157,367	-	-	4,157,367	-	4,157,367
Grants	84,273	476,392	100,467	-	-	-	661,132	(469,392)	191,740
Management fees	2,677,164	-	-	-	-	-	2,677,164	(2,677,164)	-
Other income	12,004	2,143,752	4,211	325,609	-	-	2,485,576	(2,042,130)	443,446
Net assets released from restrictions used for operations	-	477,795	-	-	66,460	-	544,255	-	544,255
Total operating revenues	2,773,441	41,448,921	7,657,349	4,482,976	66,460	1,050,564	57,479,711	(5,603,685)	51,876,026
Operating expenses:									
Nursing services	-	17,177,957	2,727,133	-	-	104,876	20,009,966	(340,000)	19,669,966
Administration	2,775,995	4,519,141	4,182,233	1,903,744	-	909,839	14,290,952	(4,559,220)	9,731,732
Health benefits	239,735	4,907,248	707,627	231,237	-	128,724	6,214,571	-	6,214,571
Nutritional services	-	3,072,937	68,387	867,295	-	-	4,008,619	(68,387)	3,940,232
Medical services	-	2,869,111	34,319	-	-	513,457	3,416,887	(142,088)	3,274,799
Building operations	-	1,426,733	66,605	521,009	-	-	2,014,347	-	2,014,347
Depreciation and amortization	-	906,323	31,755	894,465	-	-	1,832,543	-	1,832,543
Environmental services	-	1,523,280	2,670	193,168	-	-	1,719,118	-	1,719,118
Pharmacy services	-	1,643,820	-	-	-	-	1,643,820	-	1,643,820
Provider tax	-	1,433,893	-	-	-	-	1,433,893	-	1,433,893
Interest expense	-	1,099,173	-	236,455	-	-	1,335,628	-	1,335,628
Rehabilitation services	-	1,049,245	48,321	-	-	-	1,097,566	-	1,097,566
Development	998,467	-	-	-	-	-	998,467	(469,392)	529,075
Social services	-	442,324	38,701	-	-	-	481,025	-	481,025
Life enrichment services	-	358,132	-	-	-	-	358,132	(24,598)	333,534
Health information management	-	172,891	-	-	-	-	172,891	-	172,891
Total operating expenses	4,014,197	42,602,208	7,907,751	4,847,373	-	1,656,896	61,028,425	(5,603,685)	55,424,740
(Loss) income from operations	(1,240,756)	(1,153,287)	(250,402)	(364,397)	66,460	(606,332)	(3,548,714)	-	(3,548,714)
Non-operating gains (losses):									
Interest and dividend income and distributions	-	4,631	-	2,598	184,982	-	192,211	-	192,211
Net realized gains on investments	-	3,863	-	2,398	235,292	-	241,553	-	241,553
Change in cash surrender value of life insurance	-	-	-	-	21,333	-	21,333	-	21,333
Donation expense	-	-	-	-	(400,004)	-	(400,004)	400,004	-
Gifts, bequests, and special events	1,240,756	20	-	-	89,338	-	1,330,114	(400,004)	930,110
Investment fees	-	(430)	-	-	(73,561)	-	(73,991)	-	(73,991)
Total non-operating gains	1,240,756	8,084	-	4,996	57,380	-	1,311,216	-	1,311,216
Excess of revenues over (under) expenses	\$ -	\$ (1,145,203)	\$ (250,402)	\$ (359,401)	\$ 123,840	\$ (606,332)	\$ (2,237,498)	\$ -	\$ (2,237,498)

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit) (continued)
For the Year Ended September 30, 2013

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Unrestricted net assets (deficit):									
Excess of revenues over (under) expenses	\$ -	\$ (1,145,203)	\$ (250,402)	\$ (359,401)	\$ 123,840	\$ (606,332)	\$ (2,237,498)	\$ -	\$ (2,237,498)
Net unrealized gains on investments	-	9,246	-	8,674	431,717	-	449,637	-	449,637
Equity transfer to CGSG from HHC	(776,012)	-	-	-	-	776,012	-	-	-
Change in pension instrument	-	1,902,140	-	-	-	-	1,902,140	-	1,902,140
Change in unrestricted net assets (deficit)	(776,012)	766,183	(250,402)	(350,727)	555,557	169,680	114,279	-	114,279
Temporarily restricted net assets:									
Contributions	-	10,720	-	-	4,339	-	15,059	-	15,059
Interest and dividend income	-	-	-	-	37,178	-	37,178	-	37,178
Net realized and unrealized gains	-	-	-	-	114,418	-	114,418	-	114,418
Net assets released from restrictions	-	(477,795)	-	-	(66,460)	-	(544,255)	-	(544,255)
Change in temporarily restricted net assets	-	(467,075)	-	-	89,475	-	(377,600)	-	(377,600)
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)	(776,012)	299,108	(250,402)	(350,727)	646,967	169,680	(261,386)	-	(261,386)
Net assets (deficit), beginning of year	(67,186)	(21,081,672)	(126,409)	(2,418,248)	8,872,751	(270,570)	(15,091,334)	(75,000)	(15,166,334)
Net assets (deficit), end of year	<u>\$ (843,198)</u>	<u>\$ (20,782,564)</u>	<u>\$ (376,811)</u>	<u>\$ (2,768,975)</u>	<u>\$ 9,519,718</u>	<u>\$ (100,890)</u>	<u>\$ (15,352,720)</u>	<u>\$ (75,000)</u>	<u>\$ (15,427,720)</u>

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit)
For the Year Ended September 30, 2012

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Operating revenues:									
Net patient service revenues	\$ -	\$ 39,482,559	\$ -	\$ -	\$ -	\$ 1,133,067	\$ 40,615,626	\$ (978,771)	\$ 39,636,855
Home health care revenue	-	39,292	6,919,624	-	-	-	6,958,916	-	6,958,916
Adult day health center services	-	-	714,384	-	-	-	714,384	-	714,384
Net patient revenues	-	39,521,851	7,634,008	-	-	1,133,067	48,288,926	(978,771)	47,310,155
Provision for bad debts	-	(350,003)	(21,806)	-	-	-	(371,809)	-	(371,809)
Net patient revenues less provision for bad debts	-	39,171,848	7,612,202	-	-	1,133,067	47,917,117	(978,771)	46,938,346
Member services - SummerWood	-	-	-	3,987,385	-	-	3,987,385	-	3,987,385
Grants	301,754	643,332	86,535	-	-	-	1,031,621	(401,040)	630,581
Management fees	2,651,783	-	-	-	-	-	2,651,783	(2,651,783)	-
Other income	19,805	2,194,565	6,396	272,880	-	-	2,493,646	(2,022,982)	470,664
Net assets released from restrictions used for operations	-	226,715	-	-	124,697	-	351,412	-	351,412
Total operating revenues	<u>2,973,342</u>	<u>42,236,460</u>	<u>7,705,133</u>	<u>4,260,265</u>	<u>124,697</u>	<u>1,133,067</u>	<u>58,432,964</u>	<u>(6,054,576)</u>	<u>52,378,388</u>
Operating expenses:									
Nursing services	-	17,826,871	2,796,468	-	-	108,438	20,731,777	(331,977)	20,399,800
Administration	2,750,565	4,460,725	4,098,147	1,749,397	-	922,795	13,981,629	(4,448,126)	9,533,503
Health benefits	197,975	4,949,255	594,570	276,013	-	121,489	6,139,302	-	6,139,302
Nutritional services	-	3,261,281	90,966	878,709	-	-	4,230,956	(90,966)	4,139,990
Medical services	-	3,288,761	20,128	-	-	965,766	4,274,655	(757,307)	3,517,348
Building operations	-	1,371,186	78,520	513,216	-	-	1,962,922	-	1,962,922
Depreciation and amortization	-	928,852	47,539	872,958	-	-	1,849,349	-	1,849,349
Environmental services	-	1,632,716	8,352	196,087	-	-	1,837,155	-	1,837,155
Pharmacy services	-	1,683,904	-	-	-	-	1,683,904	-	1,683,904
Provider tax	-	1,500,712	-	-	-	-	1,500,712	-	1,500,712
Interest expense	-	1,138,757	-	236,211	-	-	1,374,968	-	1,374,968
Rehabilitation services	-	1,234,725	-	-	-	-	1,234,725	-	1,234,725
Development	983,720	-	-	-	-	-	983,720	(401,040)	582,680
Social services	-	556,242	52,771	-	-	-	609,013	-	609,013
Life enrichment services	-	475,101	-	-	-	-	475,101	(25,160)	449,941
Health information management	-	229,116	-	-	-	-	229,116	-	229,116
Total operating expenses	<u>3,932,260</u>	<u>44,538,204</u>	<u>7,787,461</u>	<u>4,722,591</u>	<u>-</u>	<u>2,118,488</u>	<u>63,099,004</u>	<u>(6,054,576)</u>	<u>57,044,428</u>
(Loss) income from operations	(958,918)	(2,301,744)	(82,328)	(462,326)	124,697	(985,421)	(4,666,040)	-	(4,666,040)
Non-operating gains (losses):									
Interest and dividend income and distributions	-	7,348	-	16,301	207,204	-	230,853	-	230,853
Net realized gains on investments	-	28,522	-	41,572	78,274	-	148,368	-	148,368
Change in cash surrender value of life insurance	-	-	-	-	20,591	-	20,591	-	20,591
Donation expense	-	-	-	-	(400,000)	-	(400,000)	400,000	-
Gifts, bequests, and special events	1,142,738	36	-	-	24,886	-	1,167,660	(400,000)	767,660
Investment fees	-	(1,117)	-	-	(75,698)	-	(76,815)	-	(76,815)
Total non-operating gains	<u>1,142,738</u>	<u>34,789</u>	<u>-</u>	<u>57,873</u>	<u>(144,743)</u>	<u>-</u>	<u>1,090,657</u>	<u>-</u>	<u>1,090,657</u>
Excess of revenues over (under) expenses	<u>\$ 183,820</u>	<u>\$ (2,266,955)</u>	<u>\$ (82,328)</u>	<u>\$ (404,453)</u>	<u>\$ (20,046)</u>	<u>\$ (985,421)</u>	<u>\$ (3,575,383)</u>	<u>\$ -</u>	<u>\$ (3,575,383)</u>

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit) (continued)
For the Year Ended September 30, 2012

	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, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Unrestricted net assets (deficit):									
Excess of revenues over (under) expenses	\$ 183,820	\$ (2,266,955)	\$ (82,328)	\$ (404,453)	\$ (20,046)	\$ (985,421)	\$ (3,575,383)	\$ -	\$ (3,575,383)
Net unrealized gains on investments	-	4,680	-	13,284	763,883	-	781,847	-	781,847
Donation for capital campaign	-	2,001	-	-	-	-	2,001	-	2,001
Equity transfer to HHC from HLCI	1,755,761	-	-	(1,755,761)	-	-	-	-	-
Equity transfer to CGSG from HHC	(2,071,984)	-	-	-	-	2,071,984	-	-	-
Change in pension instrument	-	275,372	-	-	-	-	275,372	-	275,372
Change in unrestricted net assets (deficit)	(132,403)	(1,984,902)	(82,328)	(2,146,930)	743,837	1,086,563	(2,516,163)	-	(2,516,163)
Temporarily restricted net assets:									
Contributions	-	12,049	-	-	7,532	-	19,581	-	19,581
Interest and dividend income	-	-	-	-	45,169	-	45,169	-	45,169
Net realized and unrealized gains	-	-	-	-	103,579	-	103,579	-	103,579
Net assets released from restrictions	-	(226,715)	-	-	(124,697)	-	(351,412)	-	(351,412)
Change in temporarily restricted net assets	-	(214,666)	-	-	31,583	-	(183,083)	-	(183,083)
Permanently restricted net assets:									
Contributions	-	-	-	-	155	-	155	-	155
Change in permanently restricted net assets	-	-	-	-	155	-	155	-	155
Change in net assets (deficit)	(132,403)	(2,199,568)	(82,328)	(2,146,930)	775,575	1,086,563	(2,699,091)	-	(2,699,091)
Net assets (deficit), beginning of year	65,217	(18,882,104)	(44,081)	(271,318)	8,097,176	(1,357,133)	(12,392,243)	(75,000)	(12,467,243)
Net assets (deficit), end of year	<u>\$ (67,186)</u>	<u>\$ (21,081,672)</u>	<u>\$ (126,409)</u>	<u>\$ (2,418,248)</u>	<u>\$ 8,872,751</u>	<u>\$ (270,570)</u>	<u>\$ (15,091,334)</u>	<u>\$ (75,000)</u>	<u>\$ (15,166,334)</u>

See accompanying Independent Auditors' Report.