ARBORS
OF HOP BROOK

Facts Book

Version #22A

March 2014

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ARBORS
OF HOP BROOK
Retirement Community

DIRECTORY

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MISSION STATEMENT

Arbors of Hop Brook provides an environment that maximizes resident independence along the continuum of care.

INTRODUCTION

The concept of a Continuing Care Retirement Community (CCRC) provides active adults (62+) an independent lifestyle with necessary support services, including significant health-related benefits.

Our program elements consist of a well-constructed living unit, basic supportive services, and personal care benefits, including assisted living services and care in our skilled nursing facility. The plan responds to the need for necessary services within the context of a stable and sound financial plan.

This Disclosure Statement provides You the necessary information regarding the nature of the program, financial considerations, rights and privileges under the Residency Agreement and background of the sponsor, Arbors of Hop Brook Limited Partnership. We encourage You to read it thoroughly, share it with Your personal advisor, and ask us any questions You may have. The Residency Agreement, in all cases, will be the governing document.

We look forward to serving You.

PAUL T. LIISTRO
Managing Partner

March 1, 2014

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DISCLOSURE STATEMENT

This Facility, like all other Continuing Care facilities in the State of Connecticut, is subject to Chapter 319hh, Connecticut General Statutes, concerning management of Continuing Care facilities. Registration under the law does not constitute approval, recommendation, or endorsement of the Facility by the Department of Social Services or the State of Connecticut, nor does such registration evidence the accuracy or completeness of the information in this Disclosure Statement.

March 1, 2014

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EQUAL HOUSING OPPORTUNITY

Indicates it is illegal to discriminate against any person because of race, color, religion, sex, handicap, familiar status, or national origin.

Arbors is a non-smoking environment.

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NAME AND ADDRESS OF PROVIDER

Arbors of Hop Brook Limited Partnership was organized for the purpose of operating Arbors of Hop Brook, a Continuing Care Retirement Community. Its principal place of business is located at 403 West Center Street, Manchester, Connecticut 06040. The primary interest in the sponsorship of the community is to provide the highest quality retirement living option with access to certain health-related benefits, including long-term healthcare, within a sound financial plan.

OFFICERS, DIRECTORS, TRUSTEES AND PARTNERS

The partners of Arbors of Hop Brook Limited Partnership are:

Paul T. Liistro holds a fifty-nine and one half (59.5%) percent interest in the Partnership. He serves as the Managing Partner of the Partnership. He holds an MBA from the Wharton School of the University of Pennsylvania (1980) and an AB from Bowdoin College (1975). Since 1993, he has been a member of the Continuing Care Advisory Committee, which advises and consults with the Commissioner of Department of Social Services for the State of Connecticut. He serves on the University of Connecticut School of Business Advisory Board for healthcare and insurance studies. From 2008 - 2010 he has served as the Treasurer of the Connecticut Association of Health Care Facilities (CAHCF), and is currently serving as President of the Association. He is a member of Vernon Manor Healthcare Center, LLC.

Brian Liistro holds a thirty-nine and one half (39.5%) percent interest in the Partnership. He is President of the LICO Group, a construction and development company. He is a member of Vernon Manor Healthcare Center, LLC. He is Managing Member of Fenn-Woode Development, LLC owner and manager of residential property in Connecticut. He graduated from Springfield College (1981).

Manchester Manor 3, LLC is a State of Connecticut registered limited liability company. The Company serves as the General Partner for the Limited Partnership. The Company holds a one percent (1%) interest in the Limited Partnership. The sole members of the LLC are Brian and Paul Liistro. Paul Liistro serves as the managing member.

BUSINESS EXPERIENCE

The individual Partners of the Partnership have had significant experience operating long-term care facilities, and other rental residential communities for over twenty (20) years. Their business entities enjoy very favorable reputations for high quality and excellence in service. The Partnership was organized for the purpose of combining independent living with the security of long-term health benefits. Manchester Manor 3, LLC serves as the General Partner for the Partnership. The Company holds a one percent (1%) interest in the Partnership. The Partnership holds a license to operate a chronic and convalescent nursing home within the State of Connecticut, d.b.a. Manchester Manor Health Care Center.

In 1988, Arbors commenced operations as a rental retirement community. In 1989, with the emergence of Continuing Care Retirement Communities (CCRC) as a popular form of retirement living option, and after continued research within the local community, the decision was made to combine significant long-term health-related benefits available at Manchester Manor Health Care Center with the independent living option available at Arbors in a Continuing Care Retirement Community. In 1995, Arbors became the **first** for-profit CCRC in the United States to be accredited by the Commission on Accreditation of Rehabilitation Facilities/Continuing Care Accreditation Commission of Washington D.C., the only organization in the nation to accredit Continuing Care Retirement Communities. Arbors has maintained its accreditation since 1995.

JUDICIAL PROCEEDINGS

None of the Partners of the Partnership have been convicted of a felony or pleaded nolo contendere to a felony charge, or held liable or enjoined in a civil action by final judgment involving fraud, embezzlement, fraudulent conversion or misappropriation of property; nor is subject to a restrictive or remedial order of a court of record, nor has had any State or Federal license or permit suspended or revoked.

AFFILIATION

Arbors of Hop Brook Limited Partnership is not affiliated with any religious, charitable or other non-profit organization.

Arbors of Hop Brook Limited Partnership is affiliated with the following entities through common ownership:

Manchester Manor Realty Partnership, LLP owns the real property known as Manchester Manor Health Care Center located at 385 West Center Street, Manchester, CT.

Vernon Manor Health Care Center, LLC operates a 120 bed skilled nursing home in Vernon, CT known as Vernon Manor Health Care Center.

Fenn-Woode Development, LLC operates a 133-unit residential apartment complex in Newington, CT.

Prospect Holdings, LLC building 3 condominiums in West Hartford, CT.

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DESCRIPTION OF THE PROPERTY

Location

The Community is located at 403 West Center Street, Manchester, Connecticut. The site meets the requirements of the Town of Manchester for use as a Continuing Care Retirement Community.

Arbors of Hop Brook

In 1995, the Community was nationally accredited by the Commission on Accreditation of Rehabilitation Facilities/Continuing Care Accreditation Commission, an independent organization which establishes national performance standards for the continuing care industry. This is a five (5) year accreditation, which acknowledges that Arbors has met the standards of the Commission on Accreditation of Rehabilitation Facilities/Continuing Care Accreditation Commission.

Arbors of Hop Brook is a 114-unit retirement community. The Community consists of a mix of studio, one-bedroom and two-bedroom units, all of which are equipped with full kitchen facilities including electric stove and oven, frost-free refrigerator, ducted exhaust hood, garbage disposals (and dishwashers in the two-bedroom units).

The residential living units are provided unfurnished and are equipped with emergency call systems, smoke detectors, sprinklers, individual thermostats, fresh-air system, exhaust-air system, and individual hot water heaters. Each unit is pre-wired for telephone service and satellite television, is fully carpeted and floor covered, and equipped with window sheers. In addition, the units are handicap accessible due to such appointments as 3-foot wide doors, very large kitchens and bathrooms, lever door handles and low clearance thresholds.

The Community has extensive common areas for the benefit of the residents. These common areas include a lobby, lounge with fireplace, club room, library with fireplace, primary dining room, a private dining room with a fireplace, all-purpose room with a fireplace, game and card room, general store, exercise room, activities center, beauty salon, medical suite, transportation center and auditorium. All common areas are equipped with emergency response systems, intra-facility communications capability and other specialized equipment. The exterior common areas include courtyards, a dining terrace, walking paths, and garden areas featuring raised beds.

Arbors Staff

Arbors staff includes a Director, Director of Resident Services, Activities Coordinator, Nursing Services Coordinator, Building Services Director, Maintenance and Housekeeping staff members, Retirement Counselor, Sales Support and Administrative staff, Security Department, Director of Hospitality Services, Executive Chef, Kitchen staff, Dining Room Supervisor, and Dining Room staff. In addition, Arbors contracts with various consultant and provider groups who offer specialized services. These include medical home health services, food services and general maintenance of equipment.

Nursing Services Provided by Manchester Manor Health Care Center

Long-term care, post-acute and other rehabilitative care will be provided at Manchester Manor Health Care Center, which is located on the campus. Manchester Manor Health Care Center is a fully licensed nursing facility offering a full range of skilled nursing care. In addition, Manchester Manor Health Care Center is accredited by the Commission on Accreditation of Rehabilitation Facilities/Continuing Care Accreditation Commission.

The facility is designed to accommodate 126 patients in semi-private and private accommodations. Additional facilities and services include a rehabilitation center, arts and crafts, dining rooms, lounges, beauty/barber shop, and facility support areas.

The purpose of a skilled nursing care facility is to provide a patient with the best in rehabilitative and restorative care in order that individuals may, when appropriate, return to the community.

The objective of Manchester Manor Health Care Center is to have patients return to their normal environment in the community or at Arbors. Manchester Manor Health Care Center is a fully staffed licensed nursing facility with an Administrator, Director of Nursing Services, a consulting Medical Director who is licensed to practice medicine in the State of Connecticut, a dietician, registered nurses, licensed practical nurses and certified nursing assistants.

Other staff are responsible for building maintenance, housekeeping, laundry, therapeutic recreation, and social services. Finally, staff and consultants are available as needed in speech, physical, and occupational therapies.

Manchester Manor was the only facility in the country to be awarded the American Health Care Association/National Center for Assisted Living (AHCA/NCAL) Gold Excellence in Quality Award in 2010. It is one of only 18 facilities to have received this award since the inception of the Quality Award Program in 1996.

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BENEFITS INCLUDED

The services to be provided at Arbors or by Arbors can be categorized as follows:

I. Basic Services

Services and facilities within the Unit

- **(a)** Complete kitchen facilities including refrigerator with frost-free freezer, electric range with oven, garbage disposal, hood range (venting to outside), oak cabinets, and ground fault outlets at counter height
- **(b)** Weekly bedroom linen (excluding towels) and changing service
- **(c)** Biweekly (every two weeks) housekeeping services
- **(d)** Heat or air-conditioning
- **(e)** Individually controlled heat and air-conditioning thermostat
- **(f)** Hot water heater
- **(g)** Pre-wired hookups (not service) for telephone
- **(h)** Repair and maintenance of all Unit appliances and systems
- **(i)** Real estate property taxes
- **(j)** General liability and casualty insurance (excluding Resident's personal property and liability insurance)
- **(k)** Water, sewer, sewer fees and trash removal
- **(l)** Storage facilities for personal property, if available
- **(m)** Centrally monitored smoke detectors
- **(n)** Emergency call-for-aid (kitchens, bathrooms, and one bedroom)
- **(o)** Sprinklers
- **(p)** Forced fresh air (from outside)
- **(q)** Bathroom fan exhaust (to outside)
- **(r)** Wall-to-wall carpeting
- **(s)** Sheer draperies
- **(t)** Electronic courtesy check-in
- **(u)** Postal box (lobby)
- **(v)** Emergency generator supplying heat and foyer light
- **(w)** Satellite Television

Services and Facilities Outside of the Unit

The following common areas are available for use and include an intra-building communication system including emergency call:

(a) Lobby w/Fireplace
(b) Library w/Fireplace
(c) Beauty Parlor/Barber Shop
(d) Club Room
(e) All-Purpose Room w/Fireplace
(f) Private Dining Room w/Fireplace
(g) Card and Game Rooms
(h) Exercise Room
(i) General Store
(j) Activities Center
(k) Transportation Center
(l) Auditorium
(m) Elevators (2)
(n) Laundry Room per floor (free of charge)
(o) Emergency generator supplying heat and light
(p) Communication Center

Dining Service

Dinner meal (Sunday through Saturday) with choices of entree and waited table service; and tray service when medically required and approved by the Director of Resident Services.

Security Services

Centrally monitored electronic security system monitored 24 hours a day

Social, Educational and Recreational Activities

Activities Coordinator on staff for the purpose of scheduling of events

Transportation

Scheduled transportation according to Arbors' policy to shopping, banking, social activities, religious services and physician's visits within Manchester, Vernon, Glastonbury, East Hartford and South Windsor. There is a nominal charge for out of town events that will be added to Your monthly bill. At the discretion of the administration, individual/small group (less than five (5) residents) transportation *may* be arranged in the event scheduled transportation is unavailable or inconvenient. Surface parking for residents and guests is provided.

II. **<u>Health-Related Services</u>**

<u>Health Services Provided by Arbors</u>

(a) 24-hour a day emergency alert monitoring.

(b) Scheduled healthcare services are available Monday-Friday. These services include nursing services provided by a registered nurse or licensed practical nurse. Nurse "on call" at other times.

(c) ALSA Aide/Homemaker Services provided to residents in their apartment to assist residents to live independently, when deemed medically necessary. Services are offered for a limited period. Arbors will pay the cost of up to $600.00 per month to cover the costs of assisted living.. Each case will be reviewed and assessed to determine that a medical necessity continues to exist.

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(d) Some assisted living services may be provided on an elective basis, absent a medical need, on a fee-for-service basis.

<u>Health Services Provided by Manchester Manor Health Care Center</u>

(a) Manchester Manor Health Care Center will provide a range of skilled nursing care to Residents of Arbors. Based upon the recommendation of the Resident's attending physician, in consultation with the Resident, Resident's spouse or family, legal representative, Director of Resident Services, Health Center's Medical Director and the Director of Admissions, the Resident will be provided semi-private room accommodations in the required level of care. Private accommodations, if available, are obtainable for an additional charge.

(b) In the event that the level of care required is not available at Manchester Manor Health Care Center due to the lack of vacancy, Arbors will make the necessary arrangements for the Resident to be admitted to an available semi-private accommodations in the required level of care in the area, until a semi-private accommodation at Manchester Manor Health Care Center becomes available.

(c) Following a Resident's admission to Manchester Manor Health Care Center, the cost of a Resident's Health Center stay will be paid as follows:

(1) All Medicare qualified days will be billed to Medicare or Medicare supplemental insurance.

(2) After all Medicare qualified days are paid by Medicare or Medicare supplemental insurance the semi-private room rate charges at the Health Center will be paid by us for a period of 1,095 days or three (3) years. The Resident will be responsible for twice their monthly service fee while at the Health Center, paying a total of two (2) Monthly Service Fees. In the case of double occupancy, if only one resident is receiving nursing care at the Health Center, then the remaining Resident will be allowed to reside in the Living Unit. The couple will continue to pay their Monthly Service Fee, and an additional Monthly Service Fee paying a total of two (2) Monthly Service Fees, while one (1) resident is receiving care in the Health Center. In the case of double occupancy, if both residents are receiving nursing care at the Health Center, both residents will be responsible for paying twice the Monthly Service Fee while at the Health Center, a total of four (4) Monthly Service Fees.

(3) Not Used;

(4) Not Used;

(5) The Resident will pay for additional services such as, physical therapy, private duty nurse, nursing supplies, doctors, specialists, prescriptions and other medical services, etc.

(6) After 1,095 cumulative days or three (3) years of care provided by Manchester Manor Health Care Center, all charges for a resident's Health Care stay will be billed to the resident. The Monthly Service fee will be suspended and the resident will be responsible for the daily Health Center fee only.

III. Additional Services Requiring Additional Charges

Additional services to the Resident on an extra charge basis include:

(a) Telephone, Living unit electricity (excluding air-conditioning and heat)
(b) Beautician and barber services
(c) Guest room (hospitality suite), when and if available**
(d) Resident meal in addition to one meal per day.
(e) Guest meals
(f) Housekeeper services in addition to the normal bi-weekly (every other week) service provided under the Residency Agreement
(g) Additional Aide/Homemaker Services and assisted living services
(h) Private-room accommodations in Health Center
(i) Required medical services not covered under Health services provided by Arbors or Health Center
(j) Co-payment charges/gaps in coverage not covered by insurance
(k) Special activity charges/transportation charges

(l) Catering charges for personal functions
(m) Special gardening requirements
(n) Unit modifications
(o) Individual or small group (less than 5 residents) transportation, if available.
(p) Durable medical equipment specified by Arbors, e.g., walkers, canes and wheel chairs, etc.
(q) Personal emergency call pendants
(r) Personal concierge service

** There is no certainty that this service will exist in the future.

INTEREST ON DEPOSITS

Deposits will earn interest at prevailing money market rates of interest. Residents may earn interest and be credited with such interest earned to the extent allowed by the Residency Agreement. It is possible to forfeit all interest in certain termination situations. Refer to Paragraph 6, Termination of Agreement, Sections 6.11, 6.12, and 6.13 of the Residency Agreement.

TERMINATION OF AGREEMENT

Termination by Resident You may terminate this Agreement based upon the following terms:

Prior to Occupancy, Within Thirty (30) Days After executing this Agreement, You may cancel it for any reason within thirty (30) days. We must receive written notice of cancellation by registered or certified mail within this thirty (30) day period. You will be entitled to a full refund of all deposits paid excluding the Application Fee. Interest on the deposits will be paid at the prevailing money market rate of interest. No Resident shall be required to move into the facility until after the expiration of the thirty (30) day rescission period.

Prior to Occupancy, Beyond Thirty (30) Days, Due to Death, Injury, Illness or Incapacity You may cancel this Agreement due to death, or on account of illness, injury or incapacity preventing You from occupying Your Living Unit under the terms of this Agreement. Cancellation under this provision is effective upon our receipt of written notice of cancellation by registered or certified mail. You or Your legal representative shall receive a refund of all deposits less, (a) costs specifically incurred by us at Your request, or for Your benefit, as described in the contract, including but not limited to medical evaluations, insurance, administrative costs, unit modifications, etc., and, (b) the Application Fee. Interest on the refunded deposits will be paid at the prevailing money market rates of interest.

If the Resident under the foregoing provision is a couple, the Residency Agreement shall be cancelled for the deceased or incapacitated person and the remaining Resident may cancel at his/her option without additional cost.

Prior to Occupancy, Beyond Thirty (30) Days, for Any Other Reason Should You provide written notice of cancellation of this Agreement by registered or certified mail prior to residency for any other reason, Arbors of Hop Brook shall refund to You the deposit less those costs specifically incurred by us at Your request or for Your benefit, (including the Application Fee) as described in the contract, and a service charge of $3,000. No interest on the deposits will be paid.

Subsequent to Occupancy, Rights of a Couple If the Resident who executes this Agreement, is a couple, should one of You terminate the Agreement for any reason, then the remaining Resident shall have the right to continue to occupy Your Living Unit under the terms of this Agreement.

Subsequent to Occupancy, Due to Death In the event that this Agreement is terminated due to the death of the Resident (both of You if You are a couple), Your designated beneficiary (or estate if no beneficiary assigned) will receive a refund of eighty percent (80%) of the total Entrance Fee paid, less any unpaid expenses incurred by the Resident, pursuant to Paragraph 8, Refunds, of this Agreement. In the event of the death of one of You, the other Resident, assuming the surviving resident can live independently, may continue to reside in the Living Unit by paying the single occupancy Monthly Service Fee (except for two bedroom units). The surviving Resident may terminate this Agreement within one hundred and twenty (120) days of the death of a spouse, in which event we will refund eighty percent (80%) of the Entrance Fee in accordance with Paragraph 8, Refunds, of this Agreement. All rights and benefits specified in this contract including, but not limited to, dinner services, housekeeping, the use of the common areas and transportation and emergency monitoring will be rescinded upon Your death.

Subsequent to Occupancy, For Any Other Reason If You (both if You are a couple) terminate this Agreement for any reason other than death, termination shall be evidenced in writing, signed by You(both if You are a couple) and delivered to Arbors by registered or certified mail at least one hundred and twenty (120) days prior to the termination date. You will be required to pay the Monthly Service Fee for Your unit until the termination date. In the event that a new Resident occupies Your Unit prior to the termination date, You will not be charged the Monthly Service Fee for the days of overlap. We will refund eighty percent (80%) of the Entrance Fee in accordance with Paragraph 8, Refunds, of this Agreement.

If only one of You is terminating this Agreement, then the remaining Resident will be allowed to reside in the Living Unit. The single occupancy Monthly Service Fee will be charged to the remaining Resident, (except for two bedroom or combination units). There will be no refund of any of the Entrance Fee in this event. The Entrance Fee is deemed payable upon contract termination of both occupants.

Termination by Arbors Arbors may terminate this Agreement for any cause which, in its judgment, is in the best interest of the Residents or Arbors, including, but not limited to:

Inability, in our sole judgment, of the Resident to live independently in the Living Unit, prior to occupancy;

An adverse change in the Resident's financial condition, prior to or after occupancy, except as provided for in Paragraph 7, Limitation on Termination Rights for Financial Inability;

Material misstatement or omission of fact in the Confidential Application or Medical Evaluation;

Your failure or refusal to fulfill any of Your obligations and promises as set forth in this Agreement, including but not limited to Your failure to comply with Our rules, or if continued occupancy by You becomes inappropriate under Section 3.3 "Resident's Right to Stay in the Apartment" of this Agreement, or if Your continued residence poses a threat to the health, safety or welfare of other residents.

Gifts or other transfers of assets which jeopardize Your financial obligations under this Agreement;

Except as set forth below, the failure to pay the Monthly Service Fee or other charges as required by this Agreement. If the Residency Agreement is cancelled due to the failure to pay the Monthly Service Fee or other charges associated with living at Arbors, then the refundable portion of the Entrance Fee will be reduced by any of Your outstanding obligations.

If You should become infected with a dangerous and contagious disease or become mentally or emotionally disturbed, and we determine that Your condition is detrimental to the health, safety, or welfare of yourself or others.

If You refuse medical treatment, which in the opinion of your physician or Arbors is medically required for Your health or the health or safety of others.

In the event of termination under this section, the Resident will be responsible for the Monthly Service Fee until the Living Unit is vacated.

In the event of termination under this section, the final termination decision will be made by Arbors of Hop Brook Limited Partnership upon the advice of the Management Committee (The Management Committee is composed of the Managing Partner, one other Partner and the CCRC's Director). The criteria used to make such a decision are stated in paragraphs 6.2 through 6.3 of this agreement. This notice of termination will be served to the resident in writing by certified mail.

In the event of termination by Arbors, the resident may file a formal appeal aggrieving such action. Such an appeal must be filed in writing, with the Director of Arbors, within five (5) days of receipt of the notice of termination. Upon receipt of an appeal, The Director will convene a committee including two (2) members of Arbors' senior management staff to consider the grievance. The Director will report the committee's findings to the Managing Partner. The Managing Partner's decision on the appeal will be final.

RIGHTS OF A SURVIVING SPOUSE

In the case of a death of one of a participating Resident couple, the surviving participating party retains all rights under this Agreement including the right to reside in the same Living Unit. The first person single occupancy Monthly Service Fee will be charged for the unit (except two-bedroom apartments).

If the surviving Resident desires to move out of Arbors, the Resident is responsible for paying the Monthly Service Fee until the Unit is vacated. The refund provisions of the Residency Agreement will be followed.

In the event of the death of a Resident, a spouse (of the Resident) who does not participate in the health-related benefits offered under the terms of the Residency contract has all rights under the contract except for health-related benefits (see Non-Participating Occupant in Section 10.4).

All rights and benefits specified in this contract including, but not limited to, dinner services, housekeeping and emergency monitoring will be rescinded upon death of all residents named in this agreement, as well as the use of common areas and transportation.

MARRIAGE OF RESIDENTS

(a) If a Resident and non-resident marry and desire to reside in the Resident's Living Unit, the non-resident party must submit a Residency Application. If accepted by Arbors, a new Residency Agreement must be signed by the couple and the difference between the Entrance Fee previously paid by the Resident party and the new applicable Entrance Fee must be paid. If the application of the non-resident spouse is not accepted by Arbors, the non-resident spouse may apply and be considered for residency under the Non-participating Occupant guidelines in Section 10.4, Non-participating Occupant, of this Agreement. The Residents will be charged the applicable first and second person Monthly Service Fees.

(b) If two Residents with separate Living Units marry, they may either release one Living Unit and reside together in the other or release both Living Units and move into another Living Unit.

(c) If the Residents release one Living Unit and reside together in the other Unit, a new Residency Agreement must be executed by the couple. A new Entrance Fee equal to the current Entrance Fee for the occupied Living Unit must be paid. A refund of eighty percent (80%) of the Entrance Fee for the vacated unit will be made in accordance with Paragraph 8, Refunds, of this Agreement.

(d) If the Residents elect to release both Living Units and move into another Living Unit, a new Residency Agreement for the new Living Unit must be executed by the couple. The current Entrance Fee for the new Living Unit will be charged. A refund of eighty percent (80%) of the Entrance Fees for each of the vacated Living Units will be made in accordance with Paragraph 8, Refunds, of this Agreement.

In either case, the Residents or Non-participating Occupant will be charged the applicable first and second person Monthly Service Fees upon joint residency in the single Unit.

DISPOSITION OF PERSONAL PROPERTY

In the event of a Resident's death, permanent transfer to the Health Center or the termination of this Residency Agreement, the personal property of the Resident must be removed from his or her Living Unit within thirty (30) days of vacating the unit at the expense of the Resident or the Resident's estate. The Resident or the Resident's estate will be responsible for the Monthly Service Fee until the personal property is removed. If not removed by thirty (30) days, Arbors will make arrangements for the Resident's personal property to be stored. All expenses relating to the moving and storage of the Resident's personal property will be the responsibility of the Resident's estate. Property left in storage for ninety (90) days or more may be disposed of by us at Your expense.

TAX CONSEQUENCES

Since execution of this Agreement may result in significant tax consequences, Arbors advises that each person consult with his/her tax advisor prior to entering into this Agreement.

RESERVE FUNDING – ESCROWS

Under Connecticut Law, (Connecticut General Statutes Chapter 319hh Section 17b-524) Arbors of Hop Brook is required to establish an Escrow Account for Entrance Fees with a bank or trust company. Arbors has established the required Escrow Accounts with U.S. Bank National Association of Connecticut.

Prior to occupancy, a Resident's Entrance Fee deposit and the subsequent balance of the Entrance Fee will be deposited on the Resident's behalf in the Entrance Fee Escrow Account. These funds and interest earned on these funds will be held in this Account until all statutory requirements have been met.

Following compliance with statutory requirements, the Entrance Fees held in the Escrow Account will be released first to fund the Operating Reserve Fund Escrow required by

Connecticut law (Connecticut General Statutes, Chapter 319hh Section 17b-525). The Operating Reserve Escrow Fund will consist of:

(A) Twelve (12) months of debt service and/or lease payment obligations, and,

(B) One month's (1) estimated cost of operations excluding debt service and/or lease payments.

In addition, Arbors will be increasing this Reserve by an estimated and prudent amount order to reserve for future healthcare costs and for future replacement of capital equipment. The objective of this financial plan is to provide the highest quality basic and health-related services to the Residents of Arbors within the constraints of sound financial management.

Arbors of Hop Brook Limited Partnership and Affiliates

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Arbors of Hop Brook Limited Partnership and Affiliates

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

September 30, 2013 and 2012

COHN REZNICK
ACCOUNTING • TAX • ADVISORY

CohnReznick LLP
cohnreznick.com

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 sheets as of September 30, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 audits 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

Farmington, Connecticut
February 3, 2014

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 392,315	$ 681,234
Accounts receivable, net	1,622,685	1,275,906
Entrance fees receivable	148,240	128,660
Resident funds	11,692	20,000
Prepaid expenses	5,294	381,511
Total current assets	2,180,226	2,487,311
Investments:		
Investments available-for-sale	7,298,333	5,911,936
Non-marketable equity securities	250,000	-
	7,548,333	5,911,936
Property and equipment:		
Land and improvements	1,560,378	1,550,132
Building and improvements	16,581,873	15,931,602
Equipment	5,075,451	5,002,883
Automotive equipment	211,211	205,447
Total property and equipment	23,428,913	22,690,064
Less accumulated depreciation and amortization	(17,403,260)	(16,580,918)
Net property and equipment	6,025,653	6,109,146
Other long-term assets:		
Due from related party	241,074	241,074
Restricted funds	781,149	732,522
Deferred costs, net	64,911	73,129
Deposits	1,833	1,833
Total other long-term assets	1,088,967	1,048,558
Total assets	$ 16,843,179	$ 15,556,951

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$ 246,276	$ 256,410
Accounts payable	1,439,358	1,488,251
Resident funds	11,692	20,000
Other current liabilities	618,071	972,607
Total current liabilities	2,315,397	2,737,268
Long-term liabilities:		
Long-term debt, less current portion	3,580,171	3,831,453
Unearned entrance fees	4,789,086	4,201,596
Total liabilities	10,684,654	10,770,317
Equity:		
Partners' capital:		
Capital	6,416,903	6,046,076
Accumulated other comprehensive income	805,931	153,042
Total partners' capital	7,222,834	6,199,118
Noncontrolling interest	(1,064,309)	(1,412,484)
Total equity	6,158,525	4,786,634
Total liabilities and equity	$ 16,843,179	$ 15,556,951

See Notes to Consolidated Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statements of Income and Comprehensive Income
Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Patient service revenue, net of contractual allowances	$ 12,451,082	$ 12,425,267
Provision for uncollectible accounts	18,670	57,438
Net patient service revenue	12,432,412	12,367,829
Resident fees	4,487,249	4,078,500
Earned entrance fees	268,840	84,374
Total revenues	17,188,501	16,530,703
Expenses:		
Administrative and general	1,805,029	1,799,819
Employee benefits	1,749,233	1,612,763
Plant operations and maintenance	1,601,402	1,601,523
Nursing	5,486,593	5,281,799
Activities	224,640	185,606
Food service	1,871,386	1,830,800
Laundry	131,389	124,016
Housekeeping	349,676	356,593
Medicare	283,368	337,747
Rehabilitative services	893,166	876,481
Other services	404,476	230,950
Depreciation and amortization	830,457	828,560
Insurance	32,526	35,171
Interest expense	91,596	113,343
Total expenses	15,754,937	15,215,171
Income from operations	1,433,564	1,315,532
Other income:		
Investment income	165,575	222,143
Gain on sale of property and equipment	-	7,500
Net realized gains (losses) on investments available for sale	88,356	(3,924)
Total other income	253,931	225,719
Consolidated net income	1,687,495	1,541,251
Less: net income attributable to noncontrolling interest	348,041	305,259
Net income attributable to Arbors of Hop Brook Limited Partnership	$ 1,339,454	$ 1,235,992
Consolidated net income	$ 1,687,495	$ 1,541,251
Other comprehensive income:		
Unrealized holding gains arising during the period	741,245	624,217
Less: reclassification adjustment for (gains) losses included in net income	(88,356)	3,924
Total other comprehensive income	652,889	628,141
Comprehensive income	2,340,384	2,169,392
Less: comprehensive income attributable to noncontrolling interest	348,041	305,259
Comprehensive income attributable to Arbors of Hop Brook Limited Partnership	$ 1,992,343	$ 1,864,133

See Notes to Consolidated Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statements of Changes in Equity
Years Ended September 30, 2013 and 2012

	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Equity	Total
Balance, October 1, 2011	$ 6,212,169	$ (475,099)	$ (1,076,631)	$ 4,660,439
Net income	1,235,992	-	305,259	1,541,251
Other comprehensive loss	-	628,141	-	628,141
Capital contributions	2,664,694	-	-	2,664,694
Capital distributions	(4,066,779)	-	(641,112)	(4,707,891)
Balance, September 30, 2012	6,046,076	153,042	(1,412,484)	4,786,634
Net income	1,339,454	-	348,041	1,687,495
Other comprehensive income	-	652,889	-	652,889
Capital contributions	1,412,038	-	134	1,412,172
Capital distributions	(2,380,665)	-	-	(2,380,665)
Balance, September 30, 2013	$ 6,416,903	$ 805,931	$ (1,064,309)	$ 6,158,525

See Notes to Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Operating activities:		
Consolidated net income	$ 1,687,495	$ 1,541,251
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	822,343	820,348
Amortization of deferred costs	8,218	8,315
Provision for uncollectible accounts	18,670	57,438
Earned entrance fees income	(268,840)	(84,374)
Net realized (gains) losses on investments available for sale	(88,356)	3,924
Gain on sale of property and equipment	-	(7,500)
Changes in operating assets and liabilities:		
Accounts receivable	(365,449)	(154,475)
Entrance fees receivable	(19,580)	(92,940)
Prepaid expenses	376,217	(37,074)
Accounts payable	(48,893)	598,830
Other current liabilities	(354,536)	123,536
Net cash provided by operating activities	1,767,289	2,777,279
Investing activities:		
Increase in restricted funds	(48,627)	(14,465)
Purchase of property and equipment	(738,850)	(272,896)
Proceeds from sale of property and equipment	-	7,500
Increase in loan receivable - related party	-	(241,074)
Proceeds from sales of investments available for sale	370,025	717,738
Purchases of non-marketable equity securities	(250,000)	-
Purchases of investments available for sale	(1,015,177)	(885,873)
Net cash used in investing activities	(1,682,629)	(689,070)
Financing activities:		
Capital contributions	1,412,172	2,664,694
Capital distributions	(2,380,665)	(4,707,891)
Proceeds from resident entrance fees	1,236,230	443,120
Refunds of resident entrance fees	(379,900)	(563,475)
Payments on capital lease obligations	(51,416)	(38,722)
Payments on long-term debt	(210,000)	(210,000)
Net cash used in financing activities	(373,579)	(2,412,274)
Net decrease in cash and cash equivalents	(288,919)	(324,065)
Cash and cash equivalents, beginning of year	681,234	1,005,299
Cash and cash equivalents, end of year	$ 392,315	$ 681,234

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 114-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 by the Company, it was determined that the Partnership 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 sheets as of September 30, 2013 and 2012:

	2013	2012
Assets:		
Cash	$ 264,477	$ -
Property and equipment, net	-	16,692
Deferred costs, net	30,355	34,209
Due from related party	255,074	240,940
Total assets	$ 549,906	$ 291,841

	2013	2012
Liabilities:		
Current portion of long-term debt	$ 90,000	$ 90,000
Other current liabilities	1,715	1,825
Long-term debt, less current portion	1,522,500	1,612,500
Total liabilities	$ 1,614,215	$ 1,704,325

In addition, the Company has evaluated its relationship with Vernon Manor Health Care Center, LLC and Arrowood, 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, 2013 and 2012 were $781,149 and $732,522, respectively.

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.

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 uncollectable. 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. 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 investments in a limited liability company ("LLC") of $100,000 and real estate investment trust ("REIT") of $150,000 as of September 30, 2013. 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 straight-line and accelerated methods 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 statements 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 2013 and 2012.

Resident security deposits
At September 30, 2013 and 2012, the Company maintained $11,692 and $20,000, respectively, of resident security deposits for future services to be provided by the Company. These restricted deposits are maintained in individual insured interest bearing accounts at a bank and are recorded as restricted cash on the consolidated balance sheets.

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 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. 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 Members 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, 2013 and 2012. The Company's Federal and state income tax returns prior to fiscal year 2010 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 years ended September 30, 2013 and 2012.

Entrance fees
Independent living center residents pay an entrance fee upon entering into a continuing care contract and move-in that is either 80% (post FY 04) or 90% (pre FY 05), refundable upon death or withdrawal after their independent living unit is 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.

Advertising
The Facility follows the policy of charging costs of advertising to expense as incurred. Advertising expenses were $78,971 and $82,927 for the years ended September 30, 2013 and 2012, respectively.

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 years ended September 30, 2013 and 2012 was $131,416 and $83,641, respectively.

Unearned entrance fees

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 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 in 2013 and 2012 as the present value, at a discount rate of 5.5% for 2013 and 2012, of the expected revenues and deferred revenues from advanced fees exceeded the net cost of future services and use of the facilities.

Reclassifications

Certain prior year financial information has been reclassified to conform to the current year presentation.

Subsequent events

The Company has evaluated events and transactions for potential recognition or disclosure through February 3, 2014, 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, 2013 and 2012 is as follows:

	2013	2012
Medicaid	$ 310,071	$ 218,793
Medicare	324,932	391,213
Other third-party payors	68,867	73,606
Private	1,344,680	1,159,529
	2,048,550	1,843,141
Less allowance for doubtful accounts	431,576	569,609
	$ 1,616,974	$1,273,532

Patient service receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of resident services receivable, 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 21% and 31% of patient services receivable at September 30, 2013 and 2012, respectively. In addition, the Company's write-offs were $32,785 and $39,926 for the years ended September 30, 2013 and 2012, respectively.

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, 2013 and 2012 is as follows:

September 30, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 1,970,621	$ -	$ -	$ 1,970,621
Common stocks	1,816,109	508,907	(75,546)	2,249,470
Mutual funds	3,486,821	378,466	(5,896)	3,859,391
	$ 7,273,551	$ 887,373	$ (81,442)	$ 8,079,482

September 30, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 298,717	$ -	$ -	$ 298,717
Common stocks	868,939	104,395	(91,318)	882,016
Mutual funds	5,323,761	308,383	(168,419)	5,463,725
	$ 6,491,417	$ 412,778	$ (259,737)	$ 6,644,458

Information pertaining to securities with gross unrealized losses at September 30, 2013, 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	$ 316,502	$ (34,622)	$ 129,101	$ (40,924)	$ 445,603	$ (75,546)
Mutual funds	123,362	(2,615)	82,164	(3,280)	205,526	(5,895)
	$ 439,864	$ (37,237)	$ 211,265	$ (44,204)	$ 651,129	$ (81,441)

Information pertaining to securities with gross unrealized losses at September 30, 2012, 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	$ 78,399	$ (7,252)	$ 203,256	$ (84,066)	$ 281,655	$ (91,318)
Mutual funds	-	-	1,308,058	(168,419)	1,308,058	(168,419)
	$ 78,399	$ (7,252)	$1,511,314	$ (252,485)	$1,589,713	$ (259,737)

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, 2013 and 2012.

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, 2013 and 2012.

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 believe 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 years ended September 30, 2013 and 2012.

The following tables set forth by level, within the fair value hierarchy, the Company's investments available for sale as of September 30, 2013 and 2012:

2013	Total	(Level 1)	(Level 2)	(Level 3)
Common stocks:				
Basic materials	$ 24,875	$ 24,875	$ -	$ -
Conglomerates	62,575	62,575	-	-
Consumer goods	385,380	385,380	-	-
Financial	191,419	191,419	-	-
Healthcare	96,833	96,833	-	-
Industrial goods	204,302	204,302	-	-
Services	475,263	475,263	-	-
Technology	673,853	673,853	-	-
Utilities	134,970	134,970	-	-
Money market funds	1,970,621	-	1,970,621	-
Mutual funds:				
Large blend	884,306	884,306	-	-
Large growth	874,542	874,542	-	-
Large value	1,844,344	1,844,344	-	-
Medium growth	129,511	129,511	-	-
Medium value	126,688	126,688	-	-
Totals	$8,079,482	$6,108,861	$1,970,621	$ -

2012	Total	(Level 1)	(Level 2)	(Level 3)
Common stocks:				
Basic materials	$ 96,305	$ 96,305	$ -	$ -
Conglomerates	2,349	2,349	-	-
Consumer goods	39,733	39,733	-	-
Financial	238,662	238,662	-	-
Healthcare	62,008	62,008	-	-
Industrial goods	103,402	103,402	-	-
Services	83,433	83,433	-	-

2012	Total	(Level 1)	(Level 2)	(Level 3)
Technology	$ 246,647	$ 246,647	$ -	$ -
Utilities	9,477	9,477	-	-
Money market funds	298,717	-	298,717	-
Mutual funds:				
High	95,631	95,631	-	-
High Low	299,277	299,277	-	-
Large blend	2,473,128	2,473,128	-	-
Large growth	265,702	265,702	-	-
Large value	1,461,297	1,461,297	-	-
Medium	236,456	236,456	-	-
Medium growth	10,243	10,243	-	-
Medium low	592,489	592,489	-	-
Medium value	10,433	10,433	-	-
Mid growth	19,069	19,069	-	-
Totals	$6,644,458	$6,345,741	$ 298,717	$ -

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 - Master loan and security agreements

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 (0.22% and 0.23% at September 30, 2013 and 2012, respectively) 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, 2013 and 2012 was $2,150,000 and $2,270,000, respectively.

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 2.50%. The line has an initial term of two years, ending August 15, 2013. The loan was extended to expire 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, 2013 and 2012. 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.

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, 2013 and 2012 was $1,612,500 and $1,702,500, respectively.

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, 2013 and 2012. 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 $500,000. Interest only is payable monthly at one (1) month LIBOR rate plus 2.25%. The line has an initial term of four years, ending September 1, 2015, provided that it is subject to renewal on the second anniversary of the closing date. There were no outstanding balances on the line of credit at September 30, 2013 and 2012. 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 master loan agreements include certain restrictions requiring maintenance of certain financial ratios. At September 30, 2013 and 2012, the Company is in compliance with these covenants.

Note 7 - Long-term debt

Long-term debt and capital lease obligations are as follows as of September 30, 2013 and 2012:

	2013	2012
Notes payable	$ 3,762,500	$ 3,972,500
Capital lease obligations	63,947	115,363
	3,826,447	4,087,863
Less: current maturities	246,276	256,410
	$ 3,580,171	$ 3,831,453

Principal maturities of long-term debt are scheduled as follows:

Year Ending September 30	Amount
2014	$ 210,000
2015	210,000
2016	210,000
2017	210,000
2018	210,000
Thereafter	2,712,500
	$ 3,762,500

Capital lease obligations

The Company has several noncancellable capital leases for office equipment. Property and equipment include assets under these lease obligations of $233,084 and $209,980 at September 30, 2013 and 2012, respectively, with accumulated amortization of $131,622 and $86,609 at September 30, 2013 and 2012, respectively. Amortization of capital lease assets totaling $45,013 and $28,316 for the years ended September 30, 2013 and 2012, respectively, is included in depreciation and amortization in the Company's consolidated statements 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
2014	$ 38,439
2015	28,465
Total minimum lease payments	66,904
Less: amount representing interest	2,957
Present value of minimum lease payments	63,947
Less: current portion	36,276
	$ 27,671

Interest on the above debt and other indebtedness amounted to $91,493 and $113,343 for the years ended September 30, 2013 and 2012, respectively.

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 2013 and 2012 from these major payor sources is as follows:

	2013	2012
Medicaid	$ 4,440,895	$ 3,893,941
Medicare	2,220,452	2,634,478
Other third-party payors	1,147,900	882,336
Private	4,641,835	5,014,512
	$ 12,451,082	$ 12,425,267

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 - Unearned entrance fees

Unearned entrance fees at September 30, 2013 and 2012 are as follows:

	2013	2012
Nonrefundable	$ 526,529	$ 388,452
Refundable	4,262,557	3,813,144
	$ 4,789,086	$ 4,201,596

Unearned entrance fees are accounted for as deferred revenue within the liability section of the consolidated balance sheets. Deferred revenues for nonrefundable fees are amortized into income over the estimated life expectancy of the resident. Entrance fees refundable upon reoccupancy are 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 $268,840 and $84,374 for the years ended September 30, 2013 and 2012, respectively. The gross amount of contractual refund obligations under existing contracts for the years ended September 30, 2013 and 2012 was $6,133,200 and $5,523,622, respectively.

Note 10 - Supplemental disclosures of cash flows information

Cash paid during the year:	2013	2012
Interest	$ 92,110	$ 111,333
Purchase of equipment with proceeds from debt financing	$ -	$ 51,389

Note 11 - Vendor concentrations

The Company is dependent on three vendors that supply food, medical supplies and therapeutic services. Purchases from these vendors totaled $2,374,167 and $1,879,564 for the years ended September 30, 2013 and 2012, respectively.

Note 12 - 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 13 - 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 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 Sheets
September 30, 2013 and 2012

2013	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 25,402	$ 102,436	$ 264,477	$ -	$ 392,315
Accounts receivable, net	5,711	1,616,974	-	-	1,622,685
Entrance fees receivable	148,240	-	-	-	148,240
Resident funds	-	11,692	-	-	11,692
Prepaid expenses	-	5,294	-	-	5,294
Total current assets	179,353	1,736,396	264,477	-	2,180,226
Investments available-for-sale	6,333,141	965,192	-	-	7,298,333
Non-marketable equity securities	250,000	-	-	-	250,000
Due from related party	-	-	255,074	(14,000)	241,074
Restricted funds	781,149	-	-	-	781,149
Property and equipment, net	3,541,380	2,484,273	-	-	6,025,653
Deferred costs, net	34,556	-	30,355	-	64,911
Deposits	1,833	-	-	-	1,833
Total assets	$ 11,121,412	$ 5,185,861	$ 549,906	$ (14,000)	$ 16,843,179
Liabilities and Equity					
Current liabilities:					
Current portion of long-term debt	$ 133,192	$ 23,084	$ 90,000	$ -	$ 246,276
Accounts payable	484,058	955,300	-	-	1,439,358
Resident funds	-	11,692	-	-	11,692
Other current liabilities	254,192	362,164	1,715	-	618,071
Due to related party	-	14,000	-	(14,000)	-
Total current liabilities	871,442	1,366,240	91,715	(14,000)	2,315,397
Long-term liabilities:					
Long-term debt, less current portion	2,037,653	20,018	1,522,500	-	3,580,171
Unearned entrance fees	4,789,086	-	-	-	4,789,086
Total liabilities	7,698,181	1,386,258	1,614,215	(14,000)	10,684,654
Equity (Deficit)	3,423,231	3,799,603	(1,064,309)	-	6,158,525
Total liabilities and equity	$ 11,121,412	$ 5,185,861	$ 549,906	$ (14,000)	$ 16,843,179

2012	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 169,147	$ 512,087	$ -	$ -	$ 681,234
Accounts receivable	8,334	1,267,572	-	-	1,275,906
Entrance fees receivable	128,660	-	-	-	128,660
Resident funds	-	20,000	-	-	20,000
Prepaid expenses	69,342	312,169	-	-	381,511
Total current assets	375,483	2,111,828	-	-	2,487,311
Restricted funds	732,522	-	-	-	732,522
Investments available-for-sale	5,154,379	757,557	-	-	5,911,936
Due from related party	134	-	240,940	-	241,074
Property and equipment	3,523,913	2,568,541	16,692	-	6,109,146
Deferred costs, net	38,920	-	34,209	-	73,129
Deposits	1,833	-	-	-	1,833
Total assets	$ 9,827,184	$ 5,437,926	$ 291,841	$ -	$ 15,556,951
Liabilities and Equity					
Current liabilities:					
Current portion of long-term debt	$ 141,006	$ 25,404	$ 90,000	$ -	$ 256,410
Accounts payable	407,420	1,080,831	-	-	1,488,251
Resident security deposits	-	20,000	-	-	20,000
Other current liabilities	392,081	578,701	1,825	-	972,607
Total current liabilities	940,507	1,704,936	91,825	-	2,737,268
Long-term liabilities:					
Long-term debt, less current portion	2,175,859	43,094	1,612,500	-	3,831,453
Unearned entrance fees	4,201,596	-	-	-	4,201,596
Total liabilities	7,317,962	1,748,030	1,704,325	-	10,770,317
Equity (Deficit)	2,509,222	3,689,896	(1,412,484)	-	4,786,634
Total liabilities and equity	$ 9,827,184	$ 5,437,926	$ 291,841	$ -	$ 15,556,951

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Statements of Income
For Years Ended September 30, 2013 and 2012

2013	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Revenues:					
Patient service revenue,					
net of contractual allowance	$ -	$ 13,527,670	$ -	$ (1,076,588)	$ 12,451,082
Provision for uncollectible accounts	-	18,670	-	-	18,670
Net patient service revenue	-	13,509,000	-	(1,076,588)	12,432,412
Resident fees	4,487,249	-	-	-	4,487,249
Earned entrance fees	268,840	-	-	-	268,840
Rental income	-	-	414,000	(414,000)	-
Total revenues	4,756,089	13,509,000	414,000	(1,490,588)	17,188,501
Expenses:					
Direct costs	3,702,707	10,456,348	36,984	(1,076,588)	13,119,451
General and administrative	698,716	1,097,778	8,535	-	1,805,029
Depreciation and amortization	526,464	283,553	20,440	-	830,457
Rent	-	414,000	-	(414,000)	-
Total expenses	4,927,887	12,251,679	65,959	(1,490,588)	15,754,937
Income (loss) from operations	(171,798)	1,257,321	348,041	-	1,433,564
Investment income	141,895	23,680	-	-	165,575
Net realized gains on investments					
available for sale	83,072	5,284	-	-	88,356
Net income	$ 53,169	$ 1,286,285	$ 348,041	$ -	$ 1,687,495

2012	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Revenues:					
Patient service revenue,					
net of contractual allowance	$ -	$ 13,354,580	$ -	$ (929,313)	$ 12,425,267
Provision for uncollectible accounts	-	57,438	-	-	57,438
Net patient service revenue	-	13,297,142	-	(929,313)	12,367,829
Resident fees	4,078,500	-	-	-	4,078,500
Earned entrance fees	84,374	-	-	-	84,374
Rental income	-	-	400,000	(400,000)	-
Total revenues	4,162,874	13,297,142	400,000	(1,329,313)	16,530,703
Expenses:					
Direct costs	3,344,873	10,067,275	39,953	(929,313)	12,522,788
General and administrative	734,535	1,124,641	4,647	-	1,863,823
Depreciation and amortization	503,976	274,443	50,141	-	828,560
Rent	-	400,000	-	(400,000)	-
Total expenses	4,583,384	11,866,359	94,741	(1,329,313)	15,215,171
Income (loss) from operations	(420,510)	1,430,783	305,259	-	1,315,532
Investment income	192,810	29,333	-	-	222,143
Gain on sale of property and equipment	7,500	-	-	-	7,500
Net realized gains (losses) on investments					
available for sale	(59,418)	55,494	-	-	(3,924)
Net (loss) income	$ (279,618)	$ 1,515,610	$ 305,259	$ -	$ 1,541,251

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Statements of Cash Flow
Years Ended September 30, 2013 and 2012

2013	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Operating activities:					
Net income	$ 53,169	$ 1,286,285	$ 348,041	$ -	$ 1,687,495
Adjustments to reconcile consolidate net income to net cash provided by operating activities:					
Depreciation and amortization	522,100	283,553	16,690	-	822,343
Amortization of deferred costs	4,364	-	3,854	-	8,218
Provision for uncollectible accounts	-	18,670	-	-	18,670
Earned entrance fees income	(268,840)	-	-	-	(268,840)
Net realized losses (gains) on investments available for sale	(83,072)	(5,284)	-	-	(88,356)
Changes in operating assets and liabilities:					
Accounts receivable	2,623	(368,072)	-	-	(365,449)
Due from related party	134	14,000	(14,134)	-	-
Entrance fees receivable	(19,580)	-	-	-	(19,580)
Prepaid expenses	69,342	306,875	-	-	376,217
Accounts payable	76,638	(125,531)	-	-	(48,893)
Other current liabilities	(137,889)	(216,537)	(110)	-	(354,536)
Net cash provided by operating activities	218,989	1,193,959	354,341	-	1,767,289
Investing activities:					
Increase in restricted funds	(48,627)	-	-	-	(48,627)
Purchase of property and equipment	(539,567)	(199,285)	2	-	(738,850)
Proceeds from sales of investments available for sale	199,776	170,249	-	-	370,025
Purchases of non-marketable equity securities	(250,000)	-	-	-	(250,000)
Purchases of investments available for sale	(705,126)	(310,051)	-	-	(1,015,177)
Net cash provided by (used in) investing activities	(1,343,544)	(339,087)	2	-	(1,682,629)
Financing activities:					
Capital contributions	1,412,038	-	134	-	1,412,172
Capital distributions	(1,141,538)	(1,239,127)	-	-	(2,380,665)
Proceeds from resident entrance fees	1,236,230	-	-	-	1,236,230
Refunds of resident entrance fees	(379,900)	-	-	-	(379,900)
Payments on capital lease obligations	(26,020)	(25,396)	-	-	(51,416)
Payments on long-term debt	(120,000)	-	(90,000)	-	(210,000)
Net cash (used in) provided by financing activities	980,810	(1,264,523)	(89,866)	-	(373,579)
Net increase (decrease) in cash and cash equivalents	(143,745)	(409,651)	264,477	-	(288,919)
Cash and cash equivalents, beginning	169,147	512,087	-	-	681,234
Cash and cash equivalents, ending	$ 25,402	$ 102,436	$ 264,477	$ -	$ 392,315

2012	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Operating activities:					
Net income (loss)	$ (279,618)	$ 1,515,610	$ 305,259	$ -	$ 1,541,251
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	499,611	274,443	46,294	-	820,348
Amortization of deferred costs	4,365	-	3,950	-	8,315
Provision for uncollectible accounts	-	7,438	-	-	7,438
Earned entrance fees income	(84,374)	-	-	-	(84,374)
Gain on sale of property and equipment	(7,500)	-	-	-	(7,500)
Net realized gains on investments available for sale	59,418	(55,494)	-	-	3,924
Changes in operating assets and liabilities:					
Accounts receivable	(5,867)	(98,608)	-	-	(104,475)
Due from related party	(134)	(375,569)	375,703	-	-
Entrance fees receivable	(92,940)	-	-	-	(92,940)
Prepaid expenses	(7,148)	(29,926)	-	-	(37,074)
Accounts payable	313,333	285,497	-	-	598,830
Other current liabilities	19,094	104,532	(90)	-	123,536
Net cash provided by operating activities	418,240	1,627,923	731,116	-	2,777,279
Investing activities:					
Increase in restricted funds	5,535	(20,000)	-	-	(14,465)
Purchase of property and equipment	(248,476)	(24,418)	(2)	-	(272,896)
Proceeds from sale on sale of property and equipment	7,500	-	-	-	7,500
Increase in loan receivable - related party	-	-	(241,074)		(241,074)
Proceeds from sales of investments available for sale	355,364	362,374	-	-	717,738
Purchase of investments available for sale	(639,995)	(245,878)	-	-	(885,873)
Net cash provided by (used in) investing activities	(520,072)	72,078	(241,076)	-	(669,070)
Financing activities:					
Capital contributions	2,023,581	641,113	-	-	2,664,694
Capital distributions	(1,824,305)	(2,242,474)	(641,112)	-	(4,707,891)
Proceeds from resident entrance fees	443,120	-	-	-	443,120
Refunds of resident entrance fees	(563,475)	-	-	-	(563,475)
Payments on capital lease obligations	(16,582)	(22,140)	-	-	(38,722)
Payments on long-term debt	(120,000)	-	(90,000)	-	(210,000)
Net cash used in financing activities	(57,661)	(1,623,501)	(731,112)	-	(2,412,274)
Net increase (decrease) in cash and cash equivalents	(159,493)	76,500	(241,072)	-	(324,065)
Cash and cash equivalents, beginning	328,640	435,587	241,072	-	1,005,299
Cash and cash equivalents, ending	$ 169,147	$ 512,087	$ -	$ -	$ 681,234

See Independent Auditor's Report.

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

Schedules of Patient Days
Years Ended September 30, 2013 and 2012

Payor Source	2013	2012	Increase (Decrease)
Medicaid	22,877	19,573	3,304
Private	13,591	16,259	(2,668)
Medicare	5,876	6,818	(942)
Total patient days	42,344	42,650	(306)
Occupancy rate	92%	93%	

See Independent Auditor's Report.

Entrance Fees and
Monthly Fees History

	Mar-96	Mar-97	Mar-98	Mar-99	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14
Entrance Fees																			
Single Occupancy																			
Studio	89,000	91,000	93,400	96,500	100,000	105,000	107,000	107,000	110,850	115,300	115,300	115,300	115,300	115,300	115,300	115,300	115,300	115,300	115,300
One Bedroom A	99,000	102,000	104,650	108,300	112,000	117,600	124,000	124,000	128,460	133,600	133,600	133,600	133,600	133,600	133,600	133,600	133,600	133,600	133,600
One Bedroom B	103,000	112,000	114,900	118,900	118,900	124,800	131,000	131,000	135,720	141,100	141,100	141,100	141,100	141,100	141,100	141,100	141,100	141,100	141,100
One Bedroom C	113,500	117,000	120,000	124,500	124,500	130,700	136,000	136,000	140,900	146,500	146,500	146,100	146,500	146,500	146,500	146,500	146,500	146,500	146,500
Two Bedroom	146,000	150,000	154,000	159,500	159,500	167,400	169,500	169,500	175,600	182,600	182,600	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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
One Bedroom A	110,500	114,000	116,965	120,800	124,500	130,700	136,500	136,500	140,960	146,100	146,100	146,100	146,100	146,100	146,100	146,100	146,100	146,100	146,100
One Bedroom B	114,500	124,000	127,215	131,400	131,400	137,900	143,500	143,500	148,220	153,600	153,600	153,600	153,600	153,600	153,600	153,600	153,600	153,600	153,600
Mar-11	Mar-11	129,000	132,315	137,000	137,000	143,800	148,500	148,500	153,400	159,000	159,000	159,000	159,000	159,000	159,000	159,000	159,000	159,000	159,000
Two Bedroom	146,000	150,000	154,000	159,500	159,500	167,400	169,500	169,500	175,600	182,600	182,600	182,600	182,600	182,600	182,600	182,600	182,600	182,600	182,600
Monthly Fees																			
Single Occupancy																			
Studio	1,270	1,300	1,335	1,380	1,430	1,480	1,560	1,640	1,700	1,770	1,840	2,395	2,395	1,920	1,985	2,025	2,100	2,100	2,340
One Bedroom A	1,450	1,495	1,535	1,590	1,650	1,710	1,800	1,890	1,960	2,040	2,130	2,705	2,705	2,220	2,295	2,340	2,420	2,420	2,640
One Bedroom B	1,490	1,550	1,590	1,650	1,690	1,750	1,840	1,930	2,000	2,080	2,170	3,005	3,005	2,260	2,335	2,380	2,460	2,460	2,940
One Bedroom C	1,550	1,600	1,645	1,700	1750	1,820	1,910	2,000	2,075	2,160	2,250	3,175	3,175	2,345	2,425	2,473	2,560	2,560	2,960
Two Bedroom	*2,400	2,300	2,360	2,450	2,475	2,570	2,700	2,830	2,935	3,050	3,180	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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
One Bedroom A	625	650	670	695	695	720	900	900	900	900	900	785	785	900	900	950	900	900	900
One Bedroom B	625	650	670	695	695	720	900	900	900	900	900	795	795	900	900	955	900	900	900
One Bedroom C	625	650	670	695	695	720	900	900	900	900	900	800	800	900	900	947	900	900	900
Two Bedroom	**N/A	200	200	200	200	720	200	200	200	200	200	800	800	200	200	200	200	200	900

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

Rental Fees Evaluated March 1
Continuing Care evaluated March 1

Arbors of Hop Brook Limited Partnership

Results of operations from Independent living and Health center activities

Statement of Income and Expenses

FY 2013 Actual Results vs. Pro Forma forecast

	Actual Results	Pro Forma	Variance $	%
Revenues:				
Net Patient service reven	$ 12,432,412	$ 13,606,037	$ (1,173,625)	-8.63%
Monthly Service fee, mea	$ 4,487,249	$ 4,331,526	$ 155,723	3.60%
Earned Entrance Fee	268,840	$ 86,167	$ 182,673	0.00%
	$ 17,188,501	$ 18,023,730	$ (835,229)	-4.63%
Expenses:				
Administrative and gener	$ 1,805,029	$ 2,351,417	$ (546,388)	-23.24%
Employee benefits	$ 1,749,233	$ 1,788,481	$ (39,248)	-2.19%
Plant operations and mai	$ 1,601,402	$ 1,584,962	$ 16,440	1.04%
Nursing	$ 5,486,593	$ 4,355,249	$ 1,131,344	25.98%
Activities	$ 224,640	$ 192,406	$ 32,234	16.75%
Food service	$ 1,871,386	$ 1,864,700	$ 6,686	0.36%
Laundry	$ 131,389	$ 142,572	$ (11,183)	-7.84%
Housekeeping	$ 349,676	$ 356,543	$ (6,867)	-1.93%
Medicare	$ 283,368	$ 355,457	$ (72,089)	-20.28%
Sub-Acute		$ 2,089,548	$ (2,089,548)	-100.00%
Rehabilitative Service	$ 893,166	$ 879,100	$ 14,066	1.60%
Other Service	$ 404,476	$ 272,694	$ 131,782	48.33%
Depreciation and amortiz	$ 830,457	$ 888,222	$ (57,765)	-6.50%
Interest Expense	$ 32,526	$ 81,090	$ (48,564)	-59.89%
Earned Entrance Fee	$ 91,596	$ 53,941	$ 37,655	69.81%
	$ 15,754,937	$ 17,256,382	$ (1,501,445)	-8.70%
Income (loss) from operatior	$ 1,433,564	$ 767,348	$ 666,216	13.18%
Investment Income	$ 165,575	$ 389,715	$ (224,140)	157.51%
	$ -	$ -		
Realized gains on investment securit	$ 88,356	$ 60,000	$ 28,356	52.74%
	$ 253,931	$ 449,715	$ (195,784)	-43.54%
Net income	$ 1,687,495	$ 1,217,063	$ 470,432	38.65%

Arbors of Hop Brook Limited Partnership
Management's Explanation of Results of Operations
FY 2013

As required in regulation, this serves as Arbors of Hop Brook's narrative describing material differences between the pro forma income statements filed with this disclosure and the actual results of operations during the most recently concluded fiscal year and describing any material differences between any estimates or projections made in the financial and actuarial information filed and the actual results of operations during the most recently concluded fiscal year.

Arbors total revenue aligned with expectations. Of note, Net Patient Service revenues were negatively impacted by lower patient days and less Medicare days. Monthly Service Fee revenues were higher than expected due to an increase in assisted living revenue and stronger than expected census.

In terms of expenses, Arbors experienced less Administrative and General costs than anticipated by $ 546,388.00 or -23.24%. This savings relates to aggressive cost containment in all A&G Expenses.

Of note, expense line items of Nursing Medicare and Nursing Sub acute were combined for reporting purposes. Nursing costs as a whole were lower than expected as a result of less Medicare days, more Managed Care patient days, nursing leadership staff vacancy, and cost containment processes.

Arbors realized less interest expense as a result of refinancing mortgage rates with a lower variable interest rates, decreasing interest expense by $48,564.00 or -59.89%.

Arbors Earned Entrance Fee was higher than expected due to a higher than anticipated number of Continuing Care residents moving to Arbors in the 2013 Fiscal Year.

The Return on Investment Income was lower than budgeted, under estimated by $ 224,140.00. Realized Gains on Investment Securities were higher than expected resulting in a variance of $ 28,356.00 or 52.74%

In closing, Net Income numbers were favorable, 38.65% greater than anticipated, resulting in a $470,432 favorable variance. Factors including an increased assisted living population and improved independent living census contributed to this positive variance.

Respectfully Submitted,

Paul T. Liistro
Managing Partner
February 2014

FEES

Application Fee

An Application is required to be submitted by each applicant in order to enable us to evaluate an applicant's medical and financial qualifications and appropriateness for residency at Arbors. An Application Fee of $250 (single occupancy) or $500 (double occupancy) is required when the Application is submitted. The Application Fee is refundable less $50 (or $100, double occupancy) if the application is not accepted.

Waiting List – Deposits and Fees

From time to time, Arbors may find it appropriate to maintain a waiting list for applicants. If a Waiting List is maintained by Arbors, the Waiting List Policy will be as follows:

The purpose of this Agreement is to secure a place on the Waiting List(s) for a living unit at Arbors in order to participate in the Rental or Continuing Care program. Applicants are placed on the Waiting List in chronological order (dated and timed) after the application has been accepted and approved by Arbors. Application and payments consisting of Confidential Information Application, including Releases of Medical and Financial Information, Payments consisting of $250 Application Fee(s) for the Applicant(s), (one fee per person if the Applicant(s) is a couple); and $1,000 Waiting List Deposit made on this date to secure a position on Arbors' Waiting List for residency in a living unit at Arbors. The Waiting List deposit will be held in escrow. The Waiting List deposit may or may not earn interest, please refer to the Wait List Agreement for more details. On the anniversary of Your signing of the Waiting List Agreement, You may renew Your place on the Waiting List with a payment of an additional $1,000. At the time that You move into Arbors, all Waiting List deposits, including deposits for prior years, plus applicable interest, will be applied to Your first Monthly Service Fee statement. Please refer to the Wait List Agreement for detailed guidelines and benefits.

Entrance Fees

Entrance Fees are based upon the type and size of the Living Unit selected and the number of persons to occupy the unit except combination units. . The balance of the Entrance Fee is payable within thirty (30) days after a resident's acceptance of this Agreement, or Your occupancy (whichever comes first), unless otherwise stipulated in writing by Arbors. Benefits of this contract will not commence until the balance of the entrance fee is paid.

The current Entrance Fees (as of March 2014) are as follows:

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Type	Single	Double
Studio	$115,300	$ N/A
One Bedroom A	133,600	146,100*
One Bedroom B	141,100	153,600*
One Bedroom C	146,500	159,000*
Two Bedroom	182,600	182,600

*Second person entrance fee is $12,500

Entrance Fees are (eighty percent (80%) refundable subsequent to occupancy upon termination of the Residency Agreement by the Resident or by Arbors. Paragraph 6, Termination of Agreement, and Paragraph 8, Refunds, of the Residency Agreement describe the procedures for termination of the Agreement and the refunds of the Entrance Fee.

Arbors has the right to change the amount of the Entrance Fees and the degree of refund for all future Residents of Arbors.

Monthly Service Fee

The Monthly Service Fee is determined by us based upon our estimate of the cost of providing the services and maintaining the facilities as promised in this agreement.

Changes in Monthly Service Fees

Changes in the Monthly Service Fee during any twelve (12) month period will not exceed the calculated Consumer Price Index for Medical Care-Urban (CPIMC-U) unadjusted, **plus three (3) percentage points**, as estimated as of the December before the date of a change by the U. S. Department of Labor's Bureau of Labor Statistics. Changes will be announced in writing to all residents pursuant to this Agreement by February 1.The new Monthly Service Fee which will be in effect for the twelve-month (12) period March 1 - February 28 (29). We reserve the right to have more than one (1) change per (12) months period, if necessary, as long as the total changes do not exceed the Index referred to above **plus three (3) percentage points**. In no cases will rates decrease if consumer price index for Medical Care-Urban (CPIMC-U) is less than zero percent (0%).

Payment of Monthly Service Fees

The Monthly Service Fees will be billed in advance on the first of the month. All payments received after the 10th of the month will be assessed a late fee on the eleventh (11th) day of the month and will accrue interest at a rate set on February 1 each year and which will not exceed the State of Connecticut's laws on usury.

Current Monthly Service Fee

The current (as of March, 2014) Monthly Service Fees are as follows:

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Type	First Person	Second Person
Studio	$2,340	$N/A
One Bedroom A	2,640	3,540
One Bedroom B	2,940	3,840
One Bedroom C	2,960	3,860
Two Bedroom	3,740	4,640

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Deleted: 495

Deleted: 3,695

Occupancy Date Extension

Arbors, at its sole discretion, may agree to extend the period prior to the Occupancy Date. If the Occupancy Date is extended, Arbors will develop an appropriate payment schedule.

CCRC
Actuaries, LLC

415 Main Street
Reisterstown, MD 21136-1905

Email: info@ccrcactuaries.com

Phone: 410-833-4220
Fax: 410-833-4229

December 24, 2013

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, 2013

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 114-unit independent living center and skilled nursing at the 126-bed Manchester Manor Health Center. Residents pay an entrance fee upon move-in that is either 80% (Post FY04) or 90% (Pre FY05) refundable upon death or withdrawal after their independent living unit is reoccupied. In addition, there is a monthly fee associated with the 114 studios, one bedroom and two bedroom apartments. If skilled nursing care is needed, 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, 2013. 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, 2013 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, 2013 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, 2013 as $548,783. The amount amortized during Fiscal Year 2013 was calculated as $82,714. 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 2013 was $24,073.

The Audit Guide also states that entrance fees refundable upon reoccupancy should be accounted for as deferred revenue. This deferred revenue should 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, 2013 as $3,734,558. The amount amortized during Fiscal Year 2013 was calculated as $172,542.

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 $186,000 in Fiscal Year 2013 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 ($1,899,000) as of September 30, 2013 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, 2013 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, 2013

Present Value of Cash Flows	
Cash Outflows	$11,758,000
Cash Inflows	10,621,000
Net Cash Outflows	1,137,000
Plus:	
Depreciation	1,247,000
Plus:	
Unamortized Initial Acquisition Costs	0
Minus:	
Unamortized Deferred Revenue	
Nonrefundable Fees	549,000
Refundable Fees	3,735,000
Total	4,283,000
Net Future Service Obligation	($1,899,000)

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

CCRC
Actuaries, LLC

415 Main Street
Reisterstown, MD 21136-1905

Email: info@ccrcactuaries.com

Phone: 410-833-4220
Fax: 410-833-4229

Arbors of Hop Brook Limited Partnership

Statement of Actuarial Opinion
January 30, 2014

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' 2012 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' 2013 Annual Financial Filing.

In my opinion, the above items as shown in Arbors' 2013 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:

2013	2014	2015	2016	2017	2018
5.9%	8.3%	9.5%	10.1%	10.4%	10.7%

Average Age of Residents

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

2014	2015	2016	2017	2018
89.1	89.0	89.0	88.9	88.8

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
2013	13.0	9.7%	13.0	10.6%	3,528
2014	14.2	11.4%	15.4	13.9%	4,178
2015	17.7	13.5%	20.0	17.5%	4,937
2016	20.9	15.7%	19.9	17.6%	5,735
2017	23.2	17.2%	19.8	17.6%	6,296
2018	24.9	18.3%	19.8	17.7%	6,693

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:

	2013	2014	2015	2016	2017	2018
Lifecare	36%	36%	36%	36%	36%	36%
Rental	52%	54%	54%	54%	54%	54%
Total	88%	90%	90%	90%	90%	90%

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
2013	13.0
2014	15.4
2015	20.0
2016	19.9
2017	19.8
2018	19.8

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
2013	4,745
2014	5,173
2015	6,459
2016	7,623
2017	8,464
2018	9,071

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	3	3

DEPARTMENT OF SOCIAL SERVICES - FILINGS

(A) All materials required to be filed with the Department of Social Services of the State of Connecticut are on file with the Department of Social Services.

(B) The materials on file include all the information required by Connecticut General Statutes Chapter 319hh Section 17b-522. The Residency Agreement is an exhibit to this disclosure statement.

(C) All material may be reviewed at:

Connecticut Department of Social Services
Elderly Services Division
25 Sigourney Street
Hartford, CT 06106

GLOSSARY OF TERMS

The following terms are described as used in the accompanying Agreement. Reference to the Agreement and the context in which the terms are used is recommended to provide a fuller understanding of each of the terms:

"**Arbors of Hop Brook**" or "**Arbors**" or "**we**" or "**us**" means Arbors of Hop Brook Limited Partnership.

"**Community**" means the facilities known as Arbors of Hop Brook and/or Manchester Manor Health Care Center including the living units, the common spaces and exterior grounds.

"**Entrance Fees**" means the amount to be paid to Arbors in return for life use of a specific Living Unit and services offered by Arbors.

"**Health Center**" means Manchester Manor Health Care Center or another comparably licensed Nursing Facility.

"**Living Unit**" or "Unit" means an apartment within Arbors.

"**Monthly Service Fee**" means the charge paid by the Resident, monthly, pursuant to the Agreement.

"**Non-participating Occupant**" means a person approved to live with a Resident, but who does not qualify for the health-related benefits provided in this Agreement.

"**Occupancy Date**" means the date You take occupancy, unless otherwise extended by Arbors.

"**Refund**" is the portion (no more than eighty percent (80%) of the Entrance Fee which is refundable pursuant to the Agreement.

"**Reoccupancy**" means the event of a new Resident occupying a Living Unit previously occupied by a previous Resident.

"**Residency Agreement**" or "**Agreement**" or "**Basic Agreement**" means this Agreement.

"**Resident**" or "**You**" means the Resident (or Residents) who is (are) signatory to the Agreement receiving lifetime use of the Living unit, Basic Services and Health-Related Services.

"**Second Person Monthly Service Fee**" or "**Second Person Fee**" is the monthly charge for a second Resident or Non-participating Occupant occupying an apartment unit.

1. BASIC AGREEMENT - #22A

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1.1 Resident has made application to Arbors of Hop Brook, a Continuing Care Retirement Community under the provisions of Connecticut General Statutes Section 17b-520 through 17b-535. Upon the granting of this application, the Resident will enjoy a contractual right to reside in a Living Unit at Arbors together with certain health-related benefits, including nursing home care, and other services as set forth in this Agreement. The Resident also has the obligation to pay a partially refundable Entrance Fee, in addition to a Monthly Service Fee. These rights and obligations we set forth in this Agreement.

1.2 **Parties** This Agreement is made and entered into by and between ________________ (collectively, the "Resident"), and Arbors of Hop Brook Limited Partnership (Arbors).

The Resident, having made application to establish residency and upon acceptance of the application by Arbors of Hop Brook, agrees to comply with the policies and procedures of Arbors of Hop Brook and, further, understands that such residency shall be subject to the terms and conditions set forth in this Agreement.

1.3 Documents The Resident acknowledges receipt of a copy of the Confidential Application, Medical Evaluation and Facts Book (Disclosure Statement), which are each, by this reference, made a part of this Agreement. An application fee of $________ has been paid to be used for processing of the application. Any material change in Resident's physical or mental health, or financial condition prior to residency is to be immediately disclosed to Arbors by the Resident.

1.4 Entrance Fee The Resident agrees to pay Arbors a total Entrance Fee of $_______________, consisting of a first person Entrance Fee of $_____________ and a second person Entrance Fee of $________________ for the right of residency in Living Unit type_____________, Number_______.

1.5 Payment of Entrance Fee Payment of the Entrance Fee of $______________ is payable on or before the Occupancy Date. This payment must be made by the date You take occupancy, unless otherwise stipulated in writing by Arbors. Residency is established when the Resident has completed payment of the Entrance Fee and commences paying the Monthly Fee.

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1.6 Payment of Monthly Fee From date of residency, Resident agrees to pay the Monthly Service Fee applicable for the Living Unit. The total Monthly Service Fee will be billed by Arbors monthly. The Monthly Fee for Living Unit #_____ is:

Deleted: ____

First Person Monthly Service Fee is	$______________	Deleted: __________
Second Person Monthly Service Fee is	$ ______________	Deleted: __________
Total Monthly Service Fee	$______________	Deleted: $__________

2. ADMISSION PROCEDURE

2.1 General The Resident agrees to submit an application which will allow Arbors to determine the appropriateness of admission to Arbors. The Resident must be in reasonably good health, must successfully complete our comprehensive, pre-admission program, and must possess the means to pay the required partially refundable Entrance Fee as well as the Monthly Service Fee. Specifically, the Resident must satisfy the following criteria:

2.1.1 Age You must be at least 62 years of age. If there are two of You, the second person must be at least 50 years of age.

2.1.2 Health You (both if You are a couple) must be in reasonably good health and able to live independently without the need of personal assistance in the Living Unit.

2.1.3 Medical Evaluation You (both if You are a couple) agree to complete the Medical Evaluation form no later than thirty (30) days prior to occupancy and provide Your permission to us, for obtaining 3 years of medical records from Your doctors. You may be required to have a complete physical, including such tests as may be required by us, conducted by a doctor of Your choice, approved by us. If Your doctor is not approved, You agree to have a physical by a doctor designated by us.

2.1.4 Personal Interview You (both if You are a couple) agree to have standardized assessment in Your home or at Arbors conducted by Arbors' professional staff. The information obtained in this assessment, along with Your physician's report, will assist in determining Your eligibility for residency at Arbors. The assessment must be performed within the 30 days prior to Your move-in date. In the event that the assessment is performed more than 30 days prior to Your move-in, a reassessment will be necessary, in Your home or at Arbors.

2.2 **Financial Criteria for Residency**

2.2.1 Entrance Fee You must have financial assets adequate to pay the contracted Entrance fee, plus an amount sufficient to provide for Your personal financial requirements after residency.

2.2.2 Monthly Fee You must have sufficient income to meet the anticipated Monthly Service Fee and other personal expenses not provided under the Residency Agreement.

2.2.3 Confidential Application A Confidential Application must be completed, including a financial statement.

2.24 Health Insurance You must have, maintain and evidence to us, coverage (if age eligible) pursuant to:

Medicare Part A (hospital coverage),
Medicare Part B (physician coverage),
Medicare Part D or other prescription benefit plan,
Supplemental "Medigap" Insurance with Nursing
Home Benefit; or,
Medicare HMO Insurance with Nursing Home Benefit;

If You are not Medicare eligible, or if insurance is with a Medicare alternative, e.g., an HMO or other managed care organization, then the alternative insurance must be approved by Arbors. In any event, Health Insurance acceptable to Arbors must be obtained and maintained for continued residency at Arbors. Arbors may request verification of the above insurance coverage at any time.

2.2.5 Other Insurance You will be required to purchase liability insurance for Your Unit with a minimum of $300,000 of liability coverage to cover any damage to Your Unit or the Building that is caused by You. You may also purchase at Your discretion additional amounts of coverage to cover damage to Your own personal property located within the Unit. A certificate of insurance must be provided to us prior to occupancy and upon request.

3. LIVING UNIT

3.1 Unit

3.1.1 Unit Selection The Resident will select an unfurnished Living Unit as indicated in Paragraph 1., Basic Agreement, of this Agreement.

3.1.2 Use of Living Unit The Living Unit is for living only and shall not be used for carrying on any business or profession, nor in any manner shall Resident's use violate zoning restrictions.

3.1.3 Unit Alterations You may request physical alterations to the Living Unit prior to or subsequent to occupancy. Arbors will review the request and approve or deny such request in writing. If approved, Arbors has the responsibility of supervising all the work to be performed. The cost of such alterations will be Your responsibility and are not refundable by Arbors. You will be responsible for restoring the unit, or paying an allowance for future restoration of the unit to Arbors' unit specifications. Restorations and/or allowances will be managed and determined by Arbors at the time of the proposed unit alterations, agreed to in writing by You and withheld from the entrance fee refund.

3.1.4 Compliance Changes We may make changes or modifications to Your Unit or the common areas to satisfy the requirements of the Law. If necessary, You will agree to temporarily relocate to other facilities provided by us, without additional cost to You, if it becomes necessary to vacate Your Unit.

3.2 Occupancy Date

3.2.1 Not Used

3.2.2 The "Occupancy Date" will be the date You take occupancy, unless otherwise extended by Arbors.

3.3 Resident's Right To Stay In The Living Unit You acknowledge and agree that Your Apartment is appropriate for occupancy by persons who can live independently with assistance from an assisted living service agency, home health agency or other qualified provider, if necessary, but that Your Apartment is not appropriate for occupancy by persons who need 24-hour skilled nursing care or whose physical, mental or psychological condition otherwise results in their inability to live appropriately in a residential setting.

Examples of inappropriateness include, but are not limited to situations where:

- You do not meet the requirement for residency established by state law and the Assisted Living Regulations
- You present an immediate physical threat or danger to yourself or others
- You have active communicable tuberculosis or another similar communicable disease
- You require 24-hour skilled nursing care
- You have a primary need for care and supervision that results from dementia or mental disorder resulting in ongoing behavior which would upset the general Resident group, would require a greater amount of care and supervision than other residents at the Community
- You are bedridden
- You refuse to accept services required in order for Us to meet Your needs
- You have health care needs that cannot be met at the Community for reasons such as licensure, design or staffing
- Your personal physician has determined that You require services not available at the Community
- If Your condition changes so that You are considered a wandering risk or if You are unable to respond to verbal instructions in an emergency

You agree that You will vacate Your apartment upon thirty (30) days' notice, or lesser notice if an emergency exists, if it is determined by Us at Our sole discretion that Your physical, mental or psychological condition is no longer appropriate for continued residence.

If at any time We determine at Our sole discretion that a change in Your physical, mental or psychological condition requires You to have nursing, personal care or companion assistance beyond that which We provide, You agree that We may obtain such care or assistance at Your expense until other appropriate ongoing arrangements can be made.

If You are considered a wandering risk, We may move You immediately to another Unit or location for Your safety until ongoing arrangements for Your care in an appropriate environment can be made.

3.4 Vacating the Unit In the event of a Resident's death, permanent transfer to the Health Center, or the termination of this Residency Agreement, the personal property of the Resident must be removed from his or her Living Unit within thirty (30) days of vacating the unit at the expense of the Resident or the Resident's estate. The Resident or the Resident's estate will be responsible for the Monthly Service Fee until the personal property is removed. If not removed by thirty (30) days, Arbors will make arrangements for the Resident's personal property to be stored. All expenses relating to the move and storage of the Resident's personal property will be the responsibility of the Resident's Estate. Property left in storage for ninety (90) days or more may be disposed of by us at Your expense. Any damage not consistent with normal wear and tear including, but not limited to pet and/or water damage will be the responsibility of the vacating party. Cost(s) incurred will be deducted from the Entrance Fee Refund.

4. SERVICES

4.1 Prior to Occupancy We agree to keep You informed of activities of interest being held at Arbors and agree to assist You in planning for Your move to Arbors.

4.2 Following Occupancy Services and facilities are included in the Monthly Service Fee as described below:

4.3 Services and facilities within the Unit:

- **(a)** Complete kitchen facilities including refrigerator with frost-free freezer, electric range with oven, garbage disposal, hood range (venting to outside), oak cabinets, under-cupboard lights, ground fault outlets at counter height
- **(b)** Weekly bedroom linen (excluding towels) and changing service
- **(c)** Bi-weekly (every two weeks) housekeeping services
- **(d)** Heat or air-conditioning
- **(e)** Individually controlled heat and air-conditioning thermostat
- **(f)** Hot water heater
- **(g)** Pre-wired hookups (not service) for telephone and cable television
- **(h)** Repair and maintenance of all Unit appliances and systems
- **(i)** Real estate property taxes
- **(j)** General liability and casualty insurance (excluding Resident's personal property and liability insurance)
- **(k)** Water, sewer, sewer fees and trash removal
- **(l)** Storage facilities for personal property, if available
- **(m)** Centrally monitored smoke detectors
- **(n)** Emergency call-for-aid (kitchens, bathrooms, one bedroom)

(o) Sprinklers
(p) Forced fresh air (from outside)
(q) Bathroom exhaust (to outside)
(r) Wall-to-wall carpeting
(s) Sheer draperies
(t) Electronic courtesy check-in
(u) Postal box (lobby)
(v) Emergency generator supplying heat and foyer light
(w) Satellite Television

NOTE: Electricity usage is metered separately for each living unit and is billed to and paid by the Resident. Electricity usage within the living unit is for all power requirements except air conditioning and heat which is provided by Arbors. See Paragraph 4.13, Additional Services Requiring Additional Charges.

4.4 Services and Facilities Outside of the Unit Use of all common areas within the Community.

4.5 Dining Service Dinner meal (Sunday through Saturday) with choices of entree and waited table service; and tray service when medically required and approved by the Director of Resident Services.

4.6 Security Services Centrally located electronic security system monitored 24 hours a day.

4.7 Social, Educational and Recreational Activities Activities Coordinator on staff for the scheduling of events.

4.8 Transportation Scheduled transportation according to Arbors' policy to shopping, banking, social activities, religious services, and physician's visits within Manchester, Vernon, Glastonbury, East Hartford and South Windsor. There is a nominal charge for out of town events that will be added to Your monthly bill. At the discretion of the administration, individual/small group (less than five (5) residents) transportation may be arranged in the event scheduled transportation is unavailable or inconvenient. Surface parking for residents and guests is provided.

4.9 Health Services Provided by Arbors

(a) 24-hour a day emergency alert monitoring.

(b) Scheduled healthcare services are available Monday-Friday. These services will be provided by a registered nurse or licensed practical nurse. Nurse on call at other times.

(c) ALSA Aide/Homemaker Services provided to residents in their apartment to assist residents to live independently, when deemed medically necessary. Services are offered for a limited period. Arbors will pay the cost of up to $600.00 dollars per month to cover the costs of assisted living. Each case will be reviewed and assessed to determine that a medical necessity continues to exist.

1350
600

(d) Some assisted living services may be provided on an elective basis, absent a medical need, for an additional fee.

4.10 Health Services Provided by Manchester Manor Health Care Center

(a) Manchester Manor Health Care Center will provide a range of skilled nursing care to residents of Arbors. Based upon the recommendation of the Resident's attending physician, in consultation with the Resident, Resident's spouse or family, legal representative, Director of Resident Services, Health Center's Medical Director and the Director of Admissions, the Resident will be provided semi-private room accommodations in the required level of care. Private accommodations, if available, are obtainable for an additional charge.

(b) In the event that the level of care required is not available at Manchester Manor Health Care Center due to the lack of vacancy, Arbors will make the necessary arrangements for the Resident to be admitted to an available semi-private accommodation in the required level of care in the area, until a semi-private accommodation at Manchester Manor Health Care Center becomes available.

(c) Following a Resident's admission to Manchester Manor Health Care Center, the cost of a Resident's Health Center stay will be paid as follows:

> **(1)** All Medicare qualified days will be billed to Medicare and/or Medicare supplemental insurance;
>
> **(2)**After all Medicare qualified days are paid by Medicare and/or Medicare supplemental insurance the semi-private room rate charges at the Health Center will be paid by us for a period of 1,095 days or three (3) years. The Resident will be responsible for twice their monthly service fee while at the Health Center, paying a total of two (2) Monthly Service Fees. In the case of double occupancy, if only one Resident is receiving nursing care at the Health Center, then the remaining Resident will be allowed to reside in the Living Unit. The couple will continue to pay their Monthly Service Fee, and an additional Monthly Service Fee paying a total of two (2) Monthly Service Fees, while one (1) resident is receiving care in the Health Center. In the case of double occupancy, if both residents are receiving nursing care at the Health Center, both residents will be responsible for paying twice the Monthly Service Fee while at the Health Center, a total of four (4) Monthly Service Fees.
>
> **(3) Not Used**
>
> **(4) Not Used**
>
> **(5)** The Resident will pay for additional services such as, physical therapy, private duty nurse, nursing supplies, doctors, specialists, prescriptions and other medical services, etc.
>
> **(6)** After 1,095 cumulative days or three (3) years of care provided by Manchester Manor Health Care Center, all charges for a resident's Health Care stay will be billed to the resident. The Monthly Service Fee will be suspended and the resident will be responsible for the Daily Health Center fee only.

4.11 Healthcare Services - Acute and General Hospitals
(a) The Resident will be responsible for the cost of all hospital-related services, including ambulance transportation to the hospital, if necessary.

(b) The Resident will continue to pay the Monthly Service Fee and be responsible for any other charges incurred at Arbors while hospitalized.

4.12 Not Used

4.13 Additional Services Requiring Additional Charges Additional services to the Resident on an extra charge basis include:
(a) Telephone, Living Unit electricity (excluding air-conditioning and heat)
(b) Beautician and barber services
(c) Guest room (hospitality suite), when and if available*
(d) Guest meals
(e) Housekeeper services in addition to the normal bi-weekly (every other week) service provided under the Residency Agreement
(f) Additional personal care services and assisted living services
(g) Private-room accommodations in Health Center, if available
(h) Required medical services not covered under Health services provided by Arbors or Health Center
(i) Co-payment charges/gaps in coverage not covered by insurance
(j) Special activity event charges
(k) Catering charges for personal functions
(l) Special gardening requirements
(m) Unit modifications
(n) Individual or small group (less than 5 residents) transportation, if available
(o) Durable medical equipment specified by Arbors, e.g., walkers, canes and wheel chairs, etc.
(p) Personal emergency call pendants
(q) Personal concierge service
(r) Additional meals (Breakfast/Lunch)

*There is no certainty that this service will exist in the future.

4.14 Modifications to Services Arbors reserves the right to add or delete services and facilities as may be necessary from time to time. We will provide You with thirty (30) days notice prior to effecting the change.

5. FEES

5.1 Entrance Fees You agree to pay a partially refundable Entrance Fee as indicated in Paragraph 1, Basic Agreement, of this Agreement. We will refund eighty percent (80%) of Your Entrance Fee, pursuant to the refund provisions of Paragraph 8, Refunds, of this Agreement.

5.1.1 Changes in Entrance Fees We have the right to change the amount of Entrance Fees and the degree of refundability for all future residents of Arbors.

5.2 Not Used

5.3 Monthly Service Fee The Service Fee is determined by us based upon our estimate of the cost of providing the services and maintaining the facilities as promised in this Agreement.

5.3.1 Changes in Monthly Service Fees Changes in the Monthly Service Fee during any twelve (12) month period will not exceed the calculated unadjusted Consumer Price Index for Medical Care-Urban (CPIMC-U), **plus three (3) percentage points**, as estimated as of the December before the date of a change by the U. S. Department of Labor's Bureau of Labor Statistics. Changes will be announced in writing to all residents pursuant to this Agreement by February 1. The new Monthly Service Fee which will be in effect for the twelve-month (12) period March 1 - February 28 (29). We reserve the right to have more than one (1) change per twelve (12) month period, if necessary, as long as the total changes do not exceed the Index referred to above **plus three (3) percentage points**.

5.3.2 Payment of Monthly Service Fees The Monthly Service Fees will be billed in advance on the first of the month. All payments received after the 10th of the month will be assessed a late fee on the eleventh (11th) day of the month and will accrue interest at a rate set on February 1 each year and which will not exceed the State of Connecticut's laws on usury.

5.4 Not Used

6. TERMINATION OF AGREEMENT

6.1 Termination by Resident You may terminate this Agreement based upon the following terms:

6.1.1 Prior to Occupancy, Within Thirty (30) Days After executing this Agreement, You may cancel it for any reason within thirty (30) days. We must receive written notice of cancellation by registered or certified mail within this thirty (30) day period. You will be entitled to a full refund of all deposits paid excluding the Application Fee. Interest on the deposits will be paid at the prevailing money market rate of interest. No Resident shall be required to move into the facility until after the expiration of the thirty (30) day rescission period.

6.1.2 Prior to Occupancy, Beyond Thirty (30) Days, Due to Death, Injury, Illness or Incapacity You may cancel this Agreement due to death, or on account of illness, injury or incapacity preventing You from occupying Your Living Unit under the terms of this Agreement. Cancellation under this provision is effective upon our receipt of written notice of cancellation by registered or certified mail. You or Your legal representative shall receive a refund of all deposits less (a) costs specifically incurred by us at Your request, or for Your benefit, as described in the contract, including but not limited to medical evaluations, insurance, administrative costs, unit modifications, etc., and, (b) the Application Fee. Interest on the refunded deposits will be paid at the prevailing money market rates of interest.

If the Resident under the foregoing provision is a couple, the Residency Agreement shall be cancelled for the deceased or incapacitated person and the remaining Resident may cancel at his/her option without additional cost.

6.1.3 <u>Prior to Occupancy, Beyond Thirty (30) Days, for Any Other Reason</u> Should You provide written notice of cancellation of this Agreement by registered or certified mail prior to residency for any other reason, Arbors of Hop Brook shall refund to You the deposit less those costs specifically incurred by us at Your request or for Your benefit, (including the Application Fee) as described in the contract, and a service charge of $3,000. No interest on the deposits will be paid.

6.1.4 <u>Subsequent to Occupancy, Rights of a Couple</u> If the Resident who executes this Agreement, is a couple, should one of You terminate the Agreement for any reason, then the remaining Resident shall have the right to continue to occupy Your Living Unit under the terms of this Agreement.

6.1.5 <u>Subsequent to Occupancy, Due to Death</u> In the event that this Agreement is terminated due to the death of the Resident (both of You if You are a couple), Your designated beneficiary (or estate if no beneficiary assigned) will receive a refund of eighty percent (80%) of the total Entrance Fee paid, less any unpaid expenses incurred by the Resident, pursuant to Paragraph 8, Refunds, of this Agreement. In the event of the death of one of You, the other Resident or Non-Participating Occupant, assuming the surviving Occupant can live independently, may continue to reside in the Living Unit by paying the single occupancy Monthly Service Fee (except for two-bedroom or combination units). The surviving Occupant may terminate this Agreement within one hundred and twenty (120) days of the death of a spouse, in which event we will refund eighty percent (80%) of the Entrance Fee in accordance with Paragraph 8, <u>Refunds</u>, of this Agreement. All rights and benefits specified in this contract including but not limited to, dinner services, housekeeping, the use of the common areas and transportation and emergency monitoring will be rescinded upon Your death.

6.1.6 <u>Subsequent to Occupancy, For Any Other Reason</u> If You (both if You are a couple) terminate this Agreement for any reason other than death, termination shall be evidenced in writing, signed by You (both if You are a couple) and delivered to Arbors by registered or certified mail at least one hundred and twenty (120) days prior to the termination date. You will be required to pay the Monthly Service Fee for Your Unit until the termination date. In the event that a new Resident occupies Your Unit prior to the termination date, You will not be charged the Monthly Service Fee for the days of overlap. We will refund eighty percent (80%) of the Entrance Fee in accordance with Paragraph 8, <u>Refunds</u>, of this Agreement.

If only one of You is terminating this Agreement, then the remaining Resident will be allowed to reside in the Living Unit. The single occupancy Monthly Service Fee (except for two bedroom units) will be charged to the remaining Resident. There will be no refund of any of the Entrance Fee in this event. The Entrance Fee is deemed payable upon contract termination of both occupants.

6.2 <u>Termination by Arbors</u> Arbors may terminate this Agreement for any cause which, in its judgment, is in the best interest of the Residents or Arbors, including, but not limited to:

6.2.1 Inability, in our sole judgment, of the Resident to live independently in the Living Unit, prior to occupancy;

6.2.2 An adverse change in the Resident's financial condition, prior to or after occupancy, except as provided for in Paragraph 7, Limitation on Termination Rights for Financial Inability;

6.2.3 Material misstatement or omission of fact in the Confidential Application or Medical Evaluation;

6.2.4 Your failure or refusal to fulfill any of Your obligations and promises as set forth in this Agreement, including but not limited to Your failure to comply with Our rules, or if continued occupancy by You becomes inappropriate under Section 3.3 "Resident's Right to Stay in the Apartment" of this Agreement, or if Your continued residence poses a threat to the health, safety or welfare of other residents.

6.2.5 Gifts or other transfers of assets which jeopardize Your financial obligations under this Agreement;

6.2.6 Except as set forth below, the failure to pay the Monthly Service Fee or other charges as required by this Agreement. If the Residency Agreement is cancelled due to the failure to pay the Monthly Service Fee or other charges associated with living at Arbors, then the refundable portion of the Entrance Fee will be reduced by any of Your outstanding obligations;

6.2.7 If You should become infected with a dangerous and/or contagious disease or become mentally or emotionally disturbed, and we determine that Your condition is detrimental to the health, safety, or welfare of others and Your condition cannot be cared for in Manchester Manor Health Care Center.

6.2.8 If You refuse medical treatment, which in the opinion of Your physician or Arbors is medically required for Your health or the health or safety of others;

6.2.9 In the event of termination under this section, the Resident will be responsible for the Monthly Service Fee until the Living Unit is vacated;

6.2.10 In the event of termination under this section, the final termination decision will be made by Arbors of Hop Brook Limited Partnership upon the advise of the Management Committee (The Management Committee is composed of the Managing Partner, one other Partner and the CCRC's Director). The criteria used to make such a decision are stated in paragraphs 6.2 through 6.29 of this agreement. This notice of termination will be served to the resident in writing by certified mail.

In the event of termination by Arbors, the resident may file a formal appeal aggrieving such action. Such an appeal must be filed in writing, with the Director of Arbors, within five (5) days of receipt of the notice of termination. Upon receipt of an appeal, the Director will convene a committee including two (2) members of the Arbors' senior management staff to consider the grievance. The Director will report the committee's findings to the Managing Partner. The Managing Partner's decision on the appeal will be final.

7. <u>LIMITATION ON TERMINATION RIGHTS FOR FINANCIAL INABILITY</u>

7.1 <u>Subsidy</u> If You experience financial difficulties which are beyond Your control, and not due to gifts or other transfers of assets, we will allow You to maintain residence within the Community and enjoy all the rights pursuant to this Agreement. To the extent You are unable to pay, Your Monthly Service Fee or per diem rate in the Health Center, if applicable, will be deducted from Your entrance fee by us, for as long as You establish the facts to justify deferral of those fees, and we believe deferral will not adversely affect our ability to meet the obligations to operate on a sound financial basis.

7.2 <u>Repayment of a Subsidy</u> In the event the subsidy exceeds the refundable portion of the Entrance Fee, You (or Your estate) will remain liable for the excess amount. If termination is due to death, this paragraph will apply whether or not You are in residence at Arbors at the time of death.

8. <u>REFUNDS</u>

8.1 <u>Termination of Residency</u> In the event of termination of this Residency Agreement, we shall refund eighty percent (80%) of the Entrance Fee paid by You without interest upon Your departure from the Community (Arbors and Manchester Manor Health Care Center). Such refund will be paid to You (or Your designated beneficiary) within sixty (60) days of reoccupancy of Your Living Unit. Any unpaid expenses, including but not limited to health costs incurred at the Health Center not covered by this Agreement, Monthly Service Fees, and subsidies, incurred for the benefit of the Resident will be deducted from the refunded Entrance Fee. As used in this Paragraph 8.1, the term "designated beneficiary" shall mean the person(s) or entity designated by You to receive such refund in the event of termination of this Residency Agreement as a result of Your death. No such designation of beneficiary shall be effective unless the same is filed with Arbors of Hop Brook Limited Partnership prior to Your death. In the event You do not effectively designate a beneficiary to receive the refund provided under this Paragraph 8.1, such refund shall be paid to Your estate.

9. <u>HEALTH CENTER TRANSFER</u>

9.1 <u>Transfer to the Health Center</u> If You (both if You are a couple) require placement in the Health Center, then the following will occur:

9.1.1 <u>Not Used</u>

9.1.2 <u>Not Used</u>

9.1.3 If, after ninety (90) days from admission to the health center, we determine that Your condition is chronic and not responsive to rehabilitative care and therapy, You will be requested to release Your Living Unit for reoccupancy. If You choose to maintain Your Living Unit, You must pay an additional Monthly Service Fee per month, unless stipulated in writing by us.

9.1.4 If this Agreement is for a Resident couple and only one of the couple requires Health Center placement, the other retains all rights as a Resident and may remain in the Living Unit. The couple will continue to pay their Monthly Service Fee plus an additional Monthly Service Fee for a total of two (2) Monthly Service fees while one (1) of the couple is receiving care in the Health Center.

10. SPECIAL OCCUPANCY

10.1 Separation or Divorce of a Resident Couple If, after becoming residents, the joint Residents become separated or divorced:

(a) In the event each party desires a separate living unit and one remains in the Living Unit, no refund is given and a new Residency Application must be submitted for Arbors' approval for the second Living Unit if available. If approved, a Residency Agreement must be signed and an Entrance Fee paid for the second Living Unit. The first person Monthly Service Fee will be charged for each Living Unit (except two bedroom or combination units).

(b) In the event one party desires to terminate residency, the remaining party retains full rights as a Resident. The first person Monthly Service Fee (except two bedroom or combination units) will be charged, but there is no refund of the Entrance Fee to either party.

(c) In the event both parties desire to cancel the Residency Agreement, the refund provisions of Paragraph 8, Refunds, of this Agreement apply.

10.2 Marriage of Residents and Non-Residents

(a) If a Resident and non-resident marry and desire to reside in the Resident's Living Unit, the non-resident party must submit a Residency Application. If accepted by Arbors, a new Residency Agreement must be signed by the couple and the difference between the double occupancy second person entrance fee and applicable double occupancy monthly service fee must be paid. If the application of the non-resident spouse is not accepted by Arbors, the non-resident spouse may apply and be considered for residency under the Non-participating Occupant guidelines in Section 10.4, Non-participating Occupant, of this Agreement. The Residents and non-participating occupant will be charged the applicable first and second person Monthly Service Fees.

(b) If two Residents with separate Living Units marry, they may either release one Living Unit and reside together in the other, or release both Living Units and move into another Living Unit.

(c) If the Residents release one Living Unit and reside together in the other Unit, a new Residency Agreement must be executed by the couple. A double occupancy second person entrance fee (unless a two-bedroom or combination unit) and the applicable double occupancy monthly service fee must be paid. A refund of eighty percent (80%) of the Entrance Fee for the vacated unit will be made in accordance with Paragraph 8, Refunds, of this Agreement.

(d) If the Residents elect to release both Living Units and move into another Living Unit, a new Residency Agreement for the new Living Unit must be executed by the couple. The current Entrance Fee for the new Living Unit will be charged. A refund of eighty percent (80%) of the Entrance Fees for each of the vacated Living Units will be made in accordance with Paragraph 8, Refunds, of this Agreement.

In either case, the Residents will be charged the applicable first and second person Monthly Service Fees (except two bedroom or combination units) upon joint residency in the single Unit.

10.3 Joint Residency - Unrelated Persons When two unrelated persons intend to live in one Living Unit, the following conditions will apply:

(a) Evidence of prior long-term compatibility of the Residents must be demonstrated to Arbors,

(b) Each person desiring to live in a Unit shall apply for residency and if accepted sign a Residency Agreement,

(c) Cancellation rights and surviving Resident rights are the same as outlined in this Agreement

10.4 Non-Participating Occupant A Resident may apply for the right to have a Non-participating Occupant reside in the Living Unit without health services per Paragraphs 4.18 (b) and (c), Health Services provided by Arbors, 4.10 (a-c), Health Services provided by Manchester Manor Health Care Center, of this Agreement. Such right may be granted on the following conditions:

(a) A Non-participating Occupant Application and Agreement is executed and approved by Arbors,

(b) A second person Service Fee is paid for the second person,

(c) The Non-participating Occupant agrees: (1) to abide by Arbors' Resident Policies and Procedures; (2) that Arbors will not provide health services; (3) to vacate the Living Unit within thirty (30) days after termination of residency of the Living Unit by the Resident; and (4) reapply for full resident status at Arbors' discretion.

10.5 Transfer to a Different Living Unit Residents may relocate to a different unit subject to the following:

(a) Same Size Unit If You desire to move to a comparable unit to Your existing unit, an incremental Entrance Fee will be charged equal to the difference between the current Entrance Fee for the new Living Unit and the Entrance Fee You previously paid for Your existing Living Unit. The Monthly Service Fee will be the current fee applicable to the new Unit.

(b) Larger Unit If You desire to move to a larger Living Unit, an incremental Entrance Fee will be charged in the amount of the difference between the current Entrance Fee for the new larger Living Unit and the Entrance Fee You previously paid for Your existing Living Unit. The Monthly Service Fee will be the fee applicable to the larger Living Unit.

(c) Smaller Unit If You desire to move to a smaller Living Unit, we will either (1) refund to You the difference between the Entrance Fee You previously paid for Your existing larger unit and the current Entrance Fee required for the desired smaller unit, or (2) an incremental Entrance Fee will be charged in the amount of the difference between the current Entrance Fee for the new smaller Living Unit and the Entrance Fee You previously paid for Your existing larger Living Unit. The refund will be paid when Your existing larger unit is reoccupied by a new Resident, in accordance with Paragraph 8, Refunds. Upon moving into the new unit, the Monthly Service Fee will be the fee applicable to the smaller Living Unit that You occupy.

(d) Transfer Charge You will be charged a transfer charge to cover the cost of painting and cleaning the vacated unit. Any moving expenses will be Your responsibility.

11. OTHER PROVISIONS

11.1 Absence from the Community If a Resident is absent from the Community for an extended period of time (14 consecutive days or more), the Resident will receive credit for those meals not taken beginning on day 15 (Days 1-14 are excluded from the credit). To qualify for this credit, You must inform the Director of Resident Services, in writing, of such absence at least one (1) week in advance of Your departure.

11.2 Residents' Association A Residents' Association will be established for the benefit of all residents of Arbors. The purpose of the Association will be to foster communication between the residents and Arbors, to promote an understanding of the nature of life at Arbors, and to facilitate the participation of the residents in the development of the Community's policies, procedures and activities. The Association will elect its own officers according to an established set of by-laws. The Association will work in cooperation with Arbors to establish rules and regulations for the purpose of maintaining and improving the services and quality of life at Arbors.

11.3 Gratuities No individual gratuities are allowed. Employees who accept them will be subject to discharge. Residents may wish to establish an employee appreciation fund to be paid to employees on a basis determined by the Residents and Arbors.

11.4 Pets Pets will be allowed in designated areas of the Community upon approval by Arbors. Dogs are allowed on first and second floors only. Pets are not permitted to linger in common areas (lobby, hallways). Pets should only be transported via elevator when the elevator is not in use by another resident. Visitors are asked to use the stairwells when transporting their pets. If Arbors determines that the pet is not suitable, for any reason at any time, then permission to keep the pet will be denied or revoked. You shall be responsible for keeping the pet clean, healthy, obedient and properly restrained at all times, and for cleaning up after the pet. You shall make arrangements for the care of the pet in the event of Your death or disability. You shall notify Arbors of such arrangements. Generally pets should be no larger than 20 pounds, properly registered, and routinely inoculated. A deposit for pet-related damages may be required upon move in.

11.5 **Guests and Visitors** Guests and visitors are welcome at Arbors. Overnight guests may stay in the Resident's Living Unit for a period of up to four (4) weeks cumulatively. If the stay of the same guest exceeds four (4) weeks cumulatively, then written approval must be obtained from Arbors and the applicable second person Monthly Service Fee may be billed to the Resident for all days beyond four (4) weeks.

11.6 **Reserve Policy** It will be the policy of Arbors to maintain reserve funds as required by Connecticut law and any others that we believe are consistent with sound financial management.

11.7 **Smoking Policy** Smoking is not permitted anywhere on the premises (premises include the Arbors and Manchester Manor building and the exterior grounds determined by the property boundaries). All areas of the building are smoke-free, with the exception of residents occupying their apartments prior to November 19, 2009. Any damage caused by smoking, including but not limited to: discoloration of walls, ceilings, carpets, cabinetry and window dressings or carpet burns or contamination of heating venting and air conditioning systems or the creation of a pervasive malodorous environment will be considered non-ordinary wear and tear.

12. MISCELLANEOUS LEGAL PROVISIONS

12.1 **Tax Consequences** Since execution of this Agreement may result in significant tax consequences, Arbors advises that each person consult with his/her tax advisor prior to Entering into this Agreement.

12.2 **Governing Law** This agreement will be interpreted according to the laws of the State of Connecticut.

12.3 **Indemnity** We shall not be liable for, and You agree to indemnify, defend and hold us harmless from claims, damages, and expenses, including attorney's fees and court costs resulting from any injury or death to persons and any damages to property caused by, resulting from, attributable to or in any way connected with Your negligent or intentional act or omission.

12.4 **Subordination** Except to the extent prohibited by law, all rights of the Resident under this Agreement are subordinate to first mortgage loans or other long-term financing secured by liens. Upon request, Resident agrees to execute and deliver any documents requested by Arbors evidencing such subordination.

Deleted:

12.5 **Agreement Not a Lease** This Agreement is not a lease and does not transfer or grant to Resident any interest in real property. The rights and benefits under this Agreement are not assignable and will not inure to the use or benefit of the heirs, legatees, assignees or representatives of the Resident. This Agreement grants the Resident a revocable license to occupy and use space in Arbors of Hop Brook.

12.6 **Appointment of Conservator** If the Resident is unable to continue to care for himself or herself or his or her property, and has made no designation of a conservator or trustee, Arbors is authorized to institute proceedings for appointment of a person or entity to serve as conservator for such Resident. The resident or his/her estate will be responsible for any costs associated with the appointment.

12.7 **Change in Law** If changes are made in any of the laws, statutes or regulations applicable to this Agreement, then Arbors shall have the right to amend this Agreement to conform to such changes or may terminate this Agreement.

12.8 **Separability** The invalidity of any restriction, condition, or provision of this Agreement, shall not impair or affect in any way the validity or enforceability of the rest of this Agreement.

12.9 **Ownership Transfers** We may issue additional interests in the Community, or we may sell the Community, provided that any future buyer accept all the current contracts.

12.10 **Residents** If this Agreement has been signed by more than one person, it is understood that all responsibilities and obligations under this contract are joint and several, except as the specific context may otherwise require.

12.11 **Resident's Representations** You have executed this Agreement representing and warranting that You possess the ability to live independently (without the assistance of another person), free of any contagious and/or communicable disease, have assets and income which are sufficient to satisfy the obligations of this Agreement and after payment of these obligations can satisfy Your customary living expenses after occupancy, and that all Your representations or those made on Your behalf are true.

12.12 **Confirmation of Receipt of Documents and Inspection of the Community** You certify that You have received a copy of this Agreement, a copy of the latest disclosure statement and physically inspected the Community on or before this date. Further, these materials or inspections have been reviewed by You or Your representatives to satisfy You as to their truth and validity prior to signing this Agreement.

12.13 <u>**Notices**</u> All notices given pursuant to this Agreement shall be in writing and shall be mailed by certified mail, postage prepaid and shall be deemed given on the date mailed. The addresses to which any such notice shall be sent are as set forth here, unless a different address is specified in writing by either party:

To: Director
Arbors
403 West Center Street
Manchester, CT 06040-4738

To: Resident Before Occupancy:

____

____

____

After Occupancy, to Resident's designated Living Unit.

For the Resident

______________________________	______________________________
Resident	**Witness**
______________________________	______________________________
Resident	**Witness**

Living Unit #____ and Type ____________

Executed this _____ day of ______________, 20___, at ____________________, Connecticut.

For Arbors of Hop Brook Limited Partnership

By ____________________________
(Signature)

<u>Paul T. Liistro</u>______________

Its <u>Managing Partner</u>____________
(Title)

Executed this _______ day of ________________, 20___, at __________________,Connecticut.

ARBORS
OF HOP BROOK

SECOND AMENDED AND RESTATED ENTRANCE FEE ESCROW AGREEMENT

This Second Amended and Restated Entrance Fee Escrow Agreement (this "Agreement"), dated _________________, by and between Arbors of Hop Brook Limited Partnership, a Connecticut limited partnership (formerly known as Arbors at Hop Brook Limited Partnership) with a principal place of business at 385 West Center Street, Manchester, Connecticut 06040-4797 ("Provider" or "Arbors"), and U.S. Bank National Association (as successor to Fleet Bank, N.A. and State Street Bank and Trust Company), a national banking association organized and existing under the laws of the United States of America, with a corporate trust office at Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103, solely in its capacity as escrow agent (the "Escrow Agent"), amends and restates that certain Amended and Restated Entrance Fee Escrow Agreement, dated January 29, 2002, by and between the Provider and State Street Bank and Trust Company, as escrow agent (the "First Amended Agreement"), which amended and restated that certain Entrance Fee Escrow Agreement, dated June 24, 1994, by and between the Provider and Fleet Bank, N.A., as escrow agent (the "Original Agreement").

WITNESSETH:

WHEREAS, the Provider created an escrow account pursuant to the Original Agreement for the reasons set forth on Exhibit A attached hereto; and

WHEREAS, the Provider appointed Fleet Bank, N.A. as the escrow agent for such account pursuant to the Original Agreement, on the terms and conditions set forth therein; and

WHEREAS, the Provider and State Street Bank and Trust Company ("SSB") entered into the First Amended Agreement to reflect, among other things, that SSB had succeeded to Fleet Bank, N.A., as the escrow agent; and

WHEREAS, the Provider wishes to amend the First Amended Agreement to (i) reflect the succession of the Escrow Agent to SSB as escrow agent, (ii) reflect the change in the Provider's name, and (iii) make certain other revisions.

NOW, THEREFORE, in consideration of the mutual promises and obligations set forth below, and for other valuable consideration the sufficiency and receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Appointment of Escrow Agent and Creation of Account. The Provider has deposited with the Escrow Agent those assets listed on Exhibit B attached hereto. The Provider hereby appoints the Escrow Agent as escrow agent hereunder and directs it to hold those assets described in said Exhibit B, together with any additional assets which may be deposited with the Escrow Agent from time to time to be held pursuant to this Agreement and all income earned from investment of the assets described in Exhibit B and any additions thereto collectively the "Escrow Assets"), in a separate account in the name of "Arbors of Hop Brook - Entrance Fee" (the "Entrance Fee Escrow Account"). The Entrance Fee Escrow Account shall be invested, administered and distributed in accordance with the terms set forth below.

2. Investment of Escrow Assets. The Escrow Assets shall be invested in accordance with the instructions set forth in Exhibit C attached hereto. Such instructions may be modified only by a written certificate executed by an authorized partner of the Provider and delivered to the Escrow Agent. The Escrow Agent shall make monthly accountings of such investments, the income received therefrom, and the then existing balance of the Entrance Fee Escrow Account to Paul T. Liistro, Managing Partner of the Provider and to the Controller of the Provider. It shall be the responsibility of the Escrow Agent to prepare the appropriate year-end tax documents for review and filing by the Provider.

3. Distributions from Escrow Account. The Escrow Agent shall make distributions from the Entrance Fee Escrow Account in accordance with the instructions set forth in Exhibit D attached hereto. Such instructions may be modified only by a written certificate executed by an authorized partner of the Provider, and delivered to the Escrow Agent. Notice of each disbursement from the Entrance Fee Escrow Account shall be provided to Paul T. Liistro, Managing Partner of the Provider and to the Controller of the Provider within seven (7) days of each such disbursement. Upon the final distribution of all of the Escrow Assets, this Agreement shall terminate and the Escrow Agent shall have no further obligations or liabilities hereunder.

4. Compensation of Escrow Agent. In consideration of the services provided by the Escrow Agent in the performance of its duties hereunder, the Provider agrees to reimburse the Escrow Agent for all costs and expenses incurred by it with respect to this Agreement, including reasonable fees of legal counsel and other consultants, and to further compensate the Escrow Agent in accordance with the fee arrangement described in Exhibit E attached hereto.

5. Limitation of Escrow Agent's Duties.

(a) The Provider acknowledges that the duties of the Escrow Agent hereunder are solely ministerial in nature, and have been requested for its convenience. Under no circumstances shall the Escrow Agent be under a duty, express or implied, to review, interpret or enforce the Residency Agreements or the Law (as defined in Exhibit A), or to determine the conformance of this Agreement or any action taken hereunder with the Law. The Escrow Agent shall not be deemed to be the agent of the Provider, or to have any legal or beneficial interest in any of the Escrow Assets. The parties agree that the Escrow Agent shall not be liable for any act or omission taken or suffered in good faith with respect to this Agreement unless such act or omission is the result of the gross negligence or willful misconduct of the Escrow Agent.

(b) The Escrow Agent may consult with legal counsel and shall be fully protected and incur no liability relative to any action or inaction taken in good faith in accordance with the advice of such counsel. The Escrow Agent shall have no responsibility for determining the genuineness or validity of any certificate, document, notice or other instrument or item presented to or deposited with it, and shall be fully protected in acting in accordance with any written instruction given to it by the Provider and reasonably believed by the Escrow Agent to have been signed by the proper representatives of such party.

(c) The Escrow Agent shall not be responsible for any losses relative to the investment or liquidation of the Escrow Assets, provided such Escrow Assets are invested and held in accordance with Section 2 above. The Escrow Agent further shall not be responsible for assuring that the Escrow Assets are sufficient for the disbursements contemplated under Section 3 above.

(d) The Escrow Agent shall not be required to institute legal proceedings of any kind. The Escrow Agent shall not be required to defend any legal proceedings which may be instituted against it with respect to this Agreement unless requested to do so in writing by the Provider, and unless and until it is indemnified by the requesting party to the satisfaction of the Escrow Agent, in its sole discretion, against the cost and expense of such defense, including without limitation the reasonable fees and expenses of its legal counsel. If any conflicting demand shall be made upon the Escrow Agent, it shall not be required to determine the same or take any action thereon and may await settlement of the controversy by appropriate and nonappealable legal proceedings. Upon the commencement of any action against or otherwise involving the Escrow Agent with respect to this Agreement the Escrow Agent shall be entitled to interplead the matter of this escrow into a court of competent jurisdiction in the State of Connecticut and, in such event, the Escrow Agent shall be relieved of and discharged from any and all obligations and liabilities under this Agreement. In any such action, the Escrow Agent shall be entitled to the indemnities provided in Section 6 below.

6. Indemnification of Escrow Agent. The Provider holds harmless and indemnifies the Escrow Agent, its directors, officers, employees and agents from and against all obligations, liabilities, claims, suits, judgments, losses, damages, costs or expenses of any kind or nature, including without limitation reasonable attorneys' fees, which may be imposed on, incurred by, or asserted against the Escrow Agent in connection with or in any way arising out of this Agreement or the Escrow Agent's duties hereunder. The foregoing indemnities shall survive the resignation of the Escrow Agent or the termination of this Agreement. To the extent the Escrow Agent is entitled to indemnification hereunder and such indemnification is not timely paid, the Provider agrees that the Escrow Agent shall have - and hereby grants the Escrow Agent - a first lien for the payment of outstanding fees upon the Escrow Assets in the Entrance Fee Escrow Account.

7. Resignation of Escrow Agent. The Escrow Agent in its sole discretion may resign at any time and be discharged of its duties hereunder by giving thirty (30) days prior written notice to Provider, and which notice shall specify the date of such resignation. In the event The Provider fails to appoint a successor escrow agent and notify the Escrow Agent in writing of such appointment within thirty (30) days, the Escrow Agent shall be deemed to be solely a custodian of the Entrance Fee Escrow Account without further duties hereunder, and shall be entitled to petition a court of competent jurisdiction to appoint a successor escrow agent. Upon the appointment of a successor escrow agent by the Provider or by such court, the Escrow Agent's duties and liabilities under this Agreement shall terminate. Any party into which Escrow Agent may merge or be consolidated, or any party to which Escrow Agent may sell all or substantially all of its corporate trust business shall be the escrow agent under this Agreement without further act.

8. **Notices.** All demands, notices and communications hereunder may be originally transmitted via facsimile and in all instances shall be confirmed or originally transmitted in writing and given prepaid, by hand-delivery, courier service or certified or registered United States mail, return receipt requested, and addressed to the party for whom intended, at the following addresses:

(a) If to the Provider:
Paul T. Liistro, Managing Partner
c/o Carriage House
385 West Center Street
Manchester, CT 060404797
Fax: (860) 645-0313

and

(b) Controller
c/o Carriage House
385 West Center Street
Manchester, CT 060404797
Fax: (860) 645-0313

(c) If to the Escrow Agent:
U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services
Tel: (860) 241-6815
Fax (860) 241-6897

9. **Governing Law and Severability.** This Agreement shall be construed, and the obligations, rights and remedies of the parties hereunder shall be determined, in accordance with the laws of the State of Connecticut. The invalidity or unenforceability of any particular

provision of this Agreement shall not affect the other provisions hereof, and the Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

10. General Provisions. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument. This Agreement shall bind and inure to the benefit of the parties hereto, and their respective successors and assigns, and shall not be modified or amended except by a written instrument executed by all parties hereto.

EXECUTED by the duly-authorized officers of the parties as of the date first above written.

ARBORS OF HOP BROOK LIMITED PARTNERSHIP

By ____________________________
Paul T. Liistro, its
Managing Partner
duly authorized.

U.S. BANK NATIONAL ASSOCIATION, solely as Escrow Agent

By ____________________________,
Susan C. Merker, its
Vice President
duly authorized.

EXHIBIT A to ESCROW AGREEMENT

Factual Recitals

WHEREAS, Provider is the sponsor of a continuing-care retirement community ("Arbors of Hop Brook") located at 403 West Center Street, Manchester, Connecticut 06040-4738, and as such is a "provider" within the meaning of Sections 17b-520 through 17b-535 of the Connecticut General Statutes (the "Law"); and

WHEREAS, in order to comply with Section 17b-524 of the Law and to protect residents or prospective residents of Arbors of Hop Brook, the Provider desires to establish an Entrance Fee Escrow Account with the Escrow Agent upon the terms described below for the purpose of maintaining an escrow account for the deposit of entrance fee payments ("Entrance Fees") in compliance with the Law. Under no circumstances shall the Escrow Agent be under a duty, express or implied, to review, interpret or enforce the Residency Agreements or the Law, or to determine the conformance of this Agreement or any action taken hereunder with the Law.

EXHIBIT B to ESCROW AGREEMENT

Escrow Assets

1. **Deposits.** In accordance with Paragraph 1, Basic Agreement, of the Residency Agreement, Provider expects to receive from each Resident a portion of that Resident's Entrance Fee at the time of execution of the Residency Agreement and to receive from each Resident the balance of that Resident's Entrance Fee on or before the date Resident begins to reside at Arbors of Hop Brook. Provider will deposit with Escrow Agent all Entrance Fees received by Provider together with a copy of the signature page of each Residency Agreement signed by a Resident and Form 1 Entrance Fee Deposit within seventy-two (72) hours of receipt thereof by Provider.

2. **Income Earned.** The Escrow Assets will earn interest at the rate equal to the rate paid on the First American Treasury Obligations Fund -- ClassA. The Escrow Agent will be responsible for calculating and apportioning interest earned on the Escrow Assets to each individual prospective Resident submitting an Entrance Fee. Such interest income will be disbursed to such Resident at the time of the disbursement of the Escrow Assets as directed in writing by the Provider.

3. **Escrow Account.** The Escrow Agent shall maintain all such deposits made to the Entrance Fee Escrow Account separate and apart from any other funds of Resident or of Provider, although such deposits of Residents and prospective Residents may be commingled in the Entrance Fee Escrow Account. The Entrance Fee Escrow Account shall be maintained by the Escrow Agent for the benefit of the Residents.

EXHIBIT C to ESCROW AGREEMENT

Investment Instructions

Investments. The Escrow Agent shall invest all amounts held by it from time to time in such obligations of the United States or its agencies (or in shares of a registered investment company which holds a portfolio of such securities) or such certificates of deposit, savings accounts, or other savings or investment securities as Provider may from time to time direct in writing. No amounts held by the Escrow Agent pursuant to this Agreement may be invested in any building or health-care facility of any kind, or used for capital construction or improvements or for the purchase of real estate. No amounts held by the Escrow Agent pursuant to this Agreement shall be subordinated to other loans or commitments of the facility.

EXHIBIT D to ESCROW AGREEMENT

Disbursement Instructions

1. **Disbursements.** The Escrow Agent shall release any amounts then held by it in the Entrance Fee Escrow Account only in accordance with the terms set forth below and subject to Paragraph 6 of this Exhibit D.

2. **Disbursement When Resident Rescinds Within Thirty (30) Days.** Upon receipt by the Escrow Agent of written notice from the Provider, by registered or certified mail, accompanied by written certification as provided in Paragraph 6, pertaining to the election by the Resident to rescind and cancel his or her obligations under the Residency Agreement, the Escrow Agent shall, within five (5) business days, release from the Entrance Fee Escrow Account to the Resident, such portion of the Entrance Fee paid by such Resident as is indicated in the written certification of Provider. Under no circumstances shall the Escrow Agent be under a duty, express or implied, to review, interpret or enforce the Residency Agreements or the Law, or to determine the conformance of this Agreement or any action taken hereunder with the Law. The Escrow Agent shall promptly provide Provider with written notice of any such refund. Any Entrance Fees refundable to Resident pursuant to this Section 3.2, are hereinafter referred to as "Refundable Deposits."

3. **Disbursements When Resident Cancels For Any Other Reason.** In the event that the Resident cancels the Residency Agreement for any reason beyond thirty (30) days of signing the Residency Agreement, which may result in a refund of all or any portion of the Entrance Fee, the Escrow Agent shall, upon receipt of written notice thereof from the Provider by registered or certified mail accompanied by written certification as provided in Paragraph 6, return forthwith to the Resident the amount certified by Provider, as the amount required by such Resident's Residency Agreement to be reimbursed to the Resident (but in any event no less than such amount as is required by the Law). The Escrow Agent shall remit the balance of such Entrance Fee, if any, to the Provider.

4. **Disbursements to Operating Reserve Fund Escrow.** Upon written request of the Provider the Escrow Agent shall release amounts to the Operating Reserve Fund Escrow as described below. To protect residents and prospective residents of Arbors of Hop Brook and to comply with Section *17b-525* of the Law, the Provider has established the following additional reserve:

Operating Reserve Fund. The Provider has established an Operating Reserve Fund, to be administered pursuant to a separate Operating Reserve Fund Escrow Agreement with the Escrow Agent. Unless otherwise funded, such Operating Reserve shall be funded from the Entrance Fee Escrow Account in an amount equal to Six Hundred Forty Thousand Nine Hundred Eighty-Nine Dollars ($640,989.00), as described. If the Provider has already funded the Operating Reserve as required by Connecticut law, any amounts released from the Entrance Fee Escrow Account, which would have so funded the Operating Reserve, shall be paid to the

Provider subject to re-certification of the minimum Operating Reserve Fund Escrow Account balance by Provider on Form 3 of this Agreement.

5. **Disbursements to Provider.** The Escrow Agent shall release amounts to the Provider in accordance with the following terms:

(a) Upon receipt by the Escrow Agent of written notice from Provider, stating that the previously occupied Living Unit to which the Entrance Fees relate is available for occupancy by the Resident, the Escrow Agent shall forthwith release to the Provider the balance of any Entrance Fees then deposited with the Escrow Agent pursuant to this Agreement for that Resident.

(b) Upon receipt by the Escrow Agent of written notice from the Provider, the Escrow Agent shall forthwith release to the Provider the aggregate of all interest earned on the Entrance Fee Escrow Account or such portion thereof as Provider desires released.

6. **Written Certification by Provider of Disbursements.** In any case in which the Provider believes that funds are required to be disbursed by the Escrow Agent hereunder, the Provider shall promptly give written certification to the Escrow Agent of the Provider's calculation of the amounts to be disbursed to Resident and/or Provider, as the case may be. The Escrow Agent shall not disburse any funds except in accordance with written certification of the Provider, which certification shall be given by written notice substantially in the form attached hereto: Form 2, Recisions (refer to Paragraphs 2 and 3); Form 3, Release of Deposit (refer to Paragraph 5). The Escrow Agent may rely conclusively on Provider's certification without independent investigation. Nothing in this Agreement shall be construed to impose upon the Escrow Agent an obligation to review, interpret or enforce the Residency Agreement or the Law.

EXHIBIT E to ESCROW AGREEMENT

Fee Arrangement

Per correspondence from Fleet Bank, N.A. dated February 4, 1994, on file.

ARBORS
OF HOP BROOK

FORM I
ENTRANCE FEE DEPOSIT

Date: ____________________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with Section 2 of the Entrance Fee Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors"), and U.S. Bank National Association, please deposit this entrance fee payment into the Entrance Fee Escrow Account established under the Agreement.

1. Date of Residency Agreement: __________________
2. Amount: $____________
3. Name(s) and Address on Residency Agreement:
   ____
   ____
4. Living Unit: ___________
5. Copy of signature page of Residency Agreement attached.
6. Copy of W-9 verification of social security # of the Resident

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____

(Print)

FORM 2
RECISION

ARBORS
OF HOP BROOK

Date: ____________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with the Entrance Fee Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors") and U.S. Bank National Association, this is to certify that the Resident identified below has rescinded his/her Residency Agreement and is entitled under the terms of the Residency Agreement and the Law (as defined in the Entrance Fee Escrow Agreement) to the refund shown as item 5 below. Please release from the Entrance Fee Escrow Account and deliver to the parties identified below the respective refunds shown as items 5 and 6 below.

1. Name(s) and Address on the Residency Agreement:
   ____
   ____
2. Amount of deposit: $____________
3. Plus Earned Interest $____________
4. Less Cancellation Cost $____________
5. Amount to be refunded to Resident $ ____________
6. Amount to be refunded to Arbors $____________

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____
(Print)

ARBORS
OF HOP BROOK

FORM 3
RELEASE OF DEPOSIT

Date: ________________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with Exhibit D, Paragraph 4 of the Entrance Fee Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors") and U.S. Bank National Association, please release from the Entrance Fee Escrow Account the Entrance Fee Deposit identified below to Arbors. This request for release of Deposits constitutes a certification that such release is in full compliance with the terms of the Residency Agreement described below and the Law (as defined in the Entrance Fee Escrow Agreement), and also serves as re-certification that the Operating Reserve Escrow balance is ______________________________ dollars ($__________) and is fully funded according to the Law. The Living Unit referred to in the Residency Agreement described below is occupied by said Resident.

1. Amount to be released: $ ______________

2. Name(s) on Residency Agreement:

____

____

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____
(Print)

363469 v.01

ARBORS

OF HOP BROOK

SECOND AMENDED AND RESTATED OPERATING RESERVE FUND ESCROW AGREEMENT

This Second Amended and Restated Operating Reserve Fund Escrow Agreement (this "Agreement"), dated _________________, by and between Arbors of Hop Brook Limited Partnership, a Connecticut limited partnership (formerly known as Arbors at Hop Brook Limited Partnership) with a principal place of business at 385 West Center Street, Manchester, Connecticut 06040-4797 ("Provider" or "Arbors"), and U.S. Bank National Association (as successor to Fleet Bank, N.A. and State Street Bank and Trust Company), a national banking association organized and existing under the laws of the United States of America, with a corporate trust office at Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103, solely in its capacity as escrow agent (the "Escrow Agent"), amends and restates that certain Amended and Restated Operating Reserve Fund Escrow Agreement, dated January 29, 2002 by and between the Provider and State Street Bank and Trust Company as escrow agent (the "First Amended Agreement"), which amended and restated that certain Operating Reserve Fund Escrow Agreement, dated June 24, 1994 by and between the Provider and Fleet Bank, N.A., as escrow agent (the "Original Agreement").

WITNESSETH:

WHEREAS, the Provider created an escrow account pursuant to the Original Agreement for the reasons set forth on Exhibit A attached hereto; and

WHEREAS, the Provider appointed Fleet Bank, N.A. as the escrow agent for such account pursuant to the Original Agreement, on the terms and conditions set forth therein; and

WHEREAS, the Provider and State Street Bank and Trust Company ("SSB") entered into the First Amended Agreement to reflect, among other things, that SSB had succeeded to Fleet Bank, N.A., as the escrow agent; and

WHEREAS, the Provider wishes to amend the First Amended Agreement to (i) reflect the succession of the Escrow Agent to SSB as escrow agent, (ii) reflect the change in the Provider's name, and (iii) make certain other revisions.

NOW, THEREFORE, in consideration of the mutual promises and obligations set forth below, and for other valuable consideration the sufficiency and receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Appointment of Escrow Agent and Creation of Account. The Provider has deposited with the Escrow Agent those assets listed on Exhibit B attached hereto. The Provider hereby appoints the Escrow Agent as escrow agent hereunder and directs it to hold those assets described in said Exhibit B, together with any additional assets which may be deposited with the Escrow Agent from time to time to be held pursuant to this Agreement and all income earned from investment of assets described in Exhibit B and any additions thereto (collectively the "Escrow Assets"), in a separate account in the name of "Arbors of Hop Brook Operating Reserve" (the "Operating Reserve Fund Escrow Account"). The Operating Reserve Fund Escrow Account shall be invested, administered and distributed in accordance with the terms set forth below.

2. Investment of Escrow Assets. The Escrow Assets shall be invested in accordance with the instructions set forth in Exhibit C attached hereto. Such instructions may be modified only by a written certificate executed by an authorized partner of the Provider and delivered to the Escrow Agent. The Escrow Agent shall make monthly accountings of such investments, the income received therefrom, and the then existing balance of the Entrance Fee Escrow Account to Paul T. Liistro, Managing Partner of the Provider and to the Controller of the Provider. It shall be the responsibility of the Escrow Agent to prepare the appropriate year-end tax documents for review and filing by the Provider.

3. Distributions from Escrow Account. The Escrow Agent shall make distributions from the Operating Reserve Fund Escrow Account in accordance with the instructions set forth in Exhibit D attached hereto. Such instructions may be modified only by a written certificate executed by an authorized partner of the Provider and delivered to the Escrow Agent. Notice of each disbursement from the Operating Reserve Fund Escrow Account shall be provided to Paul T. Liistro, Managing Partner of the Provider and to the Controller of the Provider within seven (7) days of each such disbursement. Upon the final distribution of all of the Escrow Assets, this Agreement shall terminate and the Escrow Agent shall have no further obligations or liabilities hereunder.

4. Compensation of Escrow Agent. In consideration of the services provided by Escrow Agent in the performance of its duties hereunder, the Provider agrees to reimburse the Escrow Agent for all costs and expenses incurred by it with respect to this Agreement, including reasonable fees of legal counsel and other consultants, and to further compensate the Escrow Agent in accordance with the fee arrangement described in Exhibit E attached hereto.

5. Limitation of Escrow Agent's Duties.

(a) The Provider acknowledges that the duties of the Escrow Agent hereunder are solely ministerial in nature, and have been requested for its convenience. Under no circumstances shall the Escrow Agent be under a duty, express or implied, to interpret the Law (as defined in Exhibit A), or to determine the conformance of the Agreement or any action taken hereunder with the Law. The Escrow Agent shall not be deemed to be the agent of the Provider, or to have any legal or beneficial interest in any of the Escrow Assets. The parties agree that the Escrow Agent shall not be liable for any act or omission taken or suffered in good faith with respect to this Agreement unless such act or omission is the result of the gross negligence or willful misconduct of the Escrow Agent.

(b) The Escrow Agent may consult with legal counsel and shall be fully protected and incur no liability relative to any action or inaction taken in good faith in accordance with the advise of such counsel. The Escrow Agent shall have no responsibility for determining the genuineness or validity of any certificate, document, or notice or other instrument or item presented to or deposited with it, and shall be fully protected in acting in accordance with any written instruction given to it by the Provider and reasonably believed by the Escrow Agent to have been signed by the proper representatives of such party.

(c) The Escrow Agent shall not be responsible for any losses relative to the investment or liquidation of the Escrow Assets, provided such Escrow Assets are invested and held in accordance with Section 2 above. The Escrow Agent further shall not be responsible for assuring that the Escrow Assets are sufficient for the disbursements contemplated under Section 3 above.

(d) The Escrow Agent shall not be required to institute legal proceedings of any kind. The Escrow Agent shall not be required to defend any legal proceedings which may be instituted against it with respect to this Agreement unless requested to do so in writing by the Provider, and unless and until it is indemnified by the requesting party to the satisfaction of the Escrow Agent, in its sole discretion, against the cost and expense of such defense, including without limitation the reasonable fees and expenses of its legal counsel. If any conflicting demand shall be made upon the Escrow Agent, it shall not be required to determine the same or take any action thereon and may await settlement of the controversy by appropriate and nonappealable legal proceedings. Upon the commencement of any action against or otherwise involving the Escrow Agent with respect to this Agreement the Escrow Agent shall be entitled to interplead the matter of this escrow into a court of competent jurisdiction in the State of Connecticut and, in such event, the Escrow Agent shall be relieved of and discharged from any and all obligations and liabilities under this Agreement. In any such action, the Escrow Agent shall be entitled to the indemnities provided in Section 6 below.

6. **Indemnification of Escrow Agent.** The Provider holds harmless and indemnifies the Escrow Agent, its directors, officers, employees and agents from and against all obligations, liabilities, claims, suits, judgments, losses, damages, costs or expenses of any kind or nature, including without limitation reasonable attorneys' fees, which may be imposed on, incurred by, or asserted against the Escrow Agent in connection with or in any way arising out of this Agreement or the Escrow Agent's duties hereunder. The foregoing indemnities shall survive the resignation of the Escrow Agent or the termination of this Agreement. To the extent the Escrow Agent is entitled to indemnification hereunder and such indemnification is not timely paid, the Provider agrees that the Escrow Agent shall have - and hereby grants the Escrow Agent - a first lien for the payment of outstanding fees upon the Escrow Assets in the Operating Reserve Fund Escrow Account.

7. **Resignation of Escrow Agent.** The Escrow Agent in its sole discretion may resign at any time and be discharged of its duties hereunder by giving thirty (30) days prior written notice to the Provider, and which notice shall specify the date of such resignation. In the event the Provider fails to appoint a successor escrow agent and notify the Escrow Agent in writing of such appointment within thirty(30) days, the Escrow Agent shall be deemed to be

solely a custodian of the Operating Reserve Fund Escrow Account without further duties hereunder, and shall be entitled to petition a court of competent jurisdiction to appoint a successor escrow agent. Upon the appointment of a successor escrow agent by the Provider or by such court, the Escrow Agent's duties and liabilities under this Agreement shall terminate. Any party into which Escrow Agent may merge or be consolidated, or any party to which Escrow Agent may sell all or substantially all of its corporate trust business shall be the escrow agent under this Agreement without further act.

8. Notices. All demands, notices and communications hereunder may be originally transmitted via facsimile and in all instances shall be confirmed or originally transmitted and in writing and given prepaid, by hand delivery, courier service or certified or registered United States mail, return receipt requested, and addressed to the party for whom intended, at the following addresses:

(a) If to Provider:

Paul T. Liistro, Managing Partner
c/o Carriage House
385 West Center Street
Manchester, Connecticut 06040-4797
Fax: (860) 645-0313

and

(b) Controller:

c/o Carriage House
385 West Center Street
Manchester, Connecticut 06040-4797
Fax: (860) 645-0313

(c) If to the Escrow Agent:

U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services
Tel: (860) 241-6815
Fax (860) 241-6897

9. Governing Law and Severability. This Agreement shall be construed, and the obligations, rights and remedies of the parties hereunder shall be determined, in accordance with the laws of the State of Connecticut. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and the Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

10. General Provisions. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument. This Agreement shall bind and inure to the benefit of the parties hereto, and their respective successors and assigns, and shall not be modified or amended except by a written instrument executed by all parties hereto.

EXECUTED by the duly-authorized officers of the parties as of the date first above written.

ARBORS OF HOP BROOK LIMITED PARTNERSHIP

By ______________________

Paul T. Liistro, its
Managing Partner
duly authorized.

U.S. BANK NATIONAL ASSOCIATION, solely as Escrow Agent

By ______________________,

Susan C. Merker, its
Vice President
duly authorized.

EXHIBIT A to OPERATING RESERVE FUND ESCROW AGREEMENT

Recitals

WHEREAS, Provider is the sponsor of a continuing-care retirement community ("Arbors of Hop Brook") located in Manchester, Connecticut, and as such is a "provider" as codified in Sections 17b-520 through 17b-535 of the Connecticut General Statutes (the " Law"); and

WHEREAS, in order to comply with Section 17b-525a-c of the Law and to protect residents or prospective residents of Arbors of Hop Brook of Manchester, the Provider desires to establish an Operating Reserve Fund Escrow Account with the Escrow Agent upon the terms described below for the purpose of maintaining operating reserves for Arbors of Hop Brook in compliance with the Law.

EXHIBIT B to OPERATING RESERVE FUND ESCROW AGREEMENT

Escrow Assets

Deposits. On the earlier of (a) the date funds are released to the Operating Reserve Fund Escrow Account under paragraph 4 of Exhibit D of the Entrance Fee Escrow Agreement between the Provider and the Escrow Agent dated as of June 24, 1994, as amended (the "Entrance Fee Escrow Agreement") or (b) the date Arbors of Hop Brook is first occupied by any resident, there shall be delivered to the Escrow Agent for deposit in the Operating Reserve Fund Escrow Account an amount equal to the amount of operating reserves required to be held in an escrow account under Section 17b-525-a-c, unless the Commissioner approves a lesser amount to be maintained by the Provider. On the date funds are released to the Operating Reserve Fund Escrow Account under paragraph 4 of Exhibit D of the Entrance Fee Escrow Agreement there shall be delivered to the Escrow Agent an amount necessary to result in the balance then held in the Operating Reserve Fund Escrow Account to be Six Hundred Forty Thousand Nine Hundred Eighty-Nine and 00/100 Dollars ($640,989.00).

Commencing with the date of the Original Agreement and on or before the commencement of each fiscal year (October 1 - September 30), Provider will certify to the Escrow Agent the amount required to be maintained in the Operating Reserve Fund Escrow Account for such period, and there shall be delivered to the Escrow Agent for deposit in the Operating Reserve Fund Escrow Account an amount necessary to insure that the total funds then to be held in the Operating Reserve Fund Escrow Account will equal such amount so certified provided that reductions in the balance of the Operating Reserve Fund Escrow Account below such certified amount are permissible pursuant to Exhibit D of this Agreement. The certification to be provided is attached hereto as Form 1, Operating Reserve Balance.

EXHIBIT C to OPERATING RESERVE FUND ESCROW AGREEMENT

Investment Instructions

Investments. The Escrow Agent shall invest all amounts held by it from time to time in the Operating Reserve Fund Escrow Account in such obligations of the United States or its agencies (or in shares of a registered investment company which holds a portfolio of such securities) or such certificates of deposit, savings accounts, or other savings or investment securities as Provider may from time to time direct in writing. No amounts held by the Escrow Agent pursuant to this Agreement may be invested in any building or health-care facility of any kind, or used for capital construction or improvements or for the purchase of real estate. No amounts held by the Escrow Agent pursuant to this Agreement shall be subordinated to other loans or commitments of the Provider other than first mortgage loans or long-term financing obligations of the Provider, or pledged as collateral.

EXHIBIT D to OPERATING RESERVE FUND ESCROW ACCOUNT

Disbursement Instructions

Disbursements. The Escrow Agent shall release any amounts then held by it pursuant to this Agreement only in accordance with the following terms and subject to Section (d) below hereof:

(a) Upon receipt by the Escrow Agent of certification from Provider that the amount currently required under Section 17b-525a-c of the Law to be maintained in the Operating Reserve Fund Escrow Account is less than the current balance held in the Operating Reserve Fund Escrow Account, and upon confirmation of the current balance by Escrow Agent, the Escrow Agent shall distribute to the Provider upon written demand an amount equal to such excess.

(b) Upon written demand of Provider, the Escrow Agent shall promptly release to Provider up to one-twelfth (1/12) of the amount currently required under Section 17b-525a-c to be maintained in the Operating Reserve Fund Escrow Account as certified by the Provider; provided, however, that the Escrow Agent shall not make any release under this Section (b) more than once during any calendar month. The Escrow Agent shall notify the Commissioner of the Connecticut Department of Social Services if Escrow Assets so released are not replaced by Provider within one (1) year of their disbursement.

(c) Upon written demand of Provider, the Escrow Agent shall release to Provider such additional amounts as are authorized for release from time to time by the Commissioner of the Connecticut Department of Social Services as certified by the Provider. The Escrow Agent shall notify such Commissioner if Escrow Assets so released are not replaced by Provider with one (1) year.

(d) The Escrow Agent shall not disburse any Escrow Assets under the provisions above except in accordance with written certification of the Provider, which certification shall be given by written notice substantially in the form attached hereto: Form 2, Return of Excess Reserve (refer to Paragraph (a); Form 3, Release of 1/12 of Reserve (refer to Paragraph (b); Form 4, Release with State Authorization (refer to Paragraph (c)). The Escrow Agent may rely conclusively on Provider's certification without independent investigation.

EXHIBIT E to OPERATING RESERVE FUND ESCROW AGREEMENT

Fee Arrangement

Per correspondence from Fleet Bank, N.A. dated February 4, 1994, on file.

ARBORS

OF HOP BROOK

FORM I
OPERATING RESERVE BALANCE

Date:________________________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with Section 1 of the Operating Reserve Fund Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors") and U.S. Bank National Association, and as outlined in Section 17b-525a-c of the Law, this is to certify that, Arbors is required to maintain $______________ to comply with the Law for _____.

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____
(Print)

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ARBORS
OF HOP BROOK

FORM 2
RETURN OF EXCESS RESERVE

Date: ____________________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with Section 3 (a) of the Operating Reserve Fund Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors") and U.S. Bank National Association, this is to certify that the current Operating Reserve Escrow Account balance required under Section 17b-525a-c of the Connecticut General Statutes for the period from _________________ to _________________ _____ is $ ___________. This is less than the current Operating Reserve Fund Escrow Account balance of $ _________. Please return the excess monies, an amount of $ ____________, to Arbors.

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____
(Print)

ARBORS
OF HOP BROOK

FORM 3
RELEASE OF 1/12TH OF RESERVE

Date: ___________________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with Section 3(b) of the Operating Reserve Fund Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors"), and U.S. Bank National Association, this is to request a release of Escrow Assets in the amount of $ ___________, which constitutes one-twelfth of the present balance of the Operating Reserve Escrow Account balance of $ __________. This will be the only requested release of Escrow Assets from the Operating Reserve Fund Escrow Account during this calendar month.

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____
(Print)

ARBORS
OF HOP BROOK

FORM 4
RELEASE WITH STATE AUTHORIZATION

Date: ____________________

To: U.S. Bank National Association
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Attention: Corporate Trust Services

In accordance with Section 3(c) of the Operating Reserve Fund Escrow Agreement entered into between Arbors of Hop Brook Limited Partnership (the "Arbors") and U.S. Bank National Association, this is to certify that a release of $ ____________ from the Operating Reserve Fund Escrow Account has been authorized by the Commissioner of the Connecticut Department of Social Services (letter attached). Therefore, would you please release this amount to us pursuant to the terms of this Agreement.

As Managing Partner of Arbors, I am authorized to act on behalf of Arbors.

Sincerely,

____
Managing Partner

____
(Print)

363554 v.01

ARBORS

OF HOP BROOK

Conspicuous Statement Agreement/Disclosure Acknowledgement and Receipt

Arbors of Hop Brook, a Continuing Care Retirement Community, hereby furnishes to you a copy of ARBORS OF HOP BROOK FACTS BOOK Version # ________ , dated ____________, which is the current edition of our Disclosure Statement. The BASIC AGREEMENT section of the FACTS BOOK includes the form of contract under which Arbors provides continuing care. This document will be reviewed with you by a staff member of Arbors.

As a prospective resident, Arbors of Hop Brook hereby informs you that a continuing care contract is a financial investment. As Arbors' ability to meet the terms of our continuing care contracts depends upon our financial performance, your financial investment may be at risk. Your financial investment is not guaranteed by any federal or state agency. You are advised to consult an attorney or other professional experienced in matters relating to investments in continuing care facilities before you sign a continuing care contract.

As a prospective resident, you must sign a Disclosure Acknowledgement and Receipt at least (10) days but not more than sixty (60) days before signing Arbors BASIC AGREEMENT included in the above referenced FACTS BOOK.

I/we hereby acknowledge receipt of ARBORS' FACTS BOOK:

______________________	______________________
Prospective Resident's Signature	Prospective Resident's Signature
______________________	______________________
Print Prospective Resident's Name	***Print*** Prospective Resident's Name
______________________	______________________
Date	Date

****

______________________	______________________
Advisor/Consultant's Signature (If applicable)	Arbors' Representative's Signature
______________________	______________________
Print Advisor/Consultant's Name	***Print*** Arbors' Representative's Name
______________________	______________________
Date	Date

ARBORS
OF HOP BROOK

Conspicuous Statement Agreement/Disclosure Acknowledgement and Receipt

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I/we hereby acknowledge receipt of ARBORS' FACTS BOOK:

______________________________	______________________________
Prospective Resident's Signature	Prospective Resident's Signature
______________________________	______________________________
Print Prospective Resident's Name	*Print* Prospective Resident's Name
______________________________	______________________________
Date	Date

****

______________________________	______________________________
Advisor/Consultant's Signature (If applicable)	Arbors' Representative's Signature
______________________________	______________________________
Print Advisor/Consultant's Name	*Print* Arbors' Representative's Name
______________________________	______________________________
Date	Date

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ARBORS
OF HOP BROOK

Designation of Beneficiary
To Receive Refund of Entrance Fee Upon Death

In accordance with Paragraph 8.1 of the Basic Agreement entered into by and between me, ________________________, Arbors of Hop Brook, on __________, 20 ____, I hereby designate that the following individual(s) or trust receive any refund of my Entrance Fee that may be payable upon my death:

Individual(s) Beneficiary:
Name of Individual: 1st)______________________________________ % of refund

Address:________________City ________________________Zip_________

Phone____________________

2nd) Name ____% of refund

Address__________________City/State__________________Zip__________

Phone___________________
Or :
Name of Trust: ____

Date of Trust Agreement: ____

Type of Trust: ____

Name(s) of Original Trustees: ____

I understand that I may cancel, amend or revoke this designation of beneficiary at any time by filing written notice thereof with Arbors of Hop Brook prior to my death. If no designation of beneficiary is on file with Arbors of Hop Brook at the time of my death, I understand that any refund of my Entrance Fee will be paid to my estate.
Dated this ___day of _____________, 20 ______

Resident__________________ Resident__________________________

Witness____________________Witness____________________________

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DIRECT: (860) 647-9343 VOICE MAIL: (860) 647-7828 FAX: (860) 647-7509
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ARBORS OF HOP BROOK LIMITED PARTNERSHIP

2013 ANNUAL FILING

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 sheets as of September 30, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 audits 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

Farmington, Connecticut
February 3, 2014

Arbors of Hop Brook Limited Partnership and Affiliates

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

September 30, 2013 and 2012

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 392,315	$ 681,234
Accounts receivable, net	1,622,685	1,275,906
Entrance fees receivable	148,240	128,660
Resident funds	11,692	20,000
Prepaid expenses	5,294	381,511
Total current assets	2,180,226	2,487,311
Investments:		
Investments available-for-sale	7,298,333	5,911,936
Non-marketable equity securities	250,000	-
	7,548,333	5,911,936
Property and equipment:		
Land and improvements	1,560,378	1,550,132
Building and improvements	16,581,873	15,931,602
Equipment	5,075,451	5,002,883
Automotive equipment	211,211	205,447
Total property and equipment	23,428,913	22,690,064
Less accumulated depreciation and amortization	(17,403,260)	(16,580,918)
Net property and equipment	6,025,653	6,109,146
Other long-term assets:		
Due from related party	241,074	241,074
Restricted funds	781,149	732,522
Deferred costs, net	64,911	73,129
Deposits	1,833	1,833
Total other long-term assets	1,088,967	1,048,558
Total assets	$ 16,843,179	$ 15,556,951

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$ 246,276	$ 256,410
Accounts payable	1,439,358	1,488,251
Resident funds	11,692	20,000
Other current liabilities	618,071	972,607
Total current liabilities	2,315,397	2,737,268
Long-term liabilities:		
Long-term debt, less current portion	3,580,171	3,831,453
Unearned entrance fees	4,789,086	4,201,596
Total liabilities	10,684,654	10,770,317
Equity:		
Partners' capital:		
Capital	6,416,903	6,046,076
Accumulated other comprehensive income	805,931	153,042
Total partners' capital	7,222,834	6,199,118
Noncontrolling interest	(1,064,309)	(1,412,484)
Total equity	6,158,525	4,786,634
Total liabilities and equity	$ 16,843,179	$ 15,556,951

See Notes to Consolidated Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statements of Income and Comprehensive Income
Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Patient service revenue, net of contractual allowances	$ 12,451,082	$ 12,425,267
Provision for uncollectible accounts	18,670	57,438
Net patient service revenue	12,432,412	12,367,829
Resident fees	4,487,249	4,078,500
Earned entrance fees	268,840	84,374
Total revenues	17,188,501	16,530,703
Expenses:		
Administrative and general	1,805,029	1,799,819
Employee benefits	1,749,233	1,612,763
Plant operations and maintenance	1,601,402	1,601,523
Nursing	5,486,593	5,281,799
Activities	224,640	185,606
Food service	1,871,386	1,830,800
Laundry	131,389	124,016
Housekeeping	349,676	356,593
Medicare	283,368	337,747
Rehabilitative services	893,166	876,481
Other services	404,476	230,950
Depreciation and amortization	830,457	828,560
Insurance	32,526	35,171
Interest expense	91,596	113,343
Total expenses	15,754,937	15,215,171
Income from operations	1,433,564	1,315,532
Other income:		
Investment income	165,575	222,143
Gain on sale of property and equipment	-	7,500
Net realized gains (losses) on investments available for sale	88,356	(3,924)
Total other income	253,931	225,719
Consolidated net income	1,687,495	1,541,251
Less: net income attributable to noncontrolling interest	348,041	305,259
Net income attributable to Arbors of Hop Brook Limited Partnership	$ 1,339,454	$ 1,235,992
Consolidated net income	$ 1,687,495	$ 1,541,251
Other comprehensive income:		
Unrealized holding gains arising during the period	741,245	624,217
Less: reclassification adjustment for (gains) losses included in net income	(88,356)	3,924
Total other comprehensive income	652,889	628,141
Comprehensive income	2,340,384	2,169,392
Less: comprehensive income attributable to noncontrolling interest	348,041	305,259
Comprehensive income attributable to Arbors of Hop Brook Limited Partnership	$ 1,992,343	$ 1,864,133

See Notes to Consolidated Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statements of Changes in Equity
Years Ended September 30, 2013 and 2012

	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Equity	Total
Balance, October 1, 2011	$ 6,212,169	$ (475,099)	$ (1,076,631)	$ 4,660,439
Net income	1,235,992	-	305,259	1,541,251
Other comprehensive loss	-	628,141	-	628,141
Capital contributions	2,664,694	-	-	2,664,694
Capital distributions	(4,066,779)	-	(641,112)	(4,707,891)
Balance, September 30, 2012	6,046,076	153,042	(1,412,484)	4,786,634
Net income	1,339,454	-	348,041	1,687,495
Other comprehensive income	-	652,889	-	652,889
Capital contributions	1,412,038	-	134	1,412,172
Capital distributions	(2,380,665)	-	-	(2,380,665)
Balance, September 30, 2013	$ 6,416,903	$ 805,931	$ (1,064,309)	$ 6,158,525

See Notes to Financial Statements.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidated Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Operating activities:		
Consolidated net income	$ 1,687,495	$ 1,541,251
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	822,343	820,348
Amortization of deferred costs	8,218	8,315
Provision for uncollectible accounts	18,670	57,438
Earned entrance fees income	(268,840)	(84,374)
Net realized (gains) losses on investments available for sale	(88,356)	3,924
Gain on sale of property and equipment	-	(7,500)
Changes in operating assets and liabilities:		
Accounts receivable	(365,449)	(154,475)
Entrance fees receivable	(19,580)	(92,940)
Prepaid expenses	376,217	(37,074)
Accounts payable	(48,893)	598,830
Other current liabilities	(354,536)	123,536
Net cash provided by operating activities	1,767,289	2,777,279
Investing activities:		
Increase in restricted funds	(48,627)	(14,465)
Purchase of property and equipment	(738,850)	(272,896)
Proceeds from sale of property and equipment	-	7,500
Increase in loan receivable - related party	-	(241,074)
Proceeds from sales of investments available for sale	370,025	717,738
Purchases of non-marketable equity securities	(250,000)	-
Purchases of investments available for sale	(1,015,177)	(885,873)
Net cash used in investing activities	(1,682,629)	(689,070)
Financing activities:		
Capital contributions	1,412,172	2,664,694
Capital distributions	(2,380,665)	(4,707,891)
Proceeds from resident entrance fees	1,236,230	443,120
Refunds of resident entrance fees	(379,900)	(563,475)
Payments on capital lease obligations	(51,416)	(38,722)
Payments on long-term debt	(210,000)	(210,000)
Net cash used in financing activities	(373,579)	(2,412,274)
Net decrease in cash and cash equivalents	(288,919)	(324,065)
Cash and cash equivalents, beginning of year	681,234	1,005,299
Cash and cash equivalents, end of year	$ 392,315	$ 681,234

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 114-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 by the Company, it was determined that the Partnership 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 sheets as of September 30, 2013 and 2012:

	2013	2012
Assets:		
Cash	$ 264,477	$ -
Property and equipment, net	-	16,692
Deferred costs, net	30,355	34,209
Due from related party	255,074	240,940
Total assets	$ 549,906	$ 291,841

	2013	2012
Liabilities:		
Current portion of long-term debt	$ 90,000	$ 90,000
Other current liabilities	1,715	1,825
Long-term debt, less current portion	1,522,500	1,612,500
Total liabilities	$ 1,614,215	$ 1,704,325

In addition, the Company has evaluated its relationship with Vernon Manor Health Care Center, LLC and Arrowood, 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, 2013 and 2012 were $781,149 and $732,522, respectively.

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.

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 uncollectable. 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. 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 investments in a limited liability company ("LLC") of $100,000 and real estate investment trust ("REIT") of $150,000 as of September 30, 2013. 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 straight-line and accelerated methods 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 statements 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 2013 and 2012.

Resident security deposits
At September 30, 2013 and 2012, the Company maintained $11,692 and $20,000, respectively, of resident security deposits for future services to be provided by the Company. These restricted deposits are maintained in individual insured interest bearing accounts at a bank and are recorded as restricted cash on the consolidated balance sheets.

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 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. 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 Members 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, 2013 and 2012. The Company's Federal and state income tax returns prior to fiscal year 2010 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 years ended September 30, 2013 and 2012.

Entrance fees

Independent living center residents pay an entrance fee upon entering into a continuing care contract and move-in that is either 80% (post FY 04) or 90% (pre FY 05), refundable upon death or withdrawal after their independent living unit is 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.

Advertising

The Facility follows the policy of charging costs of advertising to expense as incurred. Advertising expenses were $78,971 and $82,927 for the years ended September 30, 2013 and 2012, respectively.

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 years ended September 30, 2013 and 2012 was $131,416 and $83,641, respectively.

Unearned entrance fees
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 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 in 2013 and 2012 as the present value, at a discount rate of 5.5% for 2013 and 2012, of the expected revenues and deferred revenues from advanced fees exceeded the net cost of future services and use of the facilities.

Reclassifications
Certain prior year financial information has been reclassified to conform to the current year presentation.

Subsequent events
The Company has evaluated events and transactions for potential recognition or disclosure through February 3, 2014, 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, 2013 and 2012 is as follows:

	2013	2012
Medicaid	$ 310,071	$ 218,793
Medicare	324,932	391,213
Other third-party payors	68,867	73,606
Private	1,344,680	1,159,529
	2,048,550	1,843,141
Less allowance for doubtful accounts	431,576	569,609
	$ 1,616,974	$1,273,532

Patient service receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of resident services receivable, 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 21% and 31% of patient services receivable at September 30, 2013 and 2012, respectively. In addition, the Company's write-offs were $32,785 and $39,926 for the years ended September 30, 2013 and 2012, respectively.

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, 2013 and 2012 is as follows:

September 30, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 1,970,621	$ -	$ -	$ 1,970,621
Common stocks	1,816,109	508,907	(75,546)	2,249,470
Mutual funds	3,486,821	378,466	(5,896)	3,859,391
	$ 7,273,551	$ 887,373	$ (81,442)	$ 8,079,482

September 30, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 298,717	$ -	$ -	$ 298,717
Common stocks	868,939	104,395	(91,318)	882,016
Mutual funds	5,323,761	308,383	(168,419)	5,463,725
	$ 6,491,417	$ 412,778	$ (259,737)	$ 6,644,458

Information pertaining to securities with gross unrealized losses at September 30, 2013, 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	$ 316,502	$ (34,622)	$ 129,101	$ (40,924)	$ 445,603	$ (75,546)
Mutual funds	123,362	(2,615)	82,164	(3,280)	205,526	(5,895)
	$ 439,864	$ (37,237)	$ 211,265	$ (44,204)	$ 651,129	$ (81,441)

Information pertaining to securities with gross unrealized losses at September 30, 2012, 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	$ 78,399	$ (7,252)	$ 203,256	$ (84,066)	$ 281,655	$ (91,318)
Mutual funds	-	-	1,308,058	(168,419)	1,308,058	(168,419)
	$ 78,399	$ (7,252)	$1,511,314	$ (252,485)	$1,589,713	$ (259,737)

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, 2013 and 2012.

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, 2013 and 2012.

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 believe 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 years ended September 30, 2013 and 2012.

The following tables set forth by level, within the fair value hierarchy, the Company's investments available for sale as of September 30, 2013 and 2012:

2013	Total	(Level 1)	(Level 2)	(Level 3)
Common stocks:				
Basic materials	$ 24,875	$ 24,875	$ -	$ -
Conglomerates	62,575	62,575	-	-
Consumer goods	385,380	385,380	-	-
Financial	191,419	191,419	-	-
Healthcare	96,833	96,833	-	-
Industrial goods	204,302	204,302	-	-
Services	475,263	475,263	-	-
Technology	673,853	673,853	-	-
Utilities	134,970	134,970	-	-
Money market funds	1,970,621	-	1,970,621	-
Mutual funds:				
Large blend	884,306	884,306	-	-
Large growth	874,542	874,542	-	-
Large value	1,844,344	1,844,344	-	-
Medium growth	129,511	129,511	-	-
Medium value	126,688	126,688	-	-
Totals	$8,079,482	$6,108,861	$1,970,621	$ -

2012	Total	(Level 1)	(Level 2)	(Level 3)
Common stocks:				
Basic materials	$ 96,305	$ 96,305	$ -	$ -
Conglomerates	2,349	2,349	-	-
Consumer goods	39,733	39,733	-	-
Financial	238,662	238,662	-	-
Healthcare	62,008	62,008	-	-
Industrial goods	103,402	103,402	-	-
Services	83,433	83,433	-	-

2012	Total	(Level 1)	(Level 2)	(Level 3)
Technology	$ 246,647	$ 246,647	$ -	$ -
Utilities	9,477	9,477	-	-
Money market funds	298,717	-	298,717	-
Mutual funds:				
High	95,631	95,631	-	-
High Low	299,277	299,277	-	-
Large blend	2,473,128	2,473,128	-	-
Large growth	265,702	265,702	-	-
Large value	1,461,297	1,461,297	-	-
Medium	236,456	236,456	-	-
Medium growth	10,243	10,243	-	-
Medium low	592,489	592,489	-	-
Medium value	10,433	10,433	-	-
Mid growth	19,069	19,069	-	-
Totals	$6,644,458	$6,345,741	$ 298,717	$ -

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 - Master loan and security agreements

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 (0.22% and 0.23% at September 30, 2013 and 2012, respectively) 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, 2013 and 2012 was $2,150,000 and $2,270,000, respectively.

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 2.50%. The line has an initial term of two years, ending August 15, 2013. The loan was extended to expire 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, 2013 and 2012. 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.

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, 2013 and 2012 was $1,612,500 and $1,702,500, respectively.

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, 2013 and 2012. 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 $500,000. Interest only is payable monthly at one (1) month LIBOR rate plus 2.25%. The line has an initial term of four years, ending September 1, 2015, provided that it is subject to renewal on the second anniversary of the closing date. There were no outstanding balances on the line of credit at September 30, 2013 and 2012. 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 master loan agreements include certain restrictions requiring maintenance of certain financial ratios. At September 30, 2013 and 2012, the Company is in compliance with these covenants.

Note 7 - Long-term debt

Long-term debt and capital lease obligations are as follows as of September 30, 2013 and 2012:

	2013	2012
Notes payable	$ 3,762,500	$ 3,972,500
Capital lease obligations	63,947	115,363
	3,826,447	4,087,863
Less: current maturities	246,276	256,410
	$ 3,580,171	$ 3,831,453

Principal maturities of long-term debt are scheduled as follows:

Year Ending September 30	Amount
2014	$ 210,000
2015	210,000
2016	210,000
2017	210,000
2018	210,000
Thereafter	2,712,500
	$ 3,762,500

Capital lease obligations

The Company has several noncancellable capital leases for office equipment. Property and equipment include assets under these lease obligations of $233,084 and $209,980 at September 30, 2013 and 2012, respectively, with accumulated amortization of $131,622 and $86,609 at September 30, 2013 and 2012, respectively. Amortization of capital lease assets totaling $45,013 and $28,316 for the years ended September 30, 2013 and 2012, respectively, is included in depreciation and amortization in the Company's consolidated statements 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
2014	$ 38,439
2015	28,465
Total minimum lease payments	66,904
Less: amount representing interest	2,957
Present value of minimum lease payments	63,947
Less: current portion	36,276
	$ 27,671

Interest on the above debt and other indebtedness amounted to $91,493 and $113,343 for the years ended September 30, 2013 and 2012, respectively.

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 2013 and 2012 from these major payor sources is as follows:

	2013	2012
Medicaid	$ 4,440,895	$ 3,893,941
Medicare	2,220,452	2,634,478
Other third-party payors	1,147,900	882,336
Private	4,641,835	5,014,512
	$ 12,451,082	$ 12,425,267

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 - Unearned entrance fees

Unearned entrance fees at September 30, 2013 and 2012 are as follows:

	2013	2012
Nonrefundable	$ 526,529	$ 388,452
Refundable	4,262,557	3,813,144
	$ 4,789,086	$ 4,201,596

Unearned entrance fees are accounted for as deferred revenue within the liability section of the consolidated balance sheets. Deferred revenues for nonrefundable fees are amortized into income over the estimated life expectancy of the resident. Entrance fees refundable upon reoccupancy are 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 $268,840 and $84,374 for the years ended September 30, 2013 and 2012, respectively. The gross amount of contractual refund obligations under existing contracts for the years ended September 30, 2013 and 2012 was $6,133,200 and $5,523,622, respectively.

Note 10 - Supplemental disclosures of cash flows information

	2013	2012
Cash paid during the year:		
Interest	$ 92,110	$ 111,333
Purchase of equipment with proceeds from debt financing	$ -	$ 51,389

Note 11 - Vendor concentrations

The Company is dependent on three vendors that supply food, medical supplies and therapeutic services. Purchases from these vendors totaled $2,374,167 and $1,879,564 for the years ended September 30, 2013 and 2012, respectively.

Note 12 - 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 13 - 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 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 Sheets
September 30, 2013 and 2012

2013	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 25,402	$ 102,436	$ 264,477	$ -	$ 392,315
Accounts receivable, net	5,711	1,616,974	-	-	1,622,685
Entrance fees receivable	148,240	-	-	-	148,240
Resident funds	-	11,692	-	-	11,692
Prepaid expenses	-	5,294	-	-	5,294
Total current assets	179,353	1,736,396	264,477	-	2,180,226
Investments available-for-sale	6,333,141	965,192	-	-	7,298,333
Non-marketable equity securities	250,000	-	-	-	250,000
Due from related party	-	-	255,074	(14,000)	241,074
Restricted funds	781,149	-	-	-	781,149
Property and equipment, net	3,541,380	2,484,273	-	-	6,025,653
Deferred costs, net	34,556	-	30,355	-	64,911
Deposits	1,833	-	-	-	1,833
Total assets	$ 11,121,412	$ 5,185,861	$ 549,906	$ (14,000)	$ 16,843,179
Liabilities and Equity					
Current liabilities:					
Current portion of long-term debt	$ 133,192	$ 23,084	$ 90,000	$ -	$ 246,276
Accounts payable	484,058	955,300	-	-	1,439,358
Resident funds	-	11,692	-	-	11,692
Other current liabilities	254,192	362,164	1,715	-	618,071
Due to related party	-	14,000	-	(14,000)	-
Total current liabilities	871,442	1,366,240	91,715	(14,000)	2,315,397
Long-term liabilities:					
Long-term debt, less current portion	2,037,653	20,018	1,522,500	-	3,580,171
Unearned entrance fees	4,789,086	-	-	-	4,789,086
Total liabilities	7,698,181	1,386,258	1,614,215	(14,000)	10,684,654
Equity (Deficit)	3,423,231	3,799,603	(1,064,309)	-	6,158,525
Total liabilities and equity	$ 11,121,412	$ 5,185,861	$ 549,906	$ (14,000)	$ 16,843,179

2012	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 169,147	$ 512,087	$ -	$ -	$ 681,234
Accounts receivable	8,334	1,267,572	-	-	1,275,906
Entrance fees receivable	128,660	-	-	-	128,660
Resident funds	-	20,000	-	-	20,000
Prepaid expenses	69,342	312,169	-	-	381,511
Total current assets	375,483	2,111,828	-	-	2,487,311
Restricted funds	732,522	-	-	-	732,522
Investments available-for-sale	5,154,379	757,557	-	-	5,911,936
Due from related party	134	-	240,940	-	241,074
Property and equipment	3,523,913	2,568,541	16,692	-	6,109,146
Deferred costs, net	38,920	-	34,209	-	73,129
Deposits	1,833	-	-	-	1,833
Total assets	$ 9,827,184	$ 5,437,926	$ 291,841	$ -	$ 15,556,951
Liabilities and Equity					
Current liabilities:					
Current portion of long-term debt	$ 141,006	$ 25,404	$ 90,000	$ -	$ 256,410
Accounts payable	407,420	1,080,831	-	-	1,488,251
Resident security deposits	-	20,000	-	-	20,000
Other current liabilities	392,081	578,701	1,825	-	972,607
Total current liabilities	940,507	1,704,936	91,825	-	2,737,268
Long-term liabilities:					
Long-term debt, less current portion	2,175,859	43,094	1,612,500	-	3,831,453
Unearned entrance fees	4,201,596	-	-	-	4,201,596
Total liabilities	7,317,962	1,748,030	1,704,325	-	10,770,317
Equity (Deficit)	2,509,222	3,689,896	(1,412,484)	-	4,786,634
Total liabilities and equity	$ 9,827,184	$ 5,437,926	$ 291,841	$ -	$ 15,556,951

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Statements of Income
For Years Ended September 30, 2013 and 2012

2013	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Revenues:					
Patient service revenue,					
net of contractual allowance	$ -	$ 13,527,670	$ -	$ (1,076,588)	$ 12,451,082
Provision for uncollectible accounts	-	18,670	-	-	18,670
Net patient service revenue	-	13,509,000	-	(1,076,588)	12,432,412
Resident fees	4,487,249	-	-	-	4,487,249
Earned entrance fees	268,840	-	-	-	268,840
Rental income	-	-	414,000	(414,000)	-
Total revenues	4,756,089	13,509,000	414,000	(1,490,588)	17,188,501
Expenses:					
Direct costs	3,702,707	10,456,348	36,984	(1,076,588)	13,119,451
General and administrative	698,716	1,097,778	8,535	-	1,805,029
Depreciation and amortization	526,464	283,553	20,440	-	830,457
Rent	-	414,000	-	(414,000)	-
Total expenses	4,927,887	12,251,679	65,959	(1,490,588)	15,754,937
Income (loss) from operations	(171,798)	1,257,321	348,041	-	1,433,564
Investment income	141,895	23,680	-	-	165,575
Net realized gains on investments available for sale	83,072	5,284	-	-	88,356
Net income	$ 53,169	$ 1,286,285	$ 348,041	$ -	$ 1,687,495

2012	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Revenues:					
Patient service revenue,					
net of contractual allowance	$ -	$ 13,354,580	$ -	$ (929,313)	$ 12,425,267
Provision for uncollectible accounts	-	57,438 -	-	-	57,438
Net patient service revenue	-	13,297,142	-	(929,313)	12,367,829
Resident fees	4,078,500	-	-	-	4,078,500
Earned entrance fees	84,374	-	-	-	84,374
Rental income	-	-	400,000	(400,000)	-
Total revenues	4,162,874	13,297,142	400,000	(1,329,313)	16,530,703
Expenses:					
Direct costs	3,344,873	10,067,275	39,953	(929,313)	12,522,788
General and administrative	734,535	1,124,641	4,647	-	1,863,823
Depreciation and amortization	503,976	274,443	50,141	-	828,560
Rent	-	400,000	-	(400,000)	-
Total expenses	4,583,384	11,866,359	94,741	(1,329,313)	15,215,171
Income (loss) from operations	(420,510)	1,430,783	305,259	-	1,315,532
Investment income	192,810	29,333	-	-	222,143
Gain on sale of property and equipment	7,500	-	-	-	7,500
Net realized gains (losses) on investments available for sale	(59,418)	55,494	-	-	(3,924)
Net (loss) income	$ (279,618)	$ 1,515,610	$ 305,259	$ -	$ 1,541,251

See Independent Auditor's Report.

Arbors of Hop Brook Limited Partnership and Affiliates

Consolidating Statements of Cash Flow
Years Ended September 30, 2013 and 2012

2013	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Operating activities:					
Net income	$ 53,169	$ 1,286,285	$ 348,041	$ -	$ 1,687,495
Adjustments to reconcile consolidate net income to net cash provided by operating activities:					
Depreciation and amortization	522,100	283,553	16,690	-	822,343
Amortization of deferred costs	4,364	-	3,854	-	8,218
Provision for uncollectible accounts	-	18,670	-	-	18,670
Earned entrance fees income	(268,840)	-	-	-	(268,840)
Net realized losses (gains) on investments available for sale	(83,072)	(5,284)	-	-	(88,356)
Changes in operating assets and liabilities:					
Accounts receivable	2,623	(368,072)	-	-	(365,449)
Due from related party	134	14,000	(14,134)	-	-
Entrance fees receivable	(19,580)	-	-	-	(19,580)
Prepaid expenses	69,342	306,875	-	-	376,217
Accounts payable	76,638	(125,531)	-	-	(48,893)
Other current liabilities	(137,889)	(216,537)	(110)	-	(354,536)
Net cash provided by operating activities	218,989	1,193,959	354,341	-	1,767,289
Investing activities:					
Increase in restricted funds	(48,627)	-	-	-	(48,627)
Purchase of property and equipment	(539,567)	(199,285)	2	-	(738,850)
Proceeds from sales of investments available for sale	199,776	170,249	-	-	370,025
Purchases of non-marketable equity securities	(250,000)	-	-	-	(250,000)
Purchases of investments available for sale	(705,126)	(310,051)	-	-	(1,015,177)
Net cash provided by (used in) investing activities	(1,343,544)	(339,087)	2	-	(1,682,629)
Financing activities:					
Capital contributions	1,412,038	-	134	-	1,412,172
Capital distributions	(1,141,538)	(1,239,127)	-	-	(2,380,665)
Proceeds from resident entrance fees	1,236,230	-	-	-	1,236,230
Refunds of resident entrance fees	(379,900)	-	-	-	(379,900)
Payments on capital lease obligations	(26,020)	(25,396)	-	-	(51,416)
Payments on long-term debt	(120,000)	-	(90,000)	-	(210,000)
Net cash (used in) provided by financing activities	980,810	(1,264,523)	(89,866)	-	(373,579)
Net increase (decrease) in cash and cash equivalents	(143,745)	(409,651)	264,477	-	(288,919)
Cash and cash equivalents, beginning	169,147	512,087	-	-	681,234
Cash and cash equivalents, ending	$ 25,402	$ 102,436	$ 264,477	$ -	$ 392,315

2012	The Arbors	Manchester Manor	Manchester Manor Realty	Eliminating Entry	Consolidated
Operating activities:					
Net income (loss)	$ (279,618)	$ 1,515,610	$ 305,259	$ -	$ 1,541,251
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	499,611	274,443	46,294	-	820,348
Amortization of deferred costs	4,365	-	3,950	-	8,315
Provision for uncollectible accounts	-	7,438	-	-	7,438
Earned entrance fees income	(84,374)	-	-	-	(84,374)
Gain on sale of property and equipment	(7,500)	-	-	-	(7,500)
Net realized gains on investments available for sale	59,418	(55,494)	-	-	3,924
Changes in operating assets and liabilities:					
Accounts receivable	(5,867)	(98,608)	-	-	(104,475)
Due from related party	(134)	(375,569)	375,703	-	-
Entrance fees receivable	(92,940)	-	-	-	(92,940)
Prepaid expenses	(7,148)	(29,926)	-	-	(37,074)
Accounts payable	313,333	285,497	-	-	598,830
Other current liabilities	19,094	104,532	(90)	-	123,536
Net cash provided by operating activities	418,240	1,627,923	731,116	-	2,777,279
Investing activities:					
Increase in restricted funds	5,535	(20,000)	-	-	(14,465)
Purchase of property and equipment	(248,476)	(24,418)	(2)	-	(272,896)
Proceeds from sale on sale of property and equipment	7,500	-	-	-	7,500
Increase in loan receivable - related party	-	-	(241,074)		(241,074)
Proceeds from sales of investments available for sale	355,364	362,374	-	-	717,738
Purchase of investments available for sale	(639,995)	(245,878)	-	-	(885,873)
Net cash provided by (used in) investing activities	(520,072)	72,078	(241,076)	-	(689,070)
Financing activities:					
Capital contributions	2,023,581	641,113	-	-	2,664,694
Capital distributions	(1,824,305)	(2,242,474)	(641,112)	-	(4,707,891)
Proceeds from resident entrance fees	443,120	-	-	-	443,120
Refunds of resident entrance fees	(563,475)	-	-	-	(563,475)
Payments on capital lease obligations	(16,582)	(22,140)	-	-	(38,722)
Payments on long-term debt	(120,000)	-	(90,000)	-	(210,000)
Net cash used in financing activities	(57,661)	(1,623,501)	(731,112)	-	(2,412,274)
Net increase (decrease) in cash and cash equivalents	(159,493)	76,500	(241,072)	-	(324,065)
Cash and cash equivalents, beginning	328,640	435,587	241,072	-	1,005,299
Cash and cash equivalents, ending	$ 169,147	$ 512,087	$ -	$ -	$ 681,234

See Independent Auditor's Report.

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

Schedules of Patient Days
Years Ended September 30, 2013 and 2012

Payor Source	2013	2012	Increase (Decrease)
Medicaid	22,877	19,573	3,304
Private	13,591	16,259	(2,668)
Medicare	5,876	6,818	(942)
Total patient days	42,344	42,650	(306)
Occupancy rate	92%	93%	

See Independent Auditor's Report.

CCRC Actuaries, LLC

415 Main Street
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Arbors of Hop Brook Limited Partnership

Statement of Actuarial Opinion
January 30, 2014

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' 2012 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' 2013 Annual Financial Filing.

In my opinion, the above items as shown in Arbors' 2013 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:

2013	2014	2015	2016	2017	2018
5.9%	8.3%	9.5%	10.1%	10.4%	10.7%

Average Age of Residents

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

2014	2015	2016	2017	2018
89.1	89.0	89.0	88.9	88.8

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
2013	13.0	9.7%	13.0	10.6%	3,528
2014	14.2	11.4%	15.4	13.9%	4,178
2015	17.7	13.5%	20.0	17.5%	4,937
2016	20.9	15.7%	19.9	17.6%	5,735
2017	23.2	17.2%	19.8	17.6%	6,296
2018	24.9	18.3%	19.8	17.7%	6,693

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:

	2013	2014	2015	2016	2017	2018
Lifecare	36%	36%	36%	36%	36%	36%
Rental	52%	54%	54%	54%	54%	54%
Total	88%	90%	90%	90%	90%	90%

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
2013	13.0
2014	15.4
2015	20.0
2016	19.9
2017	19.8
2018	19.8

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
2013	4,745
2014	5,173
2015	6,459
2016	7,623
2017	8,464
2018	9,071

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	3	3

CCRC Actuaries, LLC

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December 24, 2013

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, 2013

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 114-unit independent living center and skilled nursing at the 126-bed Manchester Manor Health Center. Residents pay an entrance fee upon move-in that is either 80% (Post FY04) or 90% (Pre FY05) refundable upon death or withdrawal after their independent living unit is reoccupied. In addition, there is a monthly fee associated with the 114 studios, one bedroom and two bedroom apartments. If skilled nursing care is needed, 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, 2013. 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, 2013 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, 2013 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, 2013 as $548,783. The amount amortized during Fiscal Year 2013 was calculated as $82,714. 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 2013 was $24,073.

The Audit Guide also states that entrance fees refundable upon reoccupancy should be accounted for as deferred revenue. This deferred revenue should 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, 2013 as $3,734,558. The amount amortized during Fiscal Year 2013 was calculated as $172,542.

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 $186,000 in Fiscal Year 2013 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 ($1,899,000) as of September 30, 2013 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, 2013 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

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Managing Partner
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APPENDIX

Arbors at Hop Brook

Future Service Obligation as of September 30, 2013

Present Value of Cash Flows		
	Cash Outflows	$11,758,000
	Cash Inflows	10,621,000
	Net Cash Outflows	1,137,000
Plus:		
	Depreciation	1,247,000
Plus:		
	Unamortized Initial Acquisition Costs	0
Minus:		
	Unamortized Deferred Revenue	
	Nonrefundable Fees	549,000
	Refundable Fees	3,735,000
	Total	4,283,000
Net Future Service Obligation		($1,899,000)

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