Financial and Actuarial Statements

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Financial Statements (With Supplementary Information) and Independent Auditor's Report

September 30, 2014

Independent Auditor's Report

To the Partners
Arbors of Hop Brook Limited Partnership

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Arbors of Hop Brook Limited Partnership and Affiliates, which comprise the consolidated balance sheet as of September 30, 2014, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of Arbors of Hop Brook Limited Partnership and Affiliates as of September 30, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the consolidated financial statements, the Financial Accounting Standards Board issued Accounting Standards Update 2012-01, Health Care Entities: Continuing Care Retirement Communities - Refundable Advance Fees, which requires the entity to classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee that is contingent upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The adoption of the new standard on October 1, 2013 resulted in a decrease to the opening partners' capital of $1,867,883.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 24 to 27 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

Hartford, Connecticut
February 12, 2015

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Balance Sheet
September 30, 2014

Assets	
Current assets:	
Cash and cash equivalents	$ 537,518
Accounts receivable, net	1,282,414
Entrance fees receivable	117,500
Resident funds	9,183
Prepaid expenses	8,559
Total current assets	1,955,174
Investments:	
Investments available-for-sale	8,111,912
Non-marketable equity securities	250,000
Total investments	8,361,912
Property and equipment:	
Land and improvements	1,556,253
Building and improvements	16,534,118
Equipment	4,308,176
Automotive equipment	213,333
Total property and equipment	22,611,880
Less accumulated depreciation and amortization	(16,953,337)
	5,658,543
Construction in progress	425,920
Net property and equipment	6,084,463
Other long-term assets:	
Due from related party	241,074
Restricted funds	921,031
Deferred costs, net	56,802
Total other long-term assets	1,218,907
Total assets	$ 17,620,456

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Balance Sheet
September 30, 2014

Liabilities and Equity

Current liabilities:	
Current portion of long-term debt	$ 237,671
Accounts payable	1,433,974
Resident funds	9,183
Other current liabilities	654,668
Total current liabilities	2,335,496
Long-term liabilities:	
Long-term debt, less current portion	3,342,500
Entrance fees	7,060,292
Total liabilities	12,738,288
Commitments and contingencies	
Equity:	
Partners' capital:	
Capital	4,349,690
Accumulated other comprehensive income	1,226,780
Total partners' capital	5,576,470
Noncontrolling interest	(694,302)
Total equity	4,882,168
Total liabilities and equity	$ 17,620,456

See Notes to Consolidated Financial Statements

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statement of Income and Comprehensive Income
Year Ended September 30, 2014

Revenues:	
Patient service revenue, net of contractual allowances	$ 12,115,893
Provision for uncollectible accounts	222,504
Net patient service revenue	11,893,389
Resident fees	4,298,378
Earned entrance fees	94,729
Total revenues	16,286,496
Expenses:	
Administrative and general	2,036,118
Employee benefits	1,878,108
Plant operations and maintenance	1,808,443
Nursing	5,566,496
Activities	237,107
Food service	1,854,185
Laundry	130,968
Housekeeping	341,104
Medicare	323,703
Rehabilitative services	915,108
Other services	432,092
Depreciation and amortization	847,612
Insurance	33,684
Interest expense	82,317
Total expenses	16,487,045
Loss from operations	(200,549)
Other income:	
Investment income	198,463
Net realized gains on investments available-for-sale	264,033
Total other income	462,496
Consolidated net income	261,947
Less net income attributable to noncontrolling interest	370,007
Net loss attributable to Arbors of Hop Brook Limited Partnership	$ (108,060)
Consolidated net income (loss)	$ 261,947
Other comprehensive income:	
Unrealized holding gains arising during the period	684,882
Less reclassification adjustment for gains included in net income (loss)	(264,033)
Total other comprehensive income	420,849
Comprehensive income	682,796
Less comprehensive income attributable to noncontrolling interest	370,007
Comprehensive income (loss) attributable to Arbors of Hop Brook Limited Partnership	$ 312,789

See Notes to Consolidated Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statement of Changes in Equity
Year Ended September 30, 2014

	Partners' Capital	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance, October 1, 2013, as previously reported	$ 6,416,903	$ 805,931	$ (1,064,309)	$ 6,158,525
Cumulative effect of change in accounting principle (see Note 1)	(1,867,883)			(1,867,883)
Balance, October 1, 2013, as restated	4,549,020	805,931	(1,064,309)	4,290,642
Net income (loss)	(108,060)	-	370,007	261,947
Other comprehensive income	-	420,849	-	420,849
Capital contributions	1,386,212	-	-	1,386,212
Capital distributions	(1,477,482)	-	-	(1,477,482)
Balance, September 30, 2014	$ 4,349,690	$ 1,226,780	$ (694,302)	$ 4,882,168

See Notes to Consolidated Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statement of Cash Flows
Year Ended September 30, 2014

Operating activities:	
Consolidated net income	$ 261,947
Adjustments to reconcile consolidated net income to net cash provided by operating activities:	
Depreciation and amortization	839,503
Amortization of deferred costs	8,109
Provision for uncollectible accounts	222,504
Earned entrance fees income	(94,729)
Net realized gains on investments available for sale	(264,033)
Changes in operating assets and liabilities:	
Accounts receivable	83,267
Entrance fees receivable	30,740
Prepaid expenses	(3,265)
Deposits	1,833
Accounts payable	29,116
Other current liabilities	36,597
Net cash provided by operating activities	1,151,589
Investing activities:	
Increase in restricted funds	(139,882)
Purchase of property and equipment	(898,313)
Proceeds from sales of investments available-for-sale	848,422
Purchases of investments available-for-sale	(977,119)
Net cash used in investing activities	(1,166,892)
Financing activities:	
Capital contributions	1,386,212
Capital distributions	(1,477,482)
Proceeds from resident entrance fees	1,758,042
Refunds of resident entrance fees	(1,259,990)
Payments on capital lease obligations	(36,276)
Payments on long-term debt	(210,000)
Net cash provided by financing activities	160,506
Net increase in cash and cash equivalents	145,203
Cash and cash equivalents, beginning of year	392,315
Cash and cash equivalents, end of year	$ 537,518
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 82,685

See Notes to Consolidated Financial Statements.

Note 1 - Summary of significant accounting policies

The accompanying consolidated financial statements were prepared for the purpose of presenting, in a consolidated format, the financial position and results of operations of the following commonly owned, inter-related entities:

Arbors of Hop Brook Limited Partnership (the "Partnership") was formed to operate a health center and independent living center as a Continuing Care Retirement Community according to Chapter 19 of the Connecticut General Statutes 17b-520. It is comprised of a 112-unit independent living center and Manchester Manor Health Care Center, a 126-bed skilled nursing center.

In 1992, Manchester Manor Realty, LLP ("Realty"), a limited liability partnership, was formed to rent health care facilities to Manchester Manor Health Care Center for its operations. The partners' liability with regard to the limited liability company is limited to their capital accounts.

Principles of consolidation

These entities are collectively referred to herein as the "Company". All significant intercompany transactions and account balances have been eliminated in consolidation.

Variable interest entities

The Company has evaluated its relationship with Realty and has determined that the entity is a variable interest entity, which has been consolidated in the Company's financial statements. Based on a qualitative and quantitative assessment performed, it was determined that the Company is the primary beneficiary of this entity because it has the power over the activities that most significantly impact the entity's economic performance. Accordingly, it has been consolidated into the Company's consolidated financial statements. In addition, the Company is obligated to absorb their losses and has the ability to benefit from profits.

The following table summarizes the assets and liabilities of Realty included in the consolidated balance sheet as of September 30, 2014:

Assets:	
Cash	$ 527,585
Accounts receivable	34,500
Deferred costs, net	26,611
Due from related party	241,074
Total assets	$ 829,770
Liabilities:	
Current portion of long-term debt	$ 90,000
Other current liabilities	1,572
Long-term debt, less current portion	1,432,500
Total liabilities	$ 1,524,072

In addition, the Company has evaluated its relationship with Vernon Manor Health Care Center, LLC and Arrowwood Group, LLC and determined that they are not required to consolidate these entities, related through common ownership, into its consolidated financial statements because the Company is not the primary beneficiary of either affiliate.

Use of estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents
For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted funds
The State of Connecticut requires that continuing care retirement communities maintain a reserve fund, which consists of one year's debt service or lease obligation requirements plus one month's operating costs. These funds are not available for current operating purposes.

Restricted funds as of September 30, 2014 were $921,031.

Concentrations
The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and patient service receivables (see Note 2) and revenue (see Note 8).

The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed Federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of September 30, 2014, the Company had cash and cash equivalents in excess of Federally insured limits in the amount of approximately $286,000.

Patient service receivables
The collection of receivables from third-party payors and patients is the Company's primary source of cash for operations and is critical to its operating performance. Patient service receivables and revenue are recorded when patient services are performed. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient service receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service performed, less amounts covered by third-party payors and an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Company does not charge interest on past due accounts.

The provision for uncollectible accounts is increased when patient service receivables are deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of the provision for uncollectible accounts when received.

Investments
Investments available-for-sale primarily consist of certain equity securities not classified as trading securities or as securities to be held-to-maturity. They may be sold at any time at management's option in response to changes in interest rates, liquidity needs, and for other purposes. Securities available-for-sale are reported at fair value with unrealized gains and losses reported as other comprehensive income in the equity section of the consolidated balance sheets. Accumulated realized gains and losses, based on the adjusted cost of the specific security sold, are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income.

The Company has also invested in a limited liability company ("LLC") of $100,000 and real estate investment trust ("REIT") of $150,000 as of September 30, 2014. These investments are deemed to be non-marketable equity securities, which are recorded at historical cost because the Company does not have significant influence over the underlying investees. These investments are subject to a periodic impairment review. To the extent any impairment is considered other-than-temporary, the investment is written down to its fair value and the loss is recorded as a component of investment income.

The Company uses the specific identification method to determine the cost of securities sold.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using a straight-line method over the useful lives of the respective assets ranging from five to thirty-nine years. Assets acquired through capital leases are amortized over the shorter of the lease term or estimated useful life.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in other income.

Deferred costs
Loan closing costs incurred for debt restructuring have been capitalized and are being amortized using the interest method over the term of the loans. Deferred cost amortization is included in interest expense in the consolidated statement of income and comprehensive income.

Impairment of long-lived assets
The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the assets to the future net undiscounted cash flow expected to be generated by the assets and any estimated proceeds from the eventual disposition of the assets. If the assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the assets exceeds the fair value of such property. There were no impairment losses recognized in 2014.

Resident funds
At September 30, 2014, the Company maintained $9,183 of resident funds for future services to be provided by the Company. These funds are maintained in individual insured interest bearing accounts at a bank and are recorded as resident funds on the consolidated balance sheet.

Patient service revenue
The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Skilled nursing facilities are reimbursed under a Prospective Payment System for Medicare Part A services that establishes an all-inclusive per diem payment rate, based on resident activity, which covers routine, ancillary and capital related costs. The all-inclusive per diem rate encompasses many non-physician Part B services billed during a Part A stay. Skilled nursing facilities are required to pay for services provided by outside suppliers.

The Company provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Comprehensive income
Comprehensive income consists of two components: net income (loss) and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that, under accounting principles generally accepted in the United States of America, are recorded as an element of equity but are excluded from net income (loss). The Company's other comprehensive income and accumulated other comprehensive income are comprised of unrealized gains on marketable securities categorized as available-for-sale.

Income taxes
The partners have elected to have the Company treated as a partnership. Under such treatment, the Company's Federal and state taxable income or loss is passed through to the individual partners. Accordingly, no tax provisions are included in the consolidated financial statements.

The Company has no unrecognized tax benefits at September 30, 2014. The Company's Federal and state income tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Company would recognize interest and penalties associated with tax matters as part of expenses in the consolidated statements of income and comprehensive income and include accrued interest and penalties in accrued expenses in the consolidated balance sheets. The Company did not recognize any interest or penalties associated with tax matters for the year ended September 30, 2014.

Entrance fees
Independent living center residents pay an entrance fee upon entering into a continuing care contract. Effective during fiscal year 2014, residents will pay an entrance fee that declines to either 90%, 50% or 0% (depending on the declining balance refund plan chosen by the resident) upon death or withdrawal after their independent living unit is reoccupied. Prior to fiscal year 2014, residents paid an entrance fee upon move-in that was either 80% (post fiscal year 04) or 90% (pre fiscal year 05), refundable upon death or withdrawal after their independent living unit was reoccupied. An additional monthly service fee is charged to residents, which entitles them to the lifetime use and privileges of the facilities. Residents do not acquire any interest in the real estate property.

Arbors of Hop Brook Limited Partnership annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balances of unamortized deferred revenues from advanced fees and expected revenues from investment income and monthly fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advanced fees and expected future revenues, a liability will be recorded with a corresponding charge to income. No obligation was required as the present value, at a discount rate of 5.5%, of the expected revenues and unamortized deferred revenues from advanced fees exceeded the net cost of future services and use of the facilities.

Advertising
The Facility follows the policy of charging costs of advertising to expense as incurred. Advertising expenses were $92,797 for the year ended September 30, 2014.

Retirement benefits
The Company sponsors a 401(k) retirement plan that covers substantially all employees who have at least one year of service and have attained the age of 21. The plan allows for employer contributions and employee salary deferrals. The contribution expense for the year ended September 30, 2014 was $84,256.

Change in accounting principle
On October 1, 2013, the Company adopted the provisions of Accounting Standards Update 2012-01, Health Care Entities: Continuing Care Retirement Communities - Refundable Advance Fees ("ASU No. 2012-01"), which requires the entity to classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee that is contingent upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The Company's adoption of ASU No. 2012-01 has resulted in the establishment of a liability for advance fees for amounts which were previously presented as deferred revenue and amortized into revenue over the life of the facility. The adoption of the new standard on October 1, 2013 resulted in a decrease in the opening partners' capital of $1,867,883.

Subsequent events
The Company has evaluated events and transactions for potential recognition or disclosure through February 12, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient service receivables, net
The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2014 is as follows:

Medicaid	$ 312,008
Medicare	354,387
Other third-party payors	153,806
Private	833,741
	1,653,222
Less allowance for doubtful accounts	372,141
	$ 1,281,081

Patient service receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient service receivables, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews the data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors 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 Company records a significant provision for uncollectible accounts in the period of services 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 provided by the Company's policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Company's allowance for doubtful accounts was 23% of patient services receivables at September 30, 2014.

Note 3 - Investments available-for-sale

The Company's investments, (including restricted funds) which are reported at fair value, are primarily in marketable equity securities and are classified as available-for-sale. They may be sold at any time, at management's option in response to change in interest rates, liquidity needs and for other purposes.

A summary of these investments at September 30, 2014 is as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 206,331	$ -	$ -	$ 206,331
Common stocks	1,690,800	847,700	(5,446)	2,533,054
Mutual funds	5,909,032	418,003	(33,477)	6,293,558
	$ 7,806,163	$ 1,265,703	$ (38,923)	$ 9,032,943

Information pertaining to securities with gross unrealized losses at September 30, 2014, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stocks	$ 29,388	$ (785)	$ 70,855	$ (4,661)	$ 100,243	$ (5,446)
Mutual funds	651,236	(33,477)	-	-	651,236	(33,477)
	$ 680,624	$ (34,262)	$ 70,855	$ (4,661)	$ 751,479	$ (38,923)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company does not consider these investments to be other than temporarily impaired at September 30, 2014.

Note 4 - Fair value measurements

The Company values financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access. The fair value hierarchy gives the highest priority to Level 1 inputs.

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

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The asset or liability'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2014.

Money market funds: Valued using significant observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2).

Mutual funds: Valued at the quoted net asset value of shares held by the Company at year end (Level 1).

Common stocks: Valued at the quoted price in active markets of shares held by the Company at year end (Level 1).

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 Company believes their 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 Company evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the total investments. There were no transfers during the year ended September 30, 2014.

The following tables set forth by level, within the fair value hierarchy, the Company's investments available-for-sale as of September 30, 2014:

	Total	(Level 1)	(Level 2)	(Level 3)
Money market funds	$ 206,331	$ -	$ 206,331	$ -
Common stocks:				
Basic materials	474,612	474,612	-	-
Consumer goods	287,977	287,977	-	-
Financial	214,559	214,559	-	-
Healthcare	149,747	149,747	-	-
Industrial goods	138,493	138,493	-	-
Services	366,190	366,190	-	-
Technology	892,280	892,280	-	-
Utilities	9,196	9,196	-	-

Mutual funds:				
Foreign large blend	$ 397,768	$ 397,768	$ -	$ -
Japan stock	404,741	404,741	-	-
Large blend	1,172,864	1,172,864	-	-
Large growth	388,983	388,983	-	-
Large value	1,730,267	1,730,267	-	-
Mid-cap growth	137,255	137,255	-	-
Mid-cap value	138,389	138,389	-	-
Moderate allocation	429,045	429,045	-	-
Technology	668,922	668,922	-	-
World allocation	825,324	825,324	-	-
Totals	$9,032,943	$8,826,612	$ 206,331	$ -

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.

Note 5 - Related party transactions

Due from related party

Represents amount due from Arrowwood Group, LLC. The loan is noninterest bearing and is expected to be repaid.

Note 6 - Long-term debt

Arbors of Hop Brook Limited Partnership

On August 23, 2011, the Company entered into two loan agreements with People's United Bank. A summary of these agreements follows:

First Mortgage Loan $2,400,000 promissory note, interest payable at one (1) month LIBOR rate (0.16% at September 30, 2014) plus 2.0%. The loan matures on September 1, 2021. Proceeds from the loan were used to retire an existing first mortgage and for closing costs. The loan is secured by a first mortgage on real estate. The outstanding balance on the first mortgage loan at September 30, 2014 was $2,030,000.

Line of Credit Revolving line of credit with a maximum borrowing of $1,000,000. Interest only is payable monthly at one (1) month LIBOR rate plus 2.25%. The line expires September 30, 2016. The loan automatically converts to a five-year term loan with an amortization schedule of up to fifteen years at the conclusion of the draw period. There were no outstanding balances on the line of credit at September 30, 2014. The line of credit is secured by a third mortgage on real estate, a blanket security interest in all assets of the Company and personal guarantees of partners of the Company.

The debt agreements of Arbors of Hop Brook Limited Partnership include certain restrictions requiring maintenance of certain financial ratios. At September 30, 2014, the Company is in compliance with these covenants.

Manchester Manor Realty, LLP

On August 23, 2011, the Company, entered into three loan agreements with People's United Bank. A summary of these agreements follows:

First Mortgage Loan $1,800,000 promissory note, interest payable at one (1) month LIBOR rate plus 2.0%. The loan matures on August 15, 2021. Proceeds from the loan were used to retire an existing first mortgage and for closing costs. The loan is secured by a first mortgage on real estate. The outstanding balance on the first mortgage loan at September 30, 2014 was $1,522,500.

CapEx Loan Provides for advances up to $1,000,000 during a draw period that expires on September 30, 2016. Proceeds were used to purchase fixed assets and make property improvements to real estate. Interest only is payable monthly during the draw period at one (1) month LIBOR rate plus 2.25%. The loan automatically converts to a five-year term loan with an amortization schedule of up to fifteen years at the conclusion of the draw period. There were no outstanding balances on the CapEx loan at September 30, 2014. The CapEx loan is secured by a second mortgage on real estate and a blanket security interest in all assets of the Company.

Line of Credit Revolving line of credit with a maximum borrowing of $1,500,000. Interest only is payable monthly at one (1) month LIBOR rate plus 2.25%. The line expires on September 30, 2016. There were no outstanding balances on the line of credit at September 30, 2014. The line of credit is secured by a third mortgage on real estate, a blanket security interest in all assets of the Company and personal guarantees of partners of the Company.

The debt agreements of Manchester Manor Realty, LLP include certain restrictions requiring maintenance of certain financial ratios. At September 30, 2014, the Company is in compliance with these covenants.

Long-term debt and capital lease obligations (Note 7) are as follows as of September 30, 2014:

Long-term debt	$ 3,552,500
Capital lease obligations	27,671
	3,580,171
Less current maturities	237,671
	$ 3,342,500

Principal maturities of notes payable are scheduled as follows:

Year Ending September 30	Amount
2015	$ 210,000
2016	210,000
2017	210,000
2018	210,000
2019	210,000
Thereafter	2,502,500
	$ 3,552,500

Interest on the long-term debt and capital lease obligations amounted to $82,501 for the year ended September 30, 2014.

Note 7- Capital lease obligations

The Company has several noncancellable capital leases for office equipment. Property and equipment include assets under these lease obligations of $233,083 with accumulated amortization of $175,161 at September 30, 2014. Amortization of capital lease assets totaling $43,539 for the year September 30, 2014, is included in depreciation and amortization in the Company's consolidated statement of income and comprehensive income.

Capital lease obligations continue through September 2015. The future minimum lease payments under these leases are as follows:

Year Ending September 30	Amount
2015	$ 28,457
Total minimum lease payments	28,457
Less amount representing interest	786
Present value of minimum lease payments	27,671
Less current portion	27,671
	$ -

Note 8 - Patient services revenue, net

The Company recognizes patient services revenue associated with services provided to patients who have Medicare, Medicaid and third-party coverage on the basis of contractual rates for the services rendered. For uninsured self-pay patients, the Company recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Company's uninsured patients will be unable or unwilling to pay for services provided. Thus, the Company records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient service revenue recognized in 2014 from these major payor sources is as follows:

Medicaid	$ 4,362,449
Medicare	2,351,442
Other third-party payors	1,321,327
Private	4,080,675
	$ 12,115,893

Medicaid and Medicare revenue is reimbursed to the Company at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 9 - Entrance fees

Entrance fees at September 30, 2014 are as follows:

Nonrefundable, net of accumulated amortization of $602,042	$ 560,868
Refundable (liability)	6,465,948
Refundable (deferred revenue)	33,476
	$ 7,060,292

Nonrefundable fees are amortized into income over the estimated life expectancy of the resident. Entrance fees refundable upon reoccupancy (not limited to the proceeds of reoccupancy) are accounted for as a liability in the consolidated balance sheet. Entrance fees refundable upon reoccupancy (limited to the proceeds of reoccupancy) are accounted for as deferred revenue and amortized into income or expense based upon the remaining useful life of the facility, both on the straight-line method. Entrance fees amortized and reported in revenues totaled $94,729 for the year ended September 30, 2014.

Note 10 - Vendor concentrations

The Company is dependent on two vendors that supply food and therapeutic services. Purchases from these vendors totaled $2,007,004 for the year ended September 30, 2014.

Note 11 - Medical malpractice insurance

The Company maintains claims made medical malpractice insurance coverage providing coverage limits of $1,000,000 per claim and a $3,000,000 annual aggregate.

Note 12 - Healthcare industry

Commitments and contingencies

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

SUPPLEMENTARY INFORMATION

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Balance Sheet
September 30, 2014

	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 984	$ 8,949	$ 527,585	$ -	$ 537,518
Accounts receivable, net	1,333	1,281,081	34,500	(34,500)	1,282,414
Entrance fees receivable	117,500	-	-	-	117,500
Resident funds	-	9,183	-	-	9,183
Prepaid expenses	-	8,559	-	-	8,559
Total current assets	119,817	1,307,772	562,085	(34,500)	1,955,174
Investments available-for-sale	7,047,643	1,064,269	-	-	8,111,912
Non-marketable equity securities	250,000	-	-	-	250,000
Due from related party	-	-	241,074	-	241,074
Restricted funds	921,031	-	-	-	921,031
Property and equipment, net	3,344,860	2,739,603	-	-	6,084,463
Deferred costs, net	30,191	-	26,611	-	56,802
Total assets	$ 11,713,542	$ 5,111,644	$ 829,770	$ (34,500)	$ 17,620,456
Liabilities and Equity (Deficit)					
Current liabilities:					
Current portion of long-term debt	$ 127,653	$ 20,018	$ 90,000	$ -	$ 237,671
Accounts payable	238,987	1,229,487	-	(34,500)	1,433,974
Resident funds	-	9,183	-	-	9,183
Other current liabilities	287,917	365,179	1,572	-	654,668
Total current liabilities	654,557	1,623,867	91,572	(34,500)	2,335,496
Long-term liabilities:					
Long-term debt, less current portion	1,910,000	-	1,432,500	-	3,342,500
Entrance fees	7,060,292	-	-	-	7,060,292
Total liabilities	9,624,849	1,623,867	1,524,072	(34,500)	12,738,288
Equity (deficit)	2,088,693	3,487,777	(694,302)	-	4,882,168
Total liabilities and equity (deficit)	$ 11,713,542	$ 5,111,644	$ 829,770	$ (34,500)	$ 17,620,456

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Statement of Income
Year Ended September 30, 2014

	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Revenues:					
Patient service revenue,					
net of contractual allowance	$ -	$ 13,326,745	$ -	$ (1,210,852)	$ 12,115,893
Provision for uncollectible accounts	-	222,504	-	-	222,504
Net patient service revenue	-	13,104,241	-	(1,210,852)	11,893,389
Resident fees	4,298,378	-	-	-	4,298,378
Earned entrance fees	94,729	-	-	-	94,729
Rental income	-	-	414,000	(414,000)	-
Total revenues	4,393,107	13,104,241	414,000	(1,624,852)	16,286,496
Expenses:					
Direct costs	4,068,290	10,711,608	34,269	(1,210,852)	13,603,315
General and administrative	851,475	1,178,663	5,980	-	2,036,118
Depreciation and amortization	570,391	273,477	3,744	-	847,612
Rent	-	414,000	-	(414,000)	-
Total expenses	5,490,156	12,577,748	43,993	(1,624,852)	16,487,045
Income (loss) from operations	(1,097,049)	526,493	370,007	-	(200,549)
Investment income	170,933	27,530	-	-	198,463
Net realized gains on investments					
available-for-sale	163,802	100,231	-	-	264,033
Net income (loss)	$ (762,314)	$ 654,254	$ 370,007	$ -	$ 261,947

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Statement of Cash Flow
Year Ended September 30, 2014

	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Operating activities:					
Net income (loss)	$ (762,314)	$ 654,254	$ 370,007	$ -	$ 261,947
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	566,026	273,477	-	-	839,503
Amortization of deferred costs	4,365	-	3,744	-	8,109
Provision for uncollectible accounts	-	222,504		-	222,504
Earned entrance fees income	(94,729)	-		-	(94,729)
Net realized gain on investments available-for-sale	(163,802)	(100,231)		-	(264,033)
Changes in operating assets and liabilities:					
Accounts receivable	4,378	113,389	(34,500)	-	83,267
Due from related party	-	(14,000)	14,000	-	-
Entrance fees receivable	30,740	-		-	30,740
Prepaid expenses	-	(3,265)		-	(3,265)
Deposits	1,833				1,833
Accounts payable	(245,071)	274,187		-	29,116
Other current liabilities	33,725	3,015	(143)	-	36,597
Net cash provided by (used in) operating activities	(624,849)	1,423,330	353,108	-	1,151,589
Investing activities:					
Increase in restricted funds	(139,882)	-	-	-	(139,882)
Purchase of property and equipment	(369,506)	(528,807)	-	-	(898,313)
Proceeds from sales of investments available-for-sale	411,278	437,144	-	-	848,422
Purchases of investments available-for-sale	(535,749)	(441,370)	-	-	(977,119)
Net cash used in investing activities	(633,859)	(533,033)	-	-	(1,166,892)
Financing activities:					
Capital contributions	1,384,677	1,535	-	-	1,386,212
Capital distributions	(515,247)	(962,235)	-	-	(1,477,482)
Proceeds from resident entrance fees	1,758,042	-	-	-	1,758,042
Refunds of resident entrance fees	(1,259,990)	-	-	-	(1,259,990)
Payments on capital lease obligations	(13,192)	(23,084)	-	-	(36,276)
Payments on long-term debt	(120,000)	-	(90,000)	-	(210,000)
Net cash provided by (used in) financing activities	1,234,290	(983,784)	(90,000)	-	160,506
Net increase (decrease) in cash and cash equivalents	(24,418)	(93,487)	263,108	-	145,203
Cash and cash equivalents, beginning	25,402	102,436	264,477	-	392,315
Cash and cash equivalents, ending	$ 984	$ 8,949	$ 527,585	$ -	$ 537,518

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates
Manchester Manor Health Care Center

Schedule of Patient Days
Year Ended September 30, 2014

Payor Source	
Medicaid	22,595
Private	12,564
Medicare	6,453
Total patient days	41,612
Occupancy rate	90%

See Independent Auditor's Report.

Entrance Fees and Monthly Fees 2014*-2015

Entrance Fee	2014* Declining Balance	2015 Declining Balance
Studio	$ 64,500.00	$ 64,500.00
1 Bedroom "A"	$ 70,500.00	$ 70,500.00
1 Bedroom "B"	$ 73,500.00	$ 73,500.00
1 Bedroom/1.5 Bath "C"	$ 79,500.00	$ 79,500.00
2 Bedroom/2 Bath	$ 105,500.00	$ 105,500.00
Second Person	$ 12,000.00	$ 12,000.00

Entrance Fee	2014* 50% Refundable	2015 50% Refundable
Studio	$ 84,475.00	$ 84,475.00
1 Bedroom "A"	$ 109,275.00	$ 109,275.00
1 Bedroom "B"	$ 113,925.00	$ 113,925.00
1 Bedroom/1.5 Bath "C"	$ 123,225.00	$ 123,225.00
2 Bedroom/2 Bath	$ 163,525.00	$ 163,525.00
Second Person	$ 12,000.00	$ 12,000.00

Entrance Fee	2014* 90% Refundable	2015 90% Refundable
Studio	$ 164,726.00	$ 164,726.00
1 Bedroom "A"	$ 213,086.00	$ 213,086.00
1 Bedroom "B"	$ 222,154.00	$ 222,154.00
1 Bedroom/1.5 Bath "C"	$ 240,289.00	$ 240,289.00
2 Bedroom/2 Bath	$ 318,874.00	$ 318,874.00
Second Person	$ 12,000.00	$ 12,000.00

Monthly Fee	2014*	2015
Studio	$ 1,850.00	$ 1,905.00
1 Bedroom "A"	$ 2,150.00	$ 2,215.00
1 Bedroom "B"	$ 2,250.00	$ 2,315.00
1 Bedroom/1.5 Bath "C"	$ 2,450.00	$ 2,520.00
2 Bedroom/2 Bath	$ 2,950.00	$ 3,040.00
Second Person	$ 750.00	$ 850.00

Please note, 2014 figures represent fee/program alterations made in Summer, 2014. See Annual Disclosure 22 and 22A.

Historic Entrance Fees and Monthly Fees 2004-2014

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14
Entrance Fees								
Single Occupancy								
Studio	115,300	115,300	115,300	115,300	115,300	115,300	115,300	115,300
One Bedroom A	133,600	133,600	133,600	133,600	133,600	133,600	133,600	133,600
One Bedroom B	141,100	141,100	141,100	141,100	141,100	141,100	141,100	141,100
One Bedroom C	146,100	146,500	146,500	146,500	146,500	146,500	146,500	146,500
Two Bedroom	182,600	182,600	182,600	182,600	182,600	182,600	182,600	182,600
Double Occupancy								
Studio	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
One Bedroom A	146,100	146,100	146,100	146,100	146,100	146,100	146,100	146,100
One Bedroom B	153,600	153,600	153,600	153,600	153,600	153,600	153,600	153,600
One Bedroom C	159,000	159,000	159,000	159,000	159,000	159,000	159,000	159,000
Two Bedroom	182,600	182,600	182,600	182,600	182,600	182,600	182,600	182,600
Monthly Fees								
Single Occupancy								
Studio	2,395	2,395	1,920	1,985	2,025	2,100	2,100	2,340
One Bedroom A	2,705	2,705	2,220	2,295	2,340	2,420	2,420	2,640
One Bedroom B	3,005	3,005	2,260	2,335	2,380	2,460	2,460	2,940
One Bedroom C	3,175	3,175	2,345	2,425	2,473	2,560	2,560	2,960
Two Bedroom	3,425	3,425	3,300	3,300	3,370	3,495	3,495	3,740
Dbl Occp (2nd Pers)								
Studio	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
One Bedroom A	785	785	900	900	950	900	900	900
One Bedroom B	795	795	900	900	955	900	900	900
One Bedroom C	800	800	900	900	947	900	900	900
Two Bedroom	800	800	200	200	200	200	200	900

Entrance Fees - Double Occupancy fee is $12,500 for Studios and 1 Bedrooms

Please note, the fees above are based on an 80% Entance Fee Refund plan. This plan was discontinued in Summer, 2014.

ARBORS OF HOP BROOK LIMITED PARTNERSHIP

BUDGETED FIVE YEAR ASSUMPTIONS
STATEMENTS OF CHANGES IN REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30

	BUDGET 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019
Assumptions for Arbors of Hop Brook					
REVENUE					
Monthly fee increased each year by	3.5%	3.5%	3.5%	3.5%	3.5%
Ancilliary revenue increased each year by	4.0%	4.0%	4.0%	4.0%	4.0%
CCRC related revenue increased each year by	1.0%	1.0%	1.0%	1.0%	1.0%
Earned entrance fee increased by	2.0%	2.0%	1.0%	1.0%	1.0%
EXPENSES					
Salaries increased each year by	2.0%	2.0%	2.0%	2.0%	2.0%
Employee benefits increased each year by	0.0%	0.0%	0.0%	0.0%	0.0%
Non-salary expenses increased each year by	2.0%	2.0%	2.0%	2.0%	2.0%
Rent increased each year by	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation increased each year by	8.0%	8.0%	8.0%	8.0%	8.0%
Return on investments increased each year by	4.0%	4.0%	4.0%	4.0%	4.0%
Percent of occupancy	35.96%	35.96%	35.96%	35.96%	35.96%
Units Occupied	41	41	41	41	41
Sales of units each year	3.3	3.8	4.0	4.2	4.3
Assumptions for Manchester Manor Health Care Center					
REVENUE					
Rate Increases:					
Medicaid	0.0%	0.0%	2.0%	2.0%	2.0%
Lifecare	4.0%	3.0%	3.0%	2.0%	1.0%
Private	4.0%	4.0%	4.0%	4.0%	4.0%
Medicare	0.0%	0.0%	2.0%	2.0%	2.0%
Managed Care	4.0%	4.0%	4.0%	4.0%	4.0%
Patient Day Mix					
Medicaid	50.2%	48.8%	49.2%	49.8%	50.5%
Lifecare	6.3%	7.7%	7.3%	6.7%	6.0%
Private	18.9%	18.9%	18.9%	18.9%	18.9%
Medicare	15.7%	15.7%	15.7%	15.7%	15.7%
Managed Care	2.7%	2.7%	2.7%	2.7%	2.7%
Total occupancy	93.9%	93.9%	93.9%	93.9%	93.9%
Vacancy	6.1%	6.1%	6.1%	6.1%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENSES					
Salaries increased each year by	2.0%	2.0%	2.0%	2.0%	2.0%
Employee benefits increased each year by	0.0%	0.0%	0.0%	0.0%	0.0%
Non-salary expenses increased each year by	2.0%	2.0%	2.0%	2.0%	2.0%
Rent increased each year by	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation increased each year by	8.0%	8.0%	8.0%	8.0%	8.0%
Return on investments increased each year by (most of investment is bonds)	4.0%	4.0%	4.0%	4.0%	4.0%

ARBORS OF HOP BROOK LIMITED PARTNERSHIP AND AFFILIATE

Balance Sheet

September 30

	ACTUAL 2014	BUDGET 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019
Assets						
Current Assets:						
Cash and cash equivalents	$ 537,518	$ (772,551)	$ (1,512,026)	$ (1,986,631)	$ (2,145,327)	$ (2,008,060)
Restricted funds	921,031	957,872	996,187	1,036,035	1,077,476	1,120,575
Accounts receivable	1,282,414	1,333,711	1,387,059	1,442,541	1,500,243	1,560,253
Entrance fees receivable	117,500	122,200	127,088	132,172	137,458	142,957
Prepaid expenses	8,559	8,901	9,257	9,628	10,013	10,413
Total current assets	2,867,022	1,650,134	1,007,566	633,745	579,863	826,138
Investments available for sale	8,361,912	8,951,221	9,546,091	10,222,257	10,991,535	11,867,948
Property and equipment:						
Land and improvements	1,556,253	1,643,253	1,717,253	1,777,253	1,787,253	1,797,253
Building and improvements	16,534,118	17,418,538	17,689,038	17,877,538	18,040,538	18,192,538
Equipment	4,308,176	4,508,476	4,658,076	4,856,276	5,054,976	5,234,876
Automotive equipment	213,333	213,333	213,333	213,333	213,333	213,333
Total property and equipment	22,611,880	23,783,600	24,277,700	24,724,400	25,096,100	25,438,000
Less accumulated depreciation	(16,953,337)	(17,868,758)	(18,857,413)	(19,925,160)	(21,078,326)	(22,323,746)
Plus Construction in Progress	425,920					
Net property and equipment	6,084,463	5,914,842	5,420,287	4,799,240	4,017,774	3,114,254
Long-term assets:						
Loans receivable - affiliates	241,074	241,074	241,074	241,074	241,074	241,074
Deferred costs, net	56,802	54,556	50,991	47,991	44,991	41,991
Resident funds	9,183	9,550	9,932	10,330	10,743	11,173
Deposits		-	-	-	-	-
Total long-term assets	307,059	305,180	301,997	299,395	296,808	294,238
Total assets	$ 17,620,456	$ 16,821,377	$ 16,275,942	$ 15,954,636	$ 15,885,979	$ 16,102,577
Liabilities and Equity						
Current Liabilities:						
Current portion of long-term debt	$ 237,671	$ 127,653	$ 120,000	$ 120,000	$ 120,000	$ 120,000
Accounts payable	1,433,974	1,491,333	1,550,986	1,613,026	1,677,547	1,744,649
Other current liabilities	654,668	680,855	708,089	736,412	765,869	796,504
Resident Funds	9,183	9,550	9,932	10,330	10,743	11,173
Total current liabilities	2,335,496	2,309,391	2,389,008	2,479,768	2,574,159	2,672,325
Long-term liabilities:						
Loans payable - affiliates	-	-	-	-	-	-
Obligation under interest rate swap	-	-	-	-	-	-
Long-term debt, less current portion	3,342,500	3,214,847	3,094,847	2,974,847	2,854,847	2,734,847
Unearned entrance fees	7,060,292	6,508,000	6,330,847	6,205,699	6,139,416	6,130,854
Total liabilities	12,738,288	12,032,238	11,814,701	11,660,314	11,568,422	11,538,025
Equity:						
Partners' capital						
Capital	4,349,690	3,907,352	3,304,583	2,871,500	2,625,457	2,586,038
Accumulated other comprehensive income (loss)	1,226,780	1,356,089	1,400,959	1,427,125	1,446,403	1,472,816
Total partners' capital	5,576,470	5,263,441	4,705,542	4,298,624	4,071,859	4,058,854
Noncontrolling Interest	(694,302)	(474,302)	(244,302)	(4,302)	245,698	505,698
Total equity	4,882,168	4,789,139	4,461,240	4,294,322	4,317,557	4,564,552

ARBORS OF HOP BROOK LIMITED PARTNERSHIP AND AFFILIATE

Statements of Operations and Comprehensive Income (Loss)

September 30

	ACTUAL 2014	BUDGET 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019
Revenues:						
Net patient service revenue	$ 11,893,389	$ 14,256,504	$ 14,330,608	$ 14,729,543	$ 15,150,945	$ 15,596,549
Resident Fees	4,298,378	4,226,949	4,378,873	4,536,258	4,699,299	4,868,201
Earned entrance fes	94,729	110,292	114,152	118,148	122,283	126,563
Total revenues	16,286,496	18,593,745	18,823,633	19,383,949	19,972,527	20,591,313
Expenses:						
Administrative and general	2,036,118	2,894,993	2,952,892	3,011,950	3,072,189	3,133,633
Employee benefits	1,878,108	1,813,396	1,813,396	1,813,396	1,813,396	1,813,396
Plant operations and maintenance	1,808,443	1,748,358	1,783,325	1,818,991	1,855,371	1,892,479
Nursing	5,566,496	6,540,955	6,671,774	6,805,209	6,941,313	7,080,140
Activities	237,107	228,101	232,663	237,316	242,062	246,904
Food service	1,854,185	1,904,385	1,942,472	1,981,322	2,020,948	2,061,367
Laundry	130,968	132,232	134,877	137,574	140,326	143,133
Housekeeping	341,104	355,146	362,249	369,494	376,884	384,421
Medicare	323,703	321,490	327,920	334,479	341,168	347,991
Rehabilitative services	915,108	1,039,085	1,059,866	1,081,064	1,102,685	1,124,739
Other services	432,092	565,067	576,369	587,896	599,654	611,647
Depreciation and amortization	847,612	917,667	992,220	1,070,747	1,156,167	1,248,420
Insurance	33,684	89,214	90,998	92,818	94,674	96,568
Interest expense	82,317	76,852	73,917	71,158	68,399	65,640
Total expenses	16,487,045	18,626,940	19,014,939	19,413,415	19,825,238	20,250,478
Income from operations	(200,549)	(33,195)	(191,305)	(29,466)	147,289	340,835
Other income (expense):						
Investment income	198,463	250,857	268,537	286,383	306,668	329,746
Gain on sale of property and equipment						
Net realized gains (losses) on investment securities	264,033	60,000	50,000	50,000	50,000	50,000
Total other income (expense)	462,496	310,857	318,537	336,383	356,668	379,746
Net income (loss)	261,947	277,662	127,231	306,916	503,957	720,581
Less: net income attributable to noncontrolling interest	370,007	220,000	230,000	240,000	250,000	260,000
Net income (loss) attributable to Arbors of Hop Brook LP	$ (108,060)	$ 57,662	$ (102,769)	$ 66,916	$ 253,957	$ 460,581
Comprehensive income (loss):						
Net income (loss)	$ 261,947	$ 277,662	$ 127,231	$ 306,916	$ 503,957	$ 720,581
Other comprehensive income (loss):						
Unrealized holding gains (losses) arising during the period	684,882	143,114	94,870	76,166	69,278	76,413
Unrealized gain (loss) on derivative financial instrument	-	46,195	-	-	-	-
Less: reclassification adjustment for gains (losses) included in net income (loss)	(264,033)	(60,000)	(50,000)	(50,000)	(50,000)	(50,000)
Total other comprehensive income	420,849	129,309	44,870	26,166	19,278	26,413
Comprehensive income (loss)	682,796	406,971	172,101	333,082	523,235	746,994
Less: comprehensive income attributable to noncontrolling interest	370,007	266,195	230,000	240,000	250,000	260,000
Comprehensive income (loss) attributable to Arbors of Hop Brook LP	$ 312,789	$ 140,776	$ (57,899)	$ 93,082	$ 273,235	$ 486,994

ARBORS OF HOP BROOK LIMITED PARTNERSHIP AND AFFILIATE

Statements of Changes in Equity

September 30

	ACTUAL 2014	BUDGET 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019
Beginning Balance	$ 4,290,642	$ 4,882,168	$ 4,789,139	$ 4,461,240	$ 4,294,322	$ 4,317,557
Net income (loss)	261,947	277,662	127,231	306,916	503,957	720,581
Other comprehensive income	420,849	129,309	44,870	26,166	19,278	26,413
Capital contributions	1,386,212	-	-	-	-	-
Capital distributions	(1,477,482)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Ending Balance	$ 4,882,168	$ 4,789,139	$ 4,461,240	$ 4,294,322	$ 4,317,557	$ 4,564,552

ARBORS OF HOP BROOK LIMITED PARTNERSHIP AND AFFILIATE

Statements of Cash Flows

September 30

	ACTUAL 2014	BUDGET 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019
Cash flows from operating activities:						
Net income (loss)	$ 261,947	$ 277,662	$ 127,231	$ 306,916	$ 503,957	$ 720,581
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization	839,503	917,667	992,220	1,070,747	1,156,167	1,248,420
Earned entrance fee (income) expense	(94,729)	(110,292)	(114,152)	(118,148)	(122,283)	(126,563)
Amortization of deferred costs	8,109					
Net realized (gains) losses on investment securities	(264,033)	(60,000)	(50,000)	(50,000)	(50,000)	(50,000)
Decrease in Resident Funds	2,509	(367)	(382)	(397)	(413)	(430)
Deferred Financing Fees	-	-	-	-	-	-
(Increase) decrease in:						
Restricted funds	(139,882)	(36,841)	(38,315)	(39,847)	(41,441)	(43,099)
Accounts receivable	480,153	(51,297)	(53,348)	(55,482)	(57,702)	(60,010)
Entrance fee receivable	30,740	(4,700)	(4,888)	(5,084)	(5,287)	(5,498)
Prepaid expenses	(3,265)	(342)	(356)	(370)	(385)	(401)
Deposits	1,833	-	-	-	-	-
Increase (decrease) in:						
Accounts payable	(5,384)	57,359	59,653	62,039	64,521	67,102
Other current liabilities	36,597	26,187	27,234	28,324	29,456	30,635
Resident Funds	(2,509)	367	382	397	413	430
Net cash provided by operating activities	1,151,589	1,015,402	945,278	1,199,095	1,477,003	1,781,168
Cash flows from investing activities:						
Purchase of property and equipment	(898,313)	(745,800)	(494,100)	(446,700)	(371,700)	(341,900)
Net (purchases) sales of investments	(268,579)	(400,000)	(500,000)	(600,000)	(700,000)	(800,000)
Net cash used in investing activities	(1,166,892)	(1,145,800)	(994,100)	(1,046,700)	(1,071,700)	(1,141,900)
Cash flows provided by financing activities:						
Capital contributions	1,386,212	-	-	-	-	-
Capital distributions	(1,477,482)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Financing fees incurred	-	-	-	-	-	-
Proceeds from resident entrance fees	1,758,042	290,000	635,000	645,000	657,000	666,000
Refunds of resident entrance fees	(1,259,990)	(732,000)	(698,000)	(652,000)	(601,000)	(548,000)
Payments on capital lease obligations	(36,276)	(7,653)	-	-	-	-
Proceeds (payments) on long-term debt	(210,000)	(230,018)	(127,653)	(120,000)	(120,000)	(120,000)
Increase (decrease) in loans payable - affiliates	-	-	-	-	-	-
Increase in loans receivable - affiliates	-	-	-	-	-	-
Net cash used in financing activities	$ 160,506	$ (1,179,671)	$ (690,653)	$ (627,000)	$ (564,000)	$ (502,000)
Net increase (decrease) in cash and cash equivalents	$ 145,203	$ (1,310,069)	$ (739,475)	$ (474,605)	$ (158,697)	$ 137,268
Cash and cash equivalents, beginning of year	392,315	537,518	(772,551)	(1,512,026)	(1,986,631)	(2,145,327)

CCRC
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January 16, 2015

Ms. Chante Drasdis
Director
Arbors of Hop Brook Limited Partnership
385 West Center Street
Manchester, CT 06040-4797

Re: **Arbors of Hop Brook Limited Partnership**
Future Service Obligation
As of September 30, 2014

Dear Chante:

At the request of management at Arbors of Hop Brook Limited Partnership ("Arbors"), CCRC Actuaries, LLC ("CCRC Actuaries") performed a calculation of the Obligation to Provide Future Services and the Use of Facilities to Current Residents of Arbors in accordance with Chapter 14 of the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Health Care Organizations (the Audit Guide).

In the course of our study we received the following information from Arbors:

- Current residential fees for entrance fees, monthly service fees and auxiliary fees;
- Prior year and current year budget information as well as the actual (interim financial statement);
- Long term debt schedule;
- Current unit configuration including number, approximate square footage and types of units for independent living and health center units; and
- Last year's audited financial statements.

Our study was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards and Practice of the Actuarial Standards Board.

Background

Arbors provides independent living care at the 112-unit independent living center and skilled nursing at the 126-bed Manchester Manor Health Center. Moving forward, residents will pay an entrance fee upon move-in that declines to either 90%, 50% or 0% upon death or withdrawal after their independent living unit is reoccupied. Formerly, residents paid an entrance fee upon move-in that was either 80% (Post FY04) or 90% (Pre FY05) refundable. In addition, there is a monthly fee associated with the 112 studios, one bedroom and two bedroom apartments. The new declining contracts offer no healthcare benefit such that residents will pay the private pay rate upon transfer to skilled nursing. If skilled nursing care is needed under the older contracts, the resident will continue to pay their current monthly fee upon transfer to Manchester Manor.

The AICPA released the Audit Guide on September 15, 1996 and provides the Standards for Continuing Care Retirement Communities pertaining to:

- Accounting for refund-reoccupancy and non-refundable entrance fees;
- Determining the future obligation to provide prepaid health services to current residents; and
- Accounting for the cost of acquiring initial CCRC contracts.

Analysis

The assumptions for the number of deaths, transfers to personal care and skilled nursing, and voluntary withdrawals are expressed in terms of the 1983A mortality table. These assumptions are presented in the following table:

Mortality and Morbidity Assumptions
1983A Table Modifiers

	Age			
	Under 75	75-84	85-94	Over 95
ILU Mortality	50%	50%	50%	50%
ILU Transfer to SNF	70	70	70	70
ILU Transfer to PCF	0	0	0	0
PCF Transfer to SNF	0	0	0	0
PCF Mortality	40	40	40	40
SNF Mortality	200	200	200	200

The assumptions used herein represent a single set of assumptions. The use of alternative assumptions may produce results that differ, perhaps materially, from the results presented here.

Unamortized Deferred Revenue

The Audit Guide states that nonrefundable entrance fees should be accounted for as deferred revenue. This deferred revenue should be amortized into income over future periods based on the estimated life of the resident or contract term, whichever is shorter. The period of amortization should be adjusted annually based on the actuarially determined estimated remaining life expectancy of each individual or joint and last survivor life expectancy of each group of residents occupying the same unit.

CCRC Actuaries' LifeCalc software was used to determine deferred revenue amounts as of September 30, 2014. The calculations were based on Arbors' resident census information and actuarially determined life expectancies. Life expectancies were calculated using actuarial methods and using the 1983A mortality table. The calculations recognize differences in age, sex, and health status among residents.

For residents entering the community during the fiscal year, the amount of deferred revenue amortized during the year ending September 30, 2014 is equal to the resident's nonrefundable entrance fee divided by the life expectancy determined for that year and multiplied by the fraction of the year that the resident lived at the facility. The amount of unamortized deferred revenue as of September 30, 2014 for residents who entered the community during the fiscal year is equal to the nonrefundable entrance fees paid less the related deferred revenue amortized during the year.

CCRC Actuaries has calculated the unamortized deferred revenue attributable to nonrefundable fees as of September 30, 2014 as $1,184,025. The amount amortized during Fiscal Year 2014 was calculated as $119,652. Per the Audit Guide, upon death or withdrawal, any remaining unamortized deferred revenue is to be released into income. The amount released into income during Fiscal Year 2014 was $22,812.

The Audit Guide now states that entrance fees refundable upon reoccupancy should no longer be accounted for as deferred revenue. This deferred revenue cannot be amortized into income over future periods based on the remaining useful life of the facility. CCRC Actuaries has calculated the unamortized deferred revenue attributable to refundable upon reoccupancy fees as of September 30, 2014 as $0.

Obligation to Provide Future Services and the Use of Facilities to Current Residents (Future Service Obligation)

The Audit Guide states that the Future Service Obligation should be calculated annually in order to determine whether a liability should be reported in the financial statements. The liability related to continuing care contracts for each community equals:

- The present value of future net cash flows,
- Minus the balance of unamortized deferred revenue,
- Plus depreciation of facilities to be charged related to the contract,
- Plus unamortized costs of acquiring the related initial continuing care contracts.

Cash inflow includes revenue contractually committed to support the residents and inflow resulting from monthly fees including anticipated increases in accordance with contract terms. Cash outflow includes operating expenses, including interest and excluding selling expense, and general and administrative expenses.

To calculate the estimated amount of future net cash flow, we used a model to project cash flow over a 30-year period based on actuarial methods. The mortality and permanent transfer assumptions documented above were used to project the number of residents in the ILU and SNF each year. Based on these demographic projections, the amount of monthly fees received in each year are projected based on the fee and inflation assumptions.

Per diem fees from non-entrance fee paying residents were not included as cash inflow. Expenses were projected based on inflation and allocation assumptions, and the number of residents in the community during each year.

Per the Audit Guide, optional service income may be included as cash inflow with the exception of income relating to coffee shop and beauty shop services. We have included optional services of $213,000 in Fiscal Year 2014 in the calculation of the Future Service Obligation.

The present value of cash outflow and inflow were determined for the community using a discount rate of 5.5%. The present value of cash inflow was then subtracted from the present value of the cash outflow to determine the net cash flow.

The amount of depreciation related to current residents was determined by calculating an estimate of the depreciation charge in each future year related to the number of current residents at Arbors. A level depreciation charge was assumed and allocated pro-rata among surviving current residents in each future year. These allocated charges in each future year were summed to determine the total amount of depreciation related to current residents.

The Audit Guide states that the cost of acquiring initial continuing care contracts that are expected to be recovered from future contract revenues should be capitalized. Per Arbors representatives, no costs of acquiring continuing care contracts have been amortized.

Results

Based on the above, the Future Service Obligation was determined to be approximately ($611,000) as of September 30, 2014 as shown in the Appendix. Since this is a liability calculation, the negative result represents an asset or surplus.

As the Audit Guide specifies that a CCRC should only include a Future Service Obligation amount in financial statements if such amount is positive, Arbors' resulting Future Service Obligation amount for financial statement purposes as of September 30, 2014 is $0.

The results of our study are based on estimates of the demographic and economic assumptions of the most likely outcome. Considerable uncertainty and variability are inherent in such estimates. Accordingly, the subsequent emergence of actual resident movements and of actual revenues and expenses may not conform to the assumptions used in our analysis. Consequently, the subsequent development of these items may vary considerably from expected.

Management should scrutinize future developments that may cause the Obligation to increase. These developments include higher apartment vacancy rates, higher expense inflation, and higher nursing care utilization and longer life expectancies at all levels of care than assumed in the current projection.

Should you have any questions or concerns regarding this information, please do not hesitate to contact our offices.

Respectfully,

Dave Bond

Dave Bond, F.S.A., M.A.A.A.
Managing Partner
dave.bond@ccrcactuaries.com

APPENDIX

Arbors at Hop Brook

Future Service Obligation as of September 30, 2014

Present Value of Cash Flows			
	Cash Outflows		$14,463,000
	Cash Inflows		15,277,000
	Net Cash Outflows		(814,000)
Plus:			
	Depreciation		1,387,000
Plus:			
	Unamortized Initial Acquisition Costs		0
Minus:			
	Unamortized Deferred Revenue		
		Nonrefundable Fees	1,184,000
		Refundable Fees	0
		Total	1,184,000
Net Future Service Obligation			($611,000)

Since this is a liability calculation, the negative result represents an asset or surplus.

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Arbors of Hop Brook Limited Partnership

Statement of Actuarial Opinion
February 6, 2015

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, the Managing Partner in the firm of CCRC Actuaries, LLC, and I meet the qualification standards to render Statements of Actuarial Opinion for continuing care retirement communities. I have been retained by Arbors of Hop Brook Limited Partnership ("Arbors") to render a Statement of Actuarial Opinion in accordance with Section 17b-527 of the Regulations implementing the Continuing Care Statutes, regarding the following actuarial projections included in Arbors' 2014 Annual Financial Filing:

- Exhibit I - Residential Turnover Rates
- Exhibit II - Average Age of Residents
- Exhibit III - Health Care Utilization Rates
- Exhibit IV - Occupancy Rates
- Exhibit V - Number of Health Care Admissions
- Exhibit VI - Days of Care
- Exhibit VII - Number of Permanent Transfers

  Note: Both Lifecare and Rental residents are included in the projections.

I have examined the above items as shown in Arbors Annual Financial Filing. These items are attached to this Statement of Actuarial Opinion. In the course of my review, I have relied upon the accuracy and completeness of data and supporting documentation prepared by Arbors. In the course of my examination nothing came to my attention that causes me to believe that the underlying data information is unreasonable or inappropriate. In other respects, my examination included such review as I considered necessary of the data, methods, and underlying assumptions used by and the resulting actuarial projections reported by Arbors Retirement Community with respect to the above items as shown in Arbors' 2014 Annual Financial Filing.

In my opinion, the above items as shown in Arbors' 2014 Annual Financial Filing:

- are based upon methods which are consistent with sound actuarial principles and practices; and
- are based upon methods and underlying assumptions that appear reasonable and appropriate in this instance.

Should you have any questions or concerns regarding this information, please do not hesitate to contact our offices.

Respectfully,

Dave Bond

Dave Bond, F.S.A., M.A.A.A.
Managing Partner

Residential Turnover Rates

The Independent Living Unit residential turnover rates for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

2014	2015	2016	2017	2018	2019
20.8%	7.7%	8.9%	9.6%	10.0%	10.4%

Average Age of Residents

The projected average age for the next five years for independent living residents is as follows:

2015	2016	2017	2018	2019
88.6	88.7	88.7	88.7	88.7

Health Care Utilization Rates

Health care utilization rates, including admission rates and days per 100 residents by level of care for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

	Skilled Nursing Facility				
	Utilization Rate		Admission Rate		Days per
Year	Patients	%	Patients	%	100 Residents
2014	9.5	7.9%	14.0	12.6%	2,890
2015	11.8	9.5%	16.5	14.6%	3,475
2016	16.1	12.1%	20.9	17.7%	4,401
2017	19.6	14.4%	19.9	16.9%	5,256
2018	22.3	16.1%	19.9	17.0%	5,885
2019	24.3	17.4%	19.9	17.1%	6,339

Occupancy Rates

Occupancy rates for indepented living units for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

	2014	2015	2016	2017	2018	2019
Lifecare	40%	40%	40%	40%	40%	40%
Rental	48%	54%	54%	54%	54%	54%
Total	89%	94%	94%	94%	94%	94%

Number of Health Care Admissions

The number of health care admissions, by level of care, for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

Year	Skilled Nursing
2014	14.0
2015	16.5
2016	20.9
2017	19.9
2018	19.9
2019	19.9

Days of Care

The number of days of care, by level of care, for the most recently completed fiscal year, and anticipated for the next five years, are as follows:

Year	Skilled Nursing
2014	3,468
2015	4,299
2016	5,859
2017	7,153
2018	8,137
2019	8,866

Number of Permanent Transfers

The number of permanent transfers to the skilled nursing or personal care facility for the most recently completed fiscal year are:

	Transferring from:	
Facility transferred to:	Independent Living	Total
Skilled Nursing	4	4