

Hebrew Health Care, Incorporated and Affiliates

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP
Accounting • Tax • Advisory

Hebrew Health Care, Incorporated and Affiliates
Independent Auditors' Report, Consolidated Financial
Statements and Supplemental Information
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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 consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the years then ended.

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

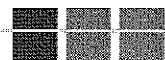
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable 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, 2014 and 2013, 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 1 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 Government National Mortgage Association (GNMA)/Wells Fargo mortgage note. This has caused the outstanding balance of the mortgage note, which amounted to \$19,375,475 as of September 30, 2014 and 2013, 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 2014 and 2013 with TD Bank under one of its line of credit agreements. The Organization did not receive a waiver for these violations as of the date of this report. These conditions raise substantial doubt about the Organization's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental 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 entities, 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 13, 2015

Hebrew Health Care, Incorporated and Affiliates
Consolidated Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 190,802	\$ 252,872
Assets limited as to use, current portion	564,946	457,902
Patient accounts receivable, net of allowance for doubtful accounts of \$1,154,424 in 2014 and \$1,398,952 in 2013	3,892,409	4,343,649
Pledges receivable, current portion	78,060	120,840
Other receivables	384,426	521,962
Inventory	268,622	256,397
Prepaid expenses	482,722	413,132
Total current assets	5,861,987	6,366,754
Assets limited as to use, net of current portion:		
Donor restricted investments	2,194,135	2,207,894
Board designated investments	7,097	228,198
Investments restricted under debt agreements	1,148,145	1,220,252
Total assets limited as to use, net of current portion	3,349,377	3,656,344
Property, plant and equipment, net	16,446,109	17,904,251
Other assets:		
Pledges receivable, long-term	-	30,002
Cash surrender value of life insurance	137,660	115,352
Investments	6,424,344	6,005,189
Deposits	207,869	207,869
Mortgage acquisition costs, net	970,714	831,470
Due from affiliate - Auxiliary	23,710	16,945
Total other assets	7,764,297	7,206,827
Total assets	\$ 33,421,770	\$ 35,134,176
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Notes and bonds payable, current portion	\$ 20,269,514	\$ 19,756,903
Capital lease obligations, current portion	28,353	15,423
Accounts payable and accrued expenses	6,779,077	6,724,643
Accrued interest expense	1,965,338	966,590
Lines of credit	4,923,961	4,779,722
Funds held in trust	564,946	457,931
Deferred revenue	113,370	615
Total current liabilities	34,644,559	32,701,827
Notes and bonds payable, net of current portion	15,295,000	15,689,725
Capital lease obligations, net of current portion	105,944	40,229
Accrued pension liability	2,757,186	2,130,115
Total liabilities	52,802,689	50,561,896
Net assets (deficit):		
Unrestricted deficit	(21,831,060)	(17,959,975)
Temporarily restricted	141,828	243,992
Permanently restricted	2,308,313	2,288,263
Total net assets (deficit)	(19,380,919)	(15,427,720)
Total liabilities and net assets (deficit)	\$ 33,421,770	\$ 35,134,176

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, 2014 and 2013

	2014	2013
Operating revenues:		
Net patient service revenues	\$ 38,651,700	\$ 39,304,774
Home health care revenue	6,135,685	7,055,931
Adult day health center services	457,619	544,770
Net patient revenues	45,245,004	46,905,475
Provision for bad debts	(398,427)	(366,257)
Net patient revenues less provision for bad debts	44,846,577	46,539,218
Member services and rental income - Hoffman SummerWood Community	4,785,469	4,157,367
Grants	208,255	191,740
Other income	351,920	443,446
Net assets released from restrictions used for operations	189,587	544,255
Total operating revenues	50,381,808	51,876,026
Operating expenses:		
Nursing services	19,854,489	19,669,966
Administration	10,359,449	9,731,732
Health benefits	5,425,609	6,214,571
Nutritional services	3,796,935	3,940,232
Medical services	3,018,582	3,274,799
Building operations	1,977,203	2,014,347
Depreciation and amortization	1,833,548	1,832,543
Environmental services	1,769,611	1,719,118
Pharmacy services	1,681,179	1,643,820
Provider tax	1,460,018	1,433,893
Interest expense	1,320,183	1,335,628
Rehabilitation services	1,069,496	1,097,566
Development	554,371	529,075
Social services	516,185	481,025
Life enrichment services	377,369	333,534
Health information management	164,037	172,891
Total operating expenses	55,178,264	55,424,740
Loss from operations	(4,796,456)	(3,548,714)
Non-operating gains (losses):		
Interest and dividend income and distributions	211,344	192,211
Net realized gains on investments	1,374,139	241,553
Change in cash surrender value of life insurance	22,308	21,333
Gifts, bequests and special events	685,426	930,110
Investment fees	(75,317)	(73,991)
Total non-operating gains	2,217,900	1,311,216
Deficiency of revenues under expenses	\$ (2,578,556)	\$ (2,237,498)

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, 2014 and 2013

	2014	2013
Unrestricted net assets (deficit):		
Deficiency of revenues under expenses	\$ (2,578,556)	\$ (2,237,498)
Net unrealized (losses) gains on investments	(764,142)	449,637
Net asset transfer	(35,696)	-
Pension related changes other than net periodic pension cost	(492,691)	1,902,140
Change in unrestricted net assets (deficit)	(3,871,085)	114,279
Temporarily restricted net assets:		
Contributions	22,758	15,059
Net asset transfer	35,696	-
Interest and dividend income	33,178	37,178
Net realized and unrealized (losses) gains	(4,209)	114,418
Net assets released from restrictions	(189,587)	(544,255)
Change in temporarily restricted net assets	(102,164)	(377,600)
Permanently restricted net assets:		
Contributions	20,050	1,935
Change in permanently restricted net assets	20,050	1,935
Change in net assets (deficit)	(3,953,199)	(261,386)
Net assets (deficit), beginning of year	(15,427,720)	(15,166,334)
Net assets (deficit), end of year	\$ (19,380,919)	\$ (15,427,720)

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets (deficit)	\$ (3,953,199)	\$ (261,386)
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:		
Depreciation and amortization	1,833,548	1,832,543
Bad debt expense	398,427	366,257
Change in cash surrender value of life insurance policy	(22,308)	(21,333)
Net gain on investments	(605,788)	(805,608)
Changes in assets and liabilities:		
Patient accounts receivable	52,813	62,303
Pledges receivable	72,782	85,960
Other receivables	137,536	36,015
Inventory	(12,225)	(13,551)
Prepaid expenses	(69,590)	(44,099)
Due from/to affiliates, net	(6,765)	7,999
Accounts payable, accrued expenses and accrued interest	1,053,182	(31,259)
Deferred revenue	112,755	(3,404)
Accrued pension liability	627,071	(1,782,704)
Net cash used in operating activities	(381,761)	(572,267)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(420,693)	(305,580)
Net proceeds from investments and assets limited as to use	493,571	1,536,614
Net cash provided by investing activities	72,878	1,231,034
Cash flows from financing activities:		
Issuance (repayments) of notes and bonds payable	117,886	(449,626)
Principal payments on capital lease obligations	(15,312)	(34,270)
Net change in lines of credit	144,239	(23,188)
Net cash provided by (used in) financing activities	246,813	(507,084)
Change in cash and cash equivalents	(62,070)	151,683
Cash and cash equivalents, beginning of year	252,872	101,189
Cash and cash equivalents, end of year	\$ 190,802	\$ 252,872
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 373,817	\$ 373,743
Non-cash financing activity, capital lease obligation	\$ 93,957	\$ 22,272

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, 2014 and 2013

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 one of its staff members serves as a Board member 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 106-unit assisted living facility.

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

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

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 Government National Mortgage Association (GNMA)/Wells Fargo mortgage note. This has caused the outstanding balance of the mortgage note, which amounted to \$19,375,475 as of September 30, 2014 and 2013, 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 2014 and 2013 with TD Bank under one of its line of credit agreements. The Organization did not receive a waiver for these violations as of the date of this report. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management is in the process of renegotiating its mortgage debt with the Department of Housing and Urban Development and is currently anticipating a March 2015 closing date. In addition, as part of its fiscal year 2015 budgeting process, the Organization implemented \$2,000,000 in cost saving initiatives through changes in its staff benefit programs. Management also entered into the cost savings agreement with Hartford HealthCare Corporation (Hartford HC) described below.

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - General (continued)

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

Hartford HC has advanced \$500,000 to the Organization under the Agreement, without interest, which has been evidenced by a promissory note (the Advance). The amount of the Shortfall Payment for the year ended March 26, 2015 will be offset by the Advance. If the Advance exceeds the Shortfall Payment, the Organization will repay the remaining amount of the Advance to Hartford HC in equal monthly payments over a period of time mutually agreed upon by the parties not to exceed the term of the Agreement.

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

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.

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

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

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Mortgage Acquisition Costs - Mortgage acquisition costs represent financing costs related to mortgage and bond financing. These costs are being amortized over the life of the bonds. As of September 30 2014, the Home was waiting on approval for the proposed restructuring of its Government National Mortgage Association (GNMA)/Wells Fargo mortgage note. The refinancing costs associated with this proposal amounted to \$155,841 for the year ended September 30, 2014 and have not been amortized.

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, 2014 and 2013.

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

Other Than Temporary Impairments on Investments - The Organization accounts for other than temporary impairments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairment losses recorded in 2014 or 2013.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

The Organization follows FASB ASC 410, "*Asset Retirement and Environmental Obligations*", which requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of September 30, 2014 and 2013, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which they become aware of such liability and sufficient information is available to reasonably estimate the fair value.

Workers' Compensation, Professional and General Liability Insurance - The Organization maintains workers' compensation, medical malpractice and general liability insurance policies. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. GAAP requires that health care entities present insurance claim liabilities on a gross basis and not net insurance recoveries against the related claim liabilities. Accordingly, the Organization recorded \$332,233 and \$424,056 under the captions "Other receivables" and "Accounts payable and accrued expenses" in the accompanying consolidated balance sheets, as of September 30, 2014 and 2013, respectively, representing the Organization's estimate of liabilities and recoveries for certain workers' compensation and general liability claims. There are no known medical malpractice liability claims to record as of September 30, 2014 and 2013.

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

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

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 \$5,516,084 in 2014 and \$5,500,370 in 2013.

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

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

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

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

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Donated Services - The Home benefits from significant volunteer services provided by professionals and individuals in the community. The Home estimates that they received the approximate value of \$229,623 and \$254,474 of volunteer services from the community during each of the years ended September 30, 2014 and 2013, 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 \$277,240 and \$191,895 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013. As of September 30, 2014 and 2013, 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 December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Disclosures about Offsetting Assets and Liabilities", which was later clarified by ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". This guidance contained 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 became effective for the Organization beginning on October 1, 2013, and did not 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 became effective for the Organization beginning on October 1, 2013, and did not have a material impact on its consolidated statements of cash flows.

Accounting Pronouncements Pending Adoption - 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 2013 consolidated financial statements have been made in order to conform with the 2014 presentation. Such reclassifications did not have a material effect 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, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Subsequent Events - Subsequent events have been evaluated through January 13, 2015, 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.

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, 2014 and 2013:

	2014	2013
Gross revenues from services to patients	\$ 59,236,193	\$ 59,080,335
Deductions for allowances	(13,991,189)	(12,174,860)
Net revenues from services to patients	\$ 45,245,004	\$ 46,905,475

The Organization's gross revenues received from Medicare were 25% and 24% during the years ended September 30, 2014 and 2013, respectively. The Organization's gross revenues received from Medicaid were approximately 45% and 42% and during the years ended September 30, 2014 and 2013, 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
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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 \$1,154,424 and \$1,398,952 as of September 30, 2014 and 2013, respectively. The Organization's allowance for doubtful accounts for self-pay patients was 31% and 64% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. In addition, the Organization's self-pay writeoffs were \$336,898 and \$56,036 for fiscal years 2014 and 2013, respectively. The Organization's allowance for doubtful accounts covers all patient accounts receivable balances greater than 151 days outstanding as of September 30, 2014 and 2013, respectively.

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, 2014 and 2013 are distributed as follows:

	2014	2013
Medicaid	37%	49%
Medicare	29%	33%
Private patients and other third-party payers	34%	18%
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 \$20,000 and \$10,000 received from the Auxiliary during the years ended September 30, 2014 and 2013. Non-interest bearing advances totaling \$23,710 and \$16,945 were due from the Auxiliary as of September 30, 2014 and 2013, respectively. Pledges receivable and temporarily restricted contributions from the Auxiliary were \$6,315 and \$26,315 as of September 30, 2014 and 2013, respectively.

Members of the Organization's Board of Trustees are members of law firms that the Organization used for legal services during 2014 and 2013. Total legal expenses paid to these firms during the years ended September 30, 2014 and 2013 were approximately \$150,000 and \$158,000, respectively. As of September 30, 2014 and 2013, there was \$1,500 and \$18,944 owed to these firms, respectively.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
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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 hospitalist and investment services, during the years ended September 30, 2014 and 2013 totaled approximately \$83,000 and \$92,000, respectively. As of September 30, 2014 and 2013, there was \$2,500 and \$191 owed to these companies, respectively.

Note 5 - Assets Limited as to Use

The following is a summary of assets limited as to use, as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Current assets limited as to use:		
Security deposits - cash	\$ 412,980	\$ 343,149
Patient funds held in trust - cash	<u>151,966</u>	<u>114,753</u>
	<u>564,946</u>	<u>457,902</u>
Investments restricted under debt agreements:		
Mortgage reserve funds	197,612	193,828
Liquidity reserve fund	880,415	956,313
Other reserves - Farmington Bank	7,503	7,496
Replacement reserve funds	62,615	62,615
Donor and board restricted investments	<u>2,201,232</u>	<u>2,436,092</u>
	<u>3,349,377</u>	<u>3,656,344</u>
 Total assets limited as to use	 <u>\$ 3,914,323</u>	 <u>\$ 4,114,246</u>

The following is a summary of the asset allocation of assets limited to use, as of September 30, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Cash and cash equivalents	\$ 1,616,870	41%	\$ 629,947	15%
U.S. obligations	96,221	3%	942,825	23%
Fixed income	-	0%	27,575	1%
Equities	-	0%	77,807	2%
Donor and board restricted investments	<u>2,201,232</u>	<u>56%</u>	<u>2,436,092</u>	<u>59%</u>
	<u>\$ 3,914,323</u>	<u>100%</u>	<u>\$ 4,114,246</u>	<u>100%</u>

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
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Note 6 - Property, Plant and Equipment

The following is a summary of the Organization's property, plant and equipment as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,612,381	\$ 2,612,381
Building and building improvements	44,366,409	44,191,251
Furnishings and equipment	4,962,104	4,710,775
Motor vehicles	414,082	414,082
Construction in progress	186,525	237,606
Total	<u>52,541,501</u>	<u>52,166,095</u>
Less: Accumulated depreciation	<u>(36,095,392)</u>	<u>(34,261,844)</u>
Net property, plant and equipment	<u>\$ 16,446,109</u>	<u>\$ 17,904,251</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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Pooled funds held by JCF	\$ 3,286,467	\$ 3,443,673
Domestic equity securities	-	3,483,335
International equity securities	-	24,399
Foreign bonds	1,400	1,900
Money market funds	5,337,709	161,537
Domestic fixed income funds	-	1,287,108
International fixed income funds	-	16,871
Hedge funds	-	10,154
Public REITs	-	10,868
Commodity funds	-	1,436
Total	<u>\$ 8,625,576</u>	<u>\$ 8,441,281</u>

As of September 30, 2014 and 2013, net realized and change in unrealized gains on investments and assets limited as to use totaled \$605,789 and \$805,608, respectively.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
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Note 7 - Investments (continued)

The pooled funds represent approximately 3.0% and 3.6% of the units in a portfolio of investments managed by the JCF as of September 30, 2014 and 2013, respectively.

The following is a summary of the asset allocation of the pooled funds at JCF as of September 30, 2014 and 2013:

	2014	2013
Equities	63%	60%
U.S. government securities	21%	23%
Alternative investments	14%	13%
Cash and equivalents	2%	4%
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, 2014 and 2013, JCF held \$1,783,966 and \$1,704,983, 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						
mutual funds	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)

There were no individual securities that are in an unrealized loss position as of September 30, 2014. In 2013, 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".

Hebrew Health Care, Incorporated and Affiliates
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Note 8 - Fair Value Measurements

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

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
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Note 8 - Fair Value Measurements (continued)

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

	<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	\$ -	\$ -	\$ 3,286,467	\$ 3,286,467
Foreign bonds	-	1,400	-	1,400
Money market funds	-	5,337,709	-	5,337,709
Total	-	5,339,109	3,286,467	8,625,576
Other assets limited as to use:				
Cash and money market funds	1,616,870	-	-	1,616,870
U.S. government securities	-	96,221	-	96,221
Total	1,616,870	96,221	-	1,713,091
Pension plan assets:				
Cash	10,947	-	-	10,947
Money market funds	-	334,623	-	334,623
Corporate and foreign bonds	-	333,909	-	333,909
Common equity mutual funds	3,658,975	-	-	3,658,975
Preferred equity securities	78,027	-	-	78,027
Equity mutual funds	1,006,071	-	-	1,006,071
Fixed income mutual funds	-	1,035,429	-	1,035,429
Total	4,754,020	1,703,961	-	6,457,981
Total	<u>\$ 6,370,890</u>	<u>\$ 7,139,291</u>	<u>\$ 3,286,467</u>	<u>\$ 16,796,648</u>

Hebrew Health Care, Incorporated and Affiliates
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Note 8 - Fair Value Measurements (continued)

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
Foreign bonds	-	1,900	-	1,900
Money market funds	-	161,537	-	161,537
Domestic fixed income funds	-	1,287,108	-	1,287,108
International fixed income funds	-	16,871	-	16,871
Hedge funds	-	10,154	-	10,154
Public real estate investment trust	-	10,868	-	10,868
Commodity mutual 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. government securities	-	942,825	-	942,825
Fixed income mutual funds	-	27,575	-	27,575
U.S. equity securities	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
Equity mutual funds	966,066	-	-	966,066
Fixed income mutual funds	-	959,745	-	959,745
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
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Note 8 - Fair Value Measurements (continued)

A rollforward as of September 30, 2014 and 2013 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

	Pooled Funds
Balance as of October 1, 2012	\$ 3,764,471
Investment income:	
Net realized/unrealized gain on investments	399,443
Interest and dividends	62,256
Investment fees	(36,835)
Distributions	(840,472)
Purchase of investments	94,810
Balance as of September 30, 2013	3,443,673
Investment income:	
Net realized/unrealized gain on investments	210,694
Interest and dividends	48,945
Investment fees	(35,525)
Distributions	(1,010,000)
Purchase of investments	628,680
Balance as of September 30, 2014	\$ 3,286,467

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

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

The following is a description of the valuation methodologies used for investments measured at fair value with Level 2 inputs as of September 30, 2014 and 2013:

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

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Notes to the Consolidated Financial Statements
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Note 8 - Fair Value Measurements (continued)

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

Public real estate investment trusts and commodity mutual funds: Valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data.

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

The Organization uses the net asset value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists the investment in the pooled fund held by the Foundation as of September 30, 2014 and 2013, which is disclosed in Level 3 above.

<u>2014</u>	<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)	\$ 3,286,467	1	\$ -	N/A	Monthly	60 days or 6 months if 100% redemption	N/A
<u>2013</u>	<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 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, 2014 and 2013.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Fair Value Measurements (continued)

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, 2014 and 2013, there have been no significant transfers in or out of Levels 1, 2 or 3.

As of September 30, 2014 and 2013, the Organization's other financial instruments included accounts receivable, other assets, accounts payable and accrued expenses, other liabilities and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 9 - Pledges Receivable

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

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

	<u>2014</u>	<u>2013</u>
Pledges receivable, gross	\$ 82,105	\$ 199,275
Less: unamortized discount	<u>(4,045)</u>	<u>(48,433)</u>
Net unconditional promises to give	<u>\$ 78,060</u>	<u>\$ 150,842</u>
Due within one year	\$ 82,105	\$ 120,840
Due in one to five years	<u>-</u>	<u>78,435</u>
Total	<u>\$ 82,105</u>	<u>\$ 199,275</u>

Note 10 - Lines of Credit

As of September 30, 2014 and 2013, the Organization has 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, 2014 and 2013. The first line of credit is secured by \$5,293,974 and \$4,796,900 of marketable securities maintained at TD Wealth Management and is subject to certain covenants as of September 30, 2014 and 2013, 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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Lines of Credit (continued)

The Home is subject to a debt service coverage ratio financial covenant under the terms of this line of credit agreement. The Home must maintain a debt service coverage ratio of 1.30. The Home was in violation of this financial covenant for the years ended September 30, 2014 and 2013, and has not received a waiver for these violations as of the date of this report.

The second line of credit agreement has a total availability of \$1,500,000 payable on demand, with interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% as of September 30, 2014 and 2013. The second line of credit is secured by investments of the Foundation. The Hoffman SummerWood Community is subject to a debt service coverage ratio financial covenant under the terms of this line of credit agreement. The Hoffman SummerWood Community must maintain a debt service coverage ratio of 1.25. The Hoffman SummerWood Community was in compliance with the financial covenant for the years ended September 30, 2014 and 2013.

The balances outstanding on these two lines of credit totaled \$4,923,961 and \$4,779,722 as of September 30, 2014 and 2013, respectively, and are subject to annual review. These lines of credit expired on August 31, 2014 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, 2014 and 2013.

Note 11 - Notes and Bonds Payable

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

	2014	2013
\$20,242,000 Government National Mortgage Association (GNMA) mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association	\$ 19,375,475	\$ 19,375,475
\$17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B	15,680,000	16,050,000
\$500,000 note payable to Hartford Healthcare Corporation (See Note 1)	500,000	-
Note payable to the Metropolitan District Commission in annual installments totaling \$13,611, including interest at 6%, maturing in June, 2015	9,039	21,153
	35,564,514	35,446,628
Less: Current portion	(20,269,514)	(19,756,903)
Total	\$ 15,295,000	\$ 15,689,725

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Notes and Bonds Payable (continued)

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

2015		\$ 20,269,514
2016		405,000
2017		425,000
2018		445,000
2019		465,000
Thereafter		13,555,000
		\$ 35,564,514

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, 2014 and 2013, the Organization incurred \$946,366 and \$961,885, respectively, in interest expense related to the mortgage.

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 not paid 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. The amount of accrued interest due to the non-payments was \$1,960,968 and \$961,885 as of September 30, 2014 and 2013, respectively.

CHEFA Series B Bonds - The CHEFA Series B Bonds were issued in November 2007: (i) to refund the Series A Bonds; (ii) to finance and refinance the costs of the construction and equipping of a new wing at Hoffman SummerWood Community's assisted living facility to house an additional 43 assisted living units and to expand certain portions of the existing facility. The CHEFA bonds consist of Series B variable rate bonds due July 1, 2037. The bonds are secured by land, building and a letter of credit with an expiration date of November 7, 2015. During the years ended September 30, 2014 and 2013, the Organization incurred \$150,733 and \$166,253, respectively, in interest expense related to the bonds. The interest rate related to these bonds is a variable rate, which was .06% and .09% as of September 30, 2014 and 2013, respectively.

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

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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Notes and Bonds Payable (continued)

Hoffman SummerWood Community is subject to certain financial covenants under the terms of the CHEFA bond agreement. Hoffman SummerWood Community must maintain a debt service coverage ratio of 1.25. Hoffman SummerWood Community was in compliance with the debt service coverage ratio for the years ended September 30, 2014 and 2013.

Note 12 - Capital Lease Obligations

During 2012, the Organization entered into a lease arrangement, due in monthly payments of \$951 through November 2016, collateralized by the leased vehicle with a net book value of \$14,257 and \$27,417 as of September 30, 2014 and 2013, respectively. There was an outstanding balance of \$23,397 and \$33,380 as of September 30, 2014 and 2013, 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. This lease was cancelled and the equipment was returned during October 2014 since the equipment did not meet the needs of the Organization.

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

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

2015	\$	62,659
2016		62,659
2017		26,151
2018		18,849
2019		983
		171,301
Less: Amounts representing interest		(37,004)
Total	\$	134,297

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 13 - Accounts Payable and Accrued Expenses

The following is a summary of accounts payable and accrued expenses, as of September 30, 2014 and 2013:

	2014	2013
Accounts payable	\$ 2,652,965	\$ 2,529,508
Accrued vacation	2,433,001	2,439,229
Accrued employee benefits	654,939	684,588
Accrued payroll	789,877	708,570
Provider tax	248,295	362,748
Total	\$ 6,779,077	\$ 6,724,643

Note 14 - Pension Plans

Bargaining Unit Plan - Approximately 36.5% of the Organization's labor force is covered by a collective bargaining agreement. A new collective bargaining agreement was negotiated and approved by the Union membership effective October 1, 2011 through September 30, 2015 and was subsequently extended through September 30, 2016, which replaced the former agreement that was effective October 1, 2008 through September 30, 2011. Bargaining unit employees are covered under a multi-employer defined benefit pension plan administered by the bargaining unit. The Organization contributes monthly to this plan based on a negotiated flat rate per employee hour worked. The risks of participating in this multi-employer plan is different from single-employer plans in the following aspects:

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

	Pension Plan EIN	Pension Protection Act ("PPA") Certified		FIP/RP Status Pending/ Implemented (2)	Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement (3)
		2014	2013		2014	2013		
Pension Trust Fund Laborers' International Union of North American National Pension Fund	52-6074345	Red	Red	Implemented	\$ 316,216	\$ 262,942	No	September 30, 2016

- 1) The most recent PPA zone status available in 2014 and 2013 is for the plan's years ended December 31, 2013 and 2012, respectively. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the orange zone are less than 80% funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.
- 2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or rehabilitation plan ("RP") is either pending or has been implemented.
- 3) Lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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 \$122,350 and \$278,560 for the years ended September 30, 2014 and 2013, respectively. This plan was frozen on September 30, 2007 and replaced by a 401(k) Retirement Plan that provides for an employer match of up to 2% of the employees annual salary for the years ended September 30, 2014 and 2013, 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 \$154,001 and \$157,824 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Changes in benefit obligations:		
Benefit obligations at beginning of year	\$ 8,120,222	\$ 9,315,332
Interest cost	400,764	374,819
Benefits paid to participants	(325,562)	(373,187)
Actuarial loss (gain)	<u>1,019,743</u>	<u>(1,196,742)</u>
Benefit obligations at end of year	<u>\$ 9,215,167</u>	<u>\$ 8,120,222</u>
	<u>2014</u>	<u>2013</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 5,990,107	\$ 5,402,513
Actual return on plan assets	671,086	682,221
Employer contributions	122,350	278,560
Benefits paid	<u>(325,562)</u>	<u>(373,187)</u>
Fair value of plan assets at end of year	<u>\$ 6,457,981</u>	<u>\$ 5,990,107</u>
Accrued pension liability (no current portion is due)	<u>\$ (2,757,186)</u>	<u>\$ (2,130,115)</u>

The following were the weighted-average assumptions used to determine the pension benefit obligations as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Discount rate	4.40%	5.05%
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, 2014 and 2013

Note 14 - Pension Plans (continued)

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Discount rate	4.10%	4.10%
Expected long-term return on plan assets	8.00%	8.00%

Amounts recorded in unrestricted net assets as of September 30, 2014 and 2013, not yet amortized as components of net periodic benefit costs, are as follows:

	<u>2014</u>	<u>2013</u>
Net actuarial loss	<u>\$ 2,789,860</u>	<u>\$ 2,297,169</u>

The amortization of the above items expected to be recognized in net periodic benefit costs is \$318,322 for the year ended September 30, 2014.

The components of net periodic benefit cost for the years ended September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Components of net periodic benefit cost:		
Interest cost	\$ 400,764	\$ 374,819
Expected return on plan assets	(386,862)	(366,866)
Recognized net loss	<u>242,828</u>	<u>390,043</u>
Net periodic benefit cost	<u>\$ 256,730</u>	<u>\$ 397,996</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>2014</u>	<u>2013</u>
Equity securities	74%	74%
Debt securities	21%	25%
Cash equivalents	<u>5%</u>	<u>1%</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, 2014 and 2013

Note 14 - Pension Plans (continued)

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

2015	\$	985,000
2016	\$	771,000
2017	\$	488,000
2018	\$	509,000
2019	\$	823,000
2019 - 2023	\$	3,463,000

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 \$5,425,609 and \$6,214,571 for the years ended September 30, 2014 and 2013, respectively. The Organization has also recorded a liability for incurred but not reported claims of \$438,880 and \$456,994 as of September 30, 2014 and 2013, respectively. In addition, the Organization has purchased stop loss insurance coverage. The coverage is initiated when a loss reaches \$150,000 on a per claim basis.

Note 16 - Commitments and Contingencies

Operating Leases - The Organization leases various office equipment under operating leases expiring through September 2017. On August 10, 2010, the Organization entered into an operating lease beginning October 1, 2010 and through September 2015 for HCS's Home Health and Hospice office space. Rental expense under these leases amounted to \$98,915 and \$84,702 for the years ended September 30, 2014 and 2013, respectively.

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

2015	\$	101,318
2016	\$	42,338
2017	\$	42,338

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, 2014 and 2013

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, 2014 and 2013:

	2014	2013
Ticket sales and sponsorships	\$ 273,709	\$ 312,455
Less: Expenses	(99,555)	(121,256)
Net special events income	\$ 174,154	\$ 191,199

Note 18 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of September 30, 2014 and 2013:

	2014	2013
Second Century Campaign	\$ 5,189	\$ 45,637
Other funds	29,525	27,885
Annual Fund	64,196	28,500
The Music Fund	4,577	18,950
The Rabbi Fund	6,712	-
Appreciation of permanently restricted net assets	31,629	123,020
Total	\$ 141,828	\$ 243,992

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.

During 2014, management performed a review of net asset classifications by reviewing and researching original documentation to properly and accurately reflect the current net assets. The net asset categories in the consolidated financial statements were revised during 2014 from 2013 by transferring \$35,696 from unrestricted net assets to temporarily restricted net assets, which was related to the Annual Fund.

Note 19 - Permanently Restricted Net Assets

Permanently restricted net assets amounted to \$2,308,313 and \$2,288,263 as of September 30, 2014 and 2013, respectively, which include investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 20 - Conditional Promises to Contribute

As of September 30, 2014 and 2013, the Organization had received \$1,214,184 and \$1,035,000 of conditional promises to contribute, of which \$1,012,340 relates to the Organization's *Second Century Campaign* and \$201,844 relates to a grant from the State of Connecticut Office of Policy and Management for the purchase of buses for the Organization's adult day health center services. The buses must be purchased before the Organization is reimbursed for the majority of the costs. The Organization anticipates to purchase these buses during fiscal year 2015. The contributions related to the *Second Century Campaign* will be recorded as to donor intention when received or when the condition has been met.

Note 21 - Professional Liability Insurance

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through September 30, 2013, the Organization was covered by a claims-made policy. There are no known claims or incidents that may result in the assertion of additional claims. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the consolidated financial statements as of September 30, 2014 and 2013. The \$332,233 and \$424,056 of expected insurance liabilities and recoveries as of September 30, 2014 and 2013, 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, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 2012	\$ 426,101	\$ 33,345	\$ 2,286,328	\$ 2,745,774
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	228,198	122,820	2,288,263	2,639,281
Investment return:				
Investment income	14,077	33,178	-	47,255
Net change in market value	57,902	(4,209)	-	53,693
Contributions	7,913	718	20,050	28,681
Distributions and fees	<u>(300,993)</u>	<u>(121,078)</u>	<u>-</u>	<u>(422,071)</u>
Balance as of September 30, 2014	<u>\$ 7,097</u>	<u>\$ 31,429</u>	<u>\$ 2,308,313</u>	<u>\$ 2,346,839</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.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 22 - Endowment Net Assets (continued)

The Organization has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization during its annual budgeting process.

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

Spending Policy, Return Objectives and Risk Parameters - At the discretion of the Board, 5% of the average market value of the portfolio at September 30 of each of the preceding twenty quarters is applied to operations. As a result of that calculation, a portion of cumulative interest and dividends, cumulative net realized gains and net appreciation is allocated to operations in accordance with the Organization's investment policies and procedures. During the years ended September 30, 2014 and 2013, the Board of Trustees approved an appropriation in the amount of \$422,071 and \$462,123, 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 \$430,000 and 400,000 for the years ended September 30, 2014 and 2013, respectively.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or law requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature were approximately \$177,946 and \$173,519 for the years ended September 30, 2014 and 2013, respectively, and have been accounted for in unrestricted realized and unrealized losses. During the year ended September 30, 2014 and 2013, gains of approximately \$9,470 and \$66,497 associated with donor restricted funds were recorded as unrestricted to restore deficiency losses recorded in unrestricted net assets as of September 30, 2014 and 2013, respectively.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 23 - Functional Expenses

Expenses of the Organization incurred during the years ended September 30, 2014 and 2013, by functional area, were as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 38,130,472	\$ 38,004,734
General and administrative	16,890,259	17,214,964
Fundraising	<u>157,533</u>	<u>205,042</u>
Total	<u>\$ 55,178,264</u>	<u>\$ 55,424,740</u>

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet
September 30, 2014

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Assets									
Current assets:									
Cash and cash equivalents	\$ 27,327	\$ 75,442	\$ 80,835	\$ 3,863	\$ 3,335	\$ -	\$ 190,802	\$ -	\$ 190,802
Assets limited as to use, current portion	-	149,466	-	415,480	-	-	564,946	-	564,946
Patient accounts receivable, net of allowance for doubtful accounts of \$1,154,424	-	3,168,169	719,281	4,959	-	-	3,892,409	-	3,892,409
Pledges receivable, current portion	71,745	6,315	-	-	-	-	78,060	-	78,060
Other receivables	13,107	332,233	-	-	174,000	39,086	558,426	(174,000)	384,426
Inventory	-	268,622	-	-	-	-	268,622	-	268,622
Prepaid expenses	260,875	109,183	8,523	89,858	-	14,283	482,722	-	482,722
Total current assets	373,054	4,109,430	808,639	514,160	177,335	53,369	6,035,987	(174,000)	5,861,987
Assets limited as to use, net of current portion:									
Donor restricted investments	-	-	-	-	2,194,135	-	2,194,135	-	2,194,135
Board designated investments	-	-	-	-	7,097	-	7,097	-	7,097
Investments restricted under debt agreements	-	41,920	-	1,106,225	-	-	1,148,145	-	1,148,145
Total assets limited as to use, net of current portion	-	41,920	-	1,106,225	2,201,232	-	3,349,377	-	3,349,377
Property, plant and equipment, net	-	3,950,197	66,191	12,504,721	-	-	16,521,109	(75,000)	16,446,109
Other assets:									
Cash surrender value of life insurance	-	-	-	-	137,660	-	137,660	-	137,660
Investments	-	42,688	-	-	6,381,656	-	6,424,344	-	6,424,344
Deposits	-	198,278	9,591	-	-	-	207,869	-	207,869
Mortgage acquisition costs, net	-	481,415	-	489,299	-	-	970,714	-	970,714
Due from affiliates	370,007	28,967	106,628	745,418	1,049,095	-	2,300,115	(2,276,405)	23,710
Total other assets	370,007	751,348	116,219	1,234,717	7,568,411	-	10,040,702	(2,276,405)	7,764,297
Total assets	\$ 743,061	\$ 8,852,895	\$ 991,049	\$ 15,359,823	\$ 9,946,978	\$ 53,369	\$ 35,947,175	\$ (2,525,405)	\$ 33,421,770

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet (continued)
September 30, 2014

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Notes and bonds payable, current portion	\$ 500,000	\$ 19,375,475	\$ -	\$ 394,039	\$ -	\$ -	\$ 20,269,514	\$ -	\$ 20,269,514
Capital lease obligations, current portion	17,821	-	-	10,532	-	-	28,353	-	28,353
Accounts payable and accrued expenses	1,118,738	4,548,870	553,407	389,111	-	168,951	6,779,077	-	6,779,077
Accrued interest expense	-	1,960,968	-	4,370	-	-	1,965,338	-	1,965,338
Lines of credit	-	3,499,999	-	1,423,962	-	-	4,923,961	-	4,923,961
Funds held in trust	-	149,466	-	415,480	-	-	564,946	-	564,946
Deferred revenue	53,528	-	59,842	-	-	-	113,370	-	113,370
Total current liabilities	1,690,087	29,534,778	613,249	2,637,494	-	168,951	34,644,559	-	34,644,559
Due to affiliates	1,794,513	320,397	28,967	101,009	31,519	-	2,276,405	(2,276,405)	-
Notes and bonds payable, net of current portion	-	-	174,000	15,295,000	-	-	15,469,000	(174,000)	15,295,000
Capital lease obligations, net of current portion	-	93,933	-	12,011	-	-	105,944	-	105,944
Accrued pension liability	-	2,757,186	-	-	-	-	2,757,186	-	2,757,186
Total liabilities	3,484,600	32,706,294	816,216	18,045,514	31,519	168,951	55,253,094	(2,450,405)	52,802,689
Net assets (deficit):									
Unrestricted	(2,805,735)	(23,899,402)	169,833	(2,685,691)	7,580,517	(115,582)	(21,756,060)	(75,000)	(21,831,060)
Temporarily restricted	64,196	46,003	-	-	31,629	-	141,828	-	141,828
Permanently restricted	-	-	5,000	-	2,303,313	-	2,308,313	-	2,308,313
Net assets (deficit)	(2,741,539)	(23,853,399)	174,833	(2,685,691)	9,915,459	(115,582)	(19,305,919)	(75,000)	(19,380,919)
Total liabilities and net assets (deficit)	\$ 743,061	\$ 8,852,895	\$ 991,049	\$ 15,359,823	\$ 9,946,978	\$ 53,369	\$ 35,947,175	\$ (2,525,405)	\$ 33,421,770

See accompanying Independent Auditors' Report.

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	5,405,538	483,805	291,739	-	155,683	6,724,643	-	6,724,643
Accrued interest expense	-	961,885	-	4,705	-	-	966,590	-	966,590
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 Statement of Operations and Changes in Net Assets (Deficit)
For the Year Ended September 30, 2014

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Operating revenues:									
Net patient service revenues	\$ -	\$ 38,196,613	\$ -	\$ -	\$ -	\$ 755,087	\$ 38,951,700	\$ (300,000)	\$ 38,651,700
Home health care revenue	-	35,095	6,100,590	-	-	-	6,135,685	-	6,135,685
Adult day health center services	-	-	457,619	-	-	-	457,619	-	457,619
Net patient revenues	-	38,231,708	6,558,209	-	-	755,087	45,545,004	(300,000)	45,245,004
Provision for bad debts	-	(349,999)	(48,428)	-	-	-	(398,427)	-	(398,427)
Net patient revenues less provision for bad debts	-	37,881,709	6,509,781	-	-	755,087	45,146,577	(300,000)	44,846,577
Member services and rental income - Hoffman									
SummerWood Community	-	-	-	4,785,469	-	-	4,785,469	-	4,785,469
Grants	114,385	282,750	81,370	-	-	-	478,505	(270,250)	208,255
Management fees	1,815,951	-	-	-	-	-	1,815,951	(1,815,951)	-
Other income	9,057	81,066	7,962	309,203	-	-	407,288	(55,368)	351,920
Net assets released from restrictions used for operations	-	68,509	-	-	121,078	-	189,587	-	189,587
Total operating revenues	1,939,393	38,314,034	6,599,113	5,094,672	121,078	755,087	52,823,377	(2,441,569)	50,381,808
Operating expenses:									
Nursing services	-	17,271,506	2,626,014	-	-	56,969	19,954,489	(100,000)	19,854,489
Administration	1,955,211	4,057,808	3,734,947	1,944,403	-	639,795	12,332,164	(1,972,715)	10,359,449
Health benefits	256,986	4,173,436	631,094	267,001	-	97,092	5,425,609	-	5,425,609
Nutritional services	-	2,882,794	55,368	914,141	-	-	3,852,303	(55,368)	3,796,935
Medical services	-	2,499,837	22,499	-	-	539,482	3,061,818	(43,236)	3,018,582
Building operations	-	1,351,565	61,121	564,517	-	-	1,977,203	-	1,977,203
Depreciation and amortization	-	894,715	29,603	909,230	-	-	1,833,548	-	1,833,548
Environmental services	-	1,560,655	3,928	205,028	-	-	1,769,611	-	1,769,611
Pharmacy services	-	1,681,179	-	-	-	-	1,681,179	-	1,681,179
Provider tax	-	1,460,018	-	-	-	-	1,460,018	-	1,460,018
Interest expense	2,028	1,101,140	-	217,015	-	-	1,320,183	-	1,320,183
Rehabilitation services	-	876,573	192,923	-	-	-	1,069,496	-	1,069,496
Development	824,621	-	-	-	-	-	824,621	(270,250)	554,371
Social services	-	504,128	12,057	-	-	-	516,185	-	516,185
Life enrichment services	-	377,369	-	-	-	-	377,369	-	377,369
Health information management	-	164,037	-	-	-	-	164,037	-	164,037
Total operating expenses	3,038,846	40,856,760	7,369,554	5,021,335	-	1,333,338	57,619,833	(2,441,569)	55,178,264
(Loss) income from operations	(1,099,453)	(2,542,726)	(770,441)	73,337	121,078	(578,251)	(4,796,456)	-	(4,796,456)
Non-operating gains (losses):									
Interest and dividend income and distributions	-	4,343	-	5,094	201,907	-	211,344	-	211,344
Net realized gains (losses) on investments	-	(18)	-	24,789	1,349,368	-	1,374,139	-	1,374,139
Change in cash surrender value of life insurance	-	-	-	-	22,308	-	22,308	-	22,308
Donation expense	-	-	-	-	(430,027)	-	(430,027)	450,027	-
Gifts, bequests, and special events	1,086,756	16	-	-	28,681	-	1,115,453	(430,027)	685,426
Investment fees	-	(316)	-	-	(75,001)	-	(75,317)	-	(75,317)
Total non-operating gains	1,086,756	4,025	-	29,883	1,097,236	-	2,217,900	-	2,217,900
Excess of revenues over (under) expenses	\$ (12,697)	\$ (2,538,701)	\$ (770,441)	\$ 103,220	\$ 1,218,314	\$ (578,251)	\$ (2,578,556)	\$ -	\$ (2,578,556)

See accompanying Independent 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, 2014

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Unrestricted net assets (deficit):									
Excess of revenues over (under) expenses	\$ (12,697)	\$ (2,538,701)	\$ (770,441)	\$ 103,220	\$ 1,218,314	\$ (578,251)	\$ (2,578,556)	\$ -	\$ (2,578,556)
Net unrealized gains (losses) on investments	-	7,026	-	(19,936)	(751,232)	-	(764,142)	-	(764,142)
Net asset transfer to HCS and CGSG from HHC	(1,885,644)	-	1,322,085	-	-	563,559	-	-	-
Net asset transfer	(35,696)	-	-	-	-	-	(35,696)	-	(35,696)
Change in pension instrument	-	(492,691)	-	-	-	-	(492,691)	-	(492,691)
Change in unrestricted net assets (deficit)	(1,934,037)	(3,024,366)	551,644	83,284	467,082	(14,692)	(3,871,085)	-	(3,871,085)
Temporarily restricted net assets:									
Contributions	-	22,040	-	-	718	-	22,758	-	22,758
Net asset transfer	35,696	-	-	-	-	-	35,696	-	35,696
Interest and dividend income	-	-	-	-	33,178	-	33,178	-	33,178
Net realized and unrealized losses	-	-	-	-	(4,209)	-	(4,209)	-	(4,209)
Net assets released from restrictions	-	(68,509)	-	-	(121,078)	-	(189,587)	-	(189,587)
Change in temporarily restricted net assets	35,696	(46,469)	-	-	(91,391)	-	(102,164)	-	(102,164)
Permanently restricted net assets:									
Contributions	-	-	-	-	20,050	-	20,050	-	20,050
Change in permanently restricted net assets	-	-	-	-	20,050	-	20,050	-	20,050
Change in net assets (deficit)	(1,898,341)	(3,070,835)	551,644	83,284	395,741	(14,692)	(3,953,199)	-	(3,953,199)
Net assets (deficit), beginning of year	(843,198)	(20,782,564)	(376,811)	(2,768,975)	9,519,718	(100,890)	(15,352,720)	(75,000)	(15,427,720)
Net assets (deficit), end of year	<u>\$ (2,741,539)</u>	<u>\$ (23,853,399)</u>	<u>\$ 174,833</u>	<u>\$ (2,685,691)</u>	<u>\$ 9,915,459</u>	<u>\$ (115,582)</u>	<u>\$ (19,305,919)</u>	<u>\$ (75,000)</u>	<u>\$ (19,380,919)</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, 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 and rental income - Hoffman	-	-	-	4,157,367	-	-	4,157,367	-	4,157,367
SummerWood Community	-	-	-	-	-	-	661,132	(469,392)	191,740
Grants	84,273	476,392	100,467	-	-	-	2,677,164	(2,677,164)	-
Management fees	2,677,164	-	-	-	-	-	2,485,576	(2,042,130)	443,446
Other income	12,004	2,143,752	4,211	325,609	-	-	-	-	-
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	-	2,398	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.