

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND CONSOLIDATING INFORMATION**

SEPTEMBER 30, 2016

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Hebrew Health Care, Incorporated and Affiliates (the Organization), a Connecticut not-for-profit, non-stock corporation, which comprise the consolidated balance sheet as of September 30, 2016, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hebrew Health Care, Incorporated and Affiliates as of September 30, 2016, and the consolidated results of their operations and changes in net assets (deficit) and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 1 to the financial statements, the Organization has suffered recurring losses from operations, is in a net deficit position and is currently operating as a debtor-in-possession under Chapter 11 of the U.S Bankruptcy Code. Due to the bankruptcy, the Organization is in default of substantially all of its debt agreements. The Organization did not receive a waiver for these events of default as of the date of this report. Management's plans in regard to these matters are also described in Note 1. These conditions raise substantial doubt the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the 2016 financial statements as a whole. The consolidating balance sheet as of September 30, 2016 and consolidating statements of operations and changes in net assets for the year then ended are presented for purposes of additional analysis of the financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and is not a required part of the 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 2016 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2016 consolidating information is fairly stated in all material respects in relation to the 2016 financial statements as a whole.

Marcum LLP

Hartford, CT
July 21, 2017

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 488,682
Assets limited as to use, current portion	645,551
Patient accounts receivable, less allowance for doubtful accounts of approximately \$988,143	2,542,206
Other current assets	<u>1,811,310</u>

Total Current Assets 5,487,749

Assets Limited as to Use, net of current portion 1,310,465

Property, Plant and Equipment, net 15,044,346

Other Assets

Investments	811,716
Deposits	461,830
Due from affiliate - Auxiliary	<u>23,702</u>

Total Other Assets 1,297,248

Total Assets \$ 23,139,808

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATED BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2016

Liabilities and Net Assets (Deficit)

Current Liabilities

Accounts payable and accrued expenses	\$ 2,225,048
Accrued vacation and employee benefits	443,139
Funds held in trust	638,032
Deferred revenue	<u>168,149</u>

Total Current Liabilities 3,474,368

Other Liabilities

Liabilities subject to potential compromise	<u>46,861,753</u>
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Total Liabilities 50,336,121

Net Assets (Deficit)

Unrestricted deficit	(29,597,911)
Temporarily restricted	88,285
Permanently restricted	<u>2,313,313</u>

Total Net Assets (Deficit) (27,196,313)

Total Liabilities and Net Assets (Deficit) \$ 23,139,808

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Changes in Unrestricted Net Assets

Operating revenues	
Net patient service revenues	\$ 36,103,549
Home health care revenue	3,803,591
Adult day health center services	<u>581,057</u>
Net patient revenues	40,488,197
Provision for bad debts	<u>693,098</u>
Net patient revenues less provision for bad debt	39,795,099
Member services and rental income -	
Hoffman SummerWood Community	6,242,921
Grants	170,859
Other income	<u>608,228</u>
Total operating revenues	<u>46,817,107</u>
Operating expenses	
Nursing services	18,962,336
Administration	9,062,868
Health benefits	4,872,939
Nutritional services	4,097,439
Medical services	2,777,460
Building operations	1,969,437
Environmental services	1,936,941
Pharmacy services	1,517,267
Depreciation and amortization	1,447,656
Provider tax	1,270,173
Rehabilitation services	1,181,882
Interest expense	886,014
Development	640,860
Social services	587,946
Life enrichment services	344,228
Cognitive program services	166,570
Health information management	<u>164,412</u>
Total operating expenses	<u>51,886,428</u>
Loss from Operations	<u>(5,069,321)</u>

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

**CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
(CONTINUED)**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Non-operating gains (losses), net	
Interest and dividend income and distributions	\$ 122,106
Gifts, bequests and special events	747,124
Loss on disposal of property, plant and equipment	<u>(4,724)</u>
 Total non-operating gains	 <u>864,506</u>
 Deficiency of Revenues under Expenses	 <u>\$ (4,204,815)</u>
 Other Changes in Unrestricted Net Assets	
Deficiency of revenues under expenses	\$ (4,204,815)
Pension related changes other than net periodic pension cost	 <u>(357,151)</u>
Change in Unrestricted Net Assets	<u>(4,561,966)</u>
 Changes in Temporarily Restricted Net Assets	
Net realized and unrealized losses	<u>(187)</u>
Change in Temporarily Restricted Net Assets	<u>(187)</u>
 Change in Net Assets	 (4,562,153)
Net Assets - Beginning	<u>(22,634,160)</u>
Net Assets - End	<u>\$ (27,196,313)</u>

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Cash Flows from Operating Activities

Change in net assets	\$ (4,562,153)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	1,447,656
Bad debt	693,098
Pension related changes other than net periodic pension cost	357,151
Net loss (gains) on investments	(318,145)
Changes in assets and liabilities:	
Patient accounts receivable	640,070
Other current assets	139,490
Deposits	(253,961)
Due from/to affiliates, net	(5,660)
Accounts payable, accrued expenses and accrued interest	1,311,822
Accrued vacation and employee benefits	(135,780)
Deferred revenue	7,868
Accrued pension liability	<u>589,458</u>

Net Cash Used in Operating Activities (89,086)

Cash Flows from Investing Activities

Purchases of property, plant and equipment	(584,079)
Deposits held in trust for others	(253,961)
Proceeds from investments and assets limited as to use	<u>6,962,019</u>

Net Cash Provided by Investing Activities 6,123,979

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Cash Flows from Financing Activities	
Principal payments on notes and bonds payable	\$ (613,207)
Principal payments on capital lease obligations	(56,297)
Payments on line of credits	<u>(4,971,520)</u>
Net Cash Used in Financing Activities	<u>(5,641,024)</u>
Change in Cash and Cash Equivalents	393,869
Cash and Cash Equivalents - Beginning	<u>94,813</u>
Cash and Cash Equivalents - End	<u><u>\$ 488,682</u></u>
 Supplemental Cash Flow Information	
Cash paid during the year:	
Interest	<u><u>\$ 635,011</u></u>

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

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

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

The Home operates a 257-bed skilled nursing facility and a 45-bed chronic disease hospital facility comprising of a 23-bed medical unit and a 22-bed behavioral health unit.

HCS provides in-home health care services, hospice services, assisted living services and operates one senior day center. Effective February 29, 2016, HCS no longer provides in-home health care services and hospice services.

Hoffman SummerWood Community operates a 106-unit assisted living facility.

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

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BANKRUPTCY FILING - CHAPTER 11

On August 15, 2016, HHC, the Home, HCS, and Hoffman SummerWood Community filed a voluntary joint petition for relief under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the Code) in the U.S. Bankruptcy Court for District of Connecticut, Hartford Division (the Bankruptcy Court). On August 19, 2016, CGSG filed a separate Chapter 11 petition. HHC, the Home, HCS, Hoffman SummerWood Community and CGSG are collectively referred to as the Debtors. The Debtors continue to operate their businesses and manage their properties as “Debtors-in-Possession” pursuant to sections 1107 and 1108 of the Bankruptcy Code.

On December 13, 2016, the Bankruptcy Court entered an order approving the sale (the Sale) of the 257-bed skilled nursing facility business and the Organization’s primary campus located at One Abrahms Boulevard, West Hartford, Connecticut to Hebrew Home for Health and Rehabilitation, LLC (the Buyer). The sale provided for the Buyer’s assumption of the first mortgage note in the amount of \$10,797,178, a payment by the Buyer of \$1,300,000 to the holder of the second mortgage, the U.S. Department of Housing and Urban Development (HUD), the Buyer’s assumption of the accrued and unpaid paid-time-off (up to a maximum of \$1.2 million) for employees of the SNF business and certain other stipulations, payments, and assumptions of other liabilities further detailed in an Asset Purchase Agreement dated September 30, 2016.

As a component of the Sale, HUD has also agreed that the remaining balance of the indebtedness owed to HUD by HHC will be satisfied as follows: (i) HUD will hold a first priority lien and security interest in the personal property of the Home and HCS; (ii) upon the effective date of the plan of reorganization, HUD will hold a \$1,300,000 secured claim in accounts receivable of the Home and HCSI, but only having the same validity and priority that such security interest existed on the Petition Date to be paid from Surplus Cash as reported in individual financial statements for the Home and HCSI, which secured claim will be held by HUD until paid in full or released by HUD; and, (iii) HUD will have an unsecured claim for the balance of the unpaid Pre-Petition Indebtedness against the Home and HCSI in the amount of \$8,789,242.

The Sale also provided for the Organization to lease back the portions of the building located at One Abrahms Boulevard, West Hartford, Connecticut that are exclusively used for the hospital and senior day care program. The lease term is for thirty years with two fifteen year extensions exercisable by the Organization. There is no base rent due during the term and the Organization is required to pay its proportionate share of expenses incurred in the connection with the operation, maintenance insurance, management, replacement and repair of the property. Certain costs that are excluded include those that solely benefit the Organization or the lessor, as applicable, property taxes and mortgage debt service.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BANKRUPTCY FILING - CHAPTER 11 (CONTINUED)

On June 20, 2017, the Debtors filed their first amended joint plan (the Plan) of reorganization. The Plan is a reorganizing plan that seeks to contemplate the financial rehabilitation of the Debtors and the continuation of their businesses. The primary purpose of the Plan is to ensure that the Debtors can service their secured debt and to satisfy the Debtors' obligations to, among others, holders of allowed unsecured claims. The restructuring proposed in the Plan will enable the Debtors to exit Chapter 11, service their debts, and continue their existing operations. The Debtors will retain their respective assets and operate their businesses after confirmation of the Plan. The creditors will receive payment of their claims against the Debtors, either on the effective date of the Plan or over time. The Debtors believe that any alternatives to the Plan would produce less for creditors than they will receive under the Plan and would endanger or terminate the operation of the Debtors' businesses.

In order for the Plan to be confirmed, Bankruptcy Code §1129(a) requires that each impaired class of allowed claims in the Plan vote to accept that Plan, subject to certain exceptions. The Bankruptcy Code defines acceptance of a plan of reorganization by a class of creditors as acceptance by holders of two-thirds in dollar amount and a majority in number of the claims in that class, but for this purpose considers only those creditors that have actually cast ballots for acceptance or rejection of a plan. Creditors that fail to vote are not counted as either accepting or rejecting a Plan. Only a class of claims that are "impaired" are entitled to vote to accept or reject the Plan. As set forth in Bankruptcy Code §1124, a class is impaired "if the legal, equitable or contractual rights attaching to the claims of that class are modified by a plan."

As of the date of these financial statements, the plan has not yet been formally accepted.

During the year ended September 30, 2016, the Organization expensed mortgage restructuring fees, legal and professional costs of approximately \$85,000 related to the bankruptcy filing and the Sale. In addition, approximately \$271,000 of deposits were made during 2016 for legal and professional services related to the bankruptcy. These deposits are included on the consolidated balance sheet.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

GOING CONCERN

As shown in the accompanying consolidated financial statements and described above, the Organization has suffered recurring losses from operations, has a net working capital deficiency and is currently operating as a debtor-in-possession under Chapter 11 of the Bankruptcy Code. In addition, the Pension Benefit Guaranty Corporation has filed claims against the Debtors for unpaid contributions and pension insurance premiums. Due to the bankruptcy, the Organization is in violation of substantially all of its debt agreements. The Organization did not receive a waiver for these violations as of the date of this report. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management believes that the Plan described above will enable it to continue its remaining business once it exits Chapter 11.

CLINICAL AFFILIATION AND CONSULTING SERVICES AGREEMENT WITH HARTFORD HEALTHCARE

On March 26, 2014, the Organization entered into a Clinical Affiliation and Consulting Services Agreement (the Affiliation or Agreement) with Hartford HealthCare (Hartford HC), under which the Organization had a role in coordinating, managing and providing care for patients of the Hartford HealthCare Accountable Care Organization, Inc. (HHC ACO). Through the Affiliation, the Organization aimed to develop a relationship with the other parties in the HHC ACO in order to advance shared goals of delivering high-quality, coordinated and cost-effective chronic acute, post-acute, and long-term care services to HHC ACO patients and other patients. This Affiliation aimed to create operational efficiencies and cost savings by providing the Organization with access to the expertise and consulting capabilities available from Hartford HC and its affiliates and subsidiaries. Also, under the Agreement, Hartford HC provided certain consulting and marketing services. Hartford HC advanced \$500,000 to the Organization under the Agreement, without interest, which was evidenced by a promissory note.

At the end of fiscal year 2015, the Organization and Hartford HC agreed the mutual benefits anticipated at the time of entering the Agreement were not realized and were unlikely to be achievable. Therefore, effective February 16, 2016, the Agreement was terminated. Prior to the termination, no agreement on the accounting of the operating expense reductions and revenue cycle initiatives for the first two years of the Agreement was reached. Therefore, with the termination of the Agreement, Hartford HC cancelled the Organization's note payable of \$500,000 in full consideration of the full and final settlement of any and all claims related to all matters and disputes pertaining to the Agreement.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

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

ACCOUNTS RECEIVABLE

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ACCOUNTS RECEIVABLE (CONTINUED)

Patient accounts receivable due directly from the residents are carried at the original charge for the service provided less amounts covered by third-party payers and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient receivables are written off in the provision for bad debts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of the provision for bad debts when received. Receivables from third-party payors, patients and contributions receivable from donors are stated at the amount management expects to collect on the outstanding receivable balances. Patient accounts receivable are net of an allowance for doubtful accounts of \$2,542,206 as of September 30, 2016.

ASSETS LIMITED AS TO USE

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

MORTGAGE ACQUISITION COSTS

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance costs* (ASU 2015-03). ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for the interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Management elected to early adopt ASU 2015-03 as displayed in the accompanying statements of financial position, and accordingly has presented the debt issuance costs as a debt discount in all periods presented. The application of this standard had no effect to the change in net assets for the year ended September 30, 2016.

Deferred mortgage acquisition costs are amortized over the life of the related debt on a straight-line basis in accordance with ASU 2015-03. Accumulated amortization for the year ended September 30, 2016 was \$81,853. Amortization expense for the year ended September 30, 2016 was \$26,327 and is properly included in interest expense within the statements of operations and changes in net assets.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INVESTMENTS

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

Non-marketable securities in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of alternative investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets (deficit).

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

The Organization's investments are subject to various risks such as interest rate, financial market and credit risks.

OTHER THAN TEMPORARY IMPAIRMENTS ON INVESTMENTS

The Organization accounts for other than temporary impairments in accordance with FASB ASC 320, *Investments - Debt and Equity Securities* and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairment losses recorded in 2016.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

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

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

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

The Organization follows FASB ASC 410, *Asset Retirement and Environmental Obligations*, which requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of September 30, 2016, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which they become aware of such liability and sufficient information is available to reasonably estimate the fair value.

WORKERS' COMPENSATION, PROFESSIONAL AND GENERAL LIABILITY INSURANCE

The Organization maintains workers' compensation, medical malpractice and general liability insurance policies. The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. GAAP requires that health care entities present insurance claim liabilities on a gross basis and not net insurance recoveries against the related claim liabilities. Accordingly, the Organization recorded \$736,829 under the captions "Other current assets" and "Accounts payable and accrued expenses" in the accompanying consolidated balance sheet, as of September 30, 2016, representing the Organization's estimate of liabilities and recoveries for certain workers' compensation and general liability claims. There are no known medical malpractice liability claims to record as of September 30, 2016.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

NET ASSETS

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

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

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

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

DEFICIENCY OF REVENUES UNDER EXPENSES

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

REVENUE RECOGNITION

Patient service revenue, home health care revenue, adult day health center services revenue, and member services and rental income revenue are reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered. Amounts received from most payors are different from the established billing rates of the Organization, and these differences are accounted for as allowances and are included within patient service revenue. Patient service revenue is also presented net of a provision for bad debts.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

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

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

CONTRIBUTIONS

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

CONTRIBUTIONS (CONTINUED)

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

DONATED SERVICES

The Home benefits from significant volunteer services provided by professionals and individuals in the community. The Home estimates that they received the approximate value of \$30,441 of volunteer services from the community during the year ended September 30, 2016. The majority of these services do not qualify for recording in the statements of operations and changes in net assets under GAAP and are therefore not reported in the consolidated statements of operations and changes in net assets.

ADVERTISING

The Organization's policy is to expense advertising costs as incurred. Advertising costs were \$130,316 for the year ended September 30, 2016.

INCOME TAX STATUS

Each entity, with the exception of CGSG, is qualified under Section 501 (c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. While CGSG is in the process of applying for 501(c)(3) status, it's considered a Qualified Personal Service Corporation and as such, is subject to a 35% federal income tax rate. CGSG accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*. FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of certain assets and liabilities. There was no tax expense recorded during the year ended September 30, 2016 as CFGC's income was created by an intercompany transfer and not deemed to be taxable.

As of September 30, 2016, CGSG had a net operating loss carryforward available to reduce its future taxable income of approximately \$2,606,644. The carryforward periods expire at various dates through 2035. The deferred tax asset of \$1,081,757 associated with CGSG's loss carryforward was offset by a corresponding valuation allowance of \$1,081,757, as realization of such loss carryforwards is not assured.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INCOME TAX STATUS (CONTINUED)

The change in the valuation allowance was \$(287,895) for the year ended September 30, 2016.

The Organization accounts for uncertain tax positions with provisions of FASB ASC 740, *Income Taxes*, which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization does not have any uncertain tax positions as of September 30, 2016. The Organization recognizes interest and/or penalties related to income tax matters within administration expenses. As of September 30, 2016, the Organization did not record any penalties or interest associated with uncertain tax positions. The Organization's prior three tax years are open and subject to examination by the Internal Revenue Service.

NOTE 2 – LIABILITIES SUBJECT TO POTENTIAL COMPROMISE

Liabilities subject to potential compromise represent liabilities incurred prior to the commencement of the bankruptcy proceedings which may be affected by the Chapter 11 process. These amounts represent the Organization's allowed claims and its best estimate of claims expected to be allowed which will be resolved as part of the bankruptcy proceedings.

Liabilities subject to potential compromise consist of the following:

Accounts payable and accrued liabilities	\$ 4,709,299
Accrued employee benefits	1,674,788
Accrued pension	4,357,268
Capital lease obligations	43,347
Debt	<u>36,077,051</u>
	<u>\$ 46,861,753</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – NET PATIENT SERVICE REVENUES AND CONCENTRATIONS OF CREDIT RISK

The following reconciles gross patient service revenues to net patient service revenues, for the year ended September 30, 2016:

2016	Medicare	Medicaid	Other Payers	Total
Gross revenues from services to patients	\$ 11,517,553	\$ 28,080,599	\$ 8,414,474	\$ 48,012,626
Deductions for allowances	--	(10,853,956)	(1,055,121)	(11,909,077)
Net revenues from services to patients	<u>\$ 11,517,553</u>	<u>\$ 17,226,643</u>	<u>\$ 7,359,353</u>	<u>\$ 36,103,549</u>

The Organization's gross revenues received from Medicare were 24% during the year ended September 30, 2016. The Organization's gross revenues received from Medicaid were approximately 58% and during the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Organization.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

**NOTE 3 – NET PATIENT SERVICE REVENUES AND CONCENTRATIONS OF CREDIT RISK
(CONTINUED)**

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

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

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

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

The Organization grants credit without collateral to its patients, most of whom are insured under third- party payer agreements. Gross receivables from patients and third-party payers as of September 30, 2016 are distributed as follows:

Medicaid	27%
Medicare	46%
Private patients and other third-party payers	<u>27%</u>
	<u>100%</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 4 – RELATED PARTY TRANSACTIONS

The Organization is related to The Auxiliary of the Hebrew Home and Hospital, Incorporated (the Auxiliary), a not-for-profit corporation, through common board members. The Auxiliary was established to promote the religious, physical and financial well being of the Home by providing services, entertainment and additional physical comfort to the individuals it serves and by contributions to the Home. Included in unrestricted gifts and bequests in the accompanying consolidated statements of operations and changes in net assets was \$20,000 received from the Auxiliary during the year ended September 30, 2016. Non-interest bearing advances totaling \$23,702 were due from the Auxiliary as of September 30, 2016.

Members of the Organization’s Board of Trustees are members of law firms that the Organization used for legal services during 2016. Total legal expense paid to these firms during the year ended September 30, 2016 was approximately \$180,254. As of September 30, 2016, there was \$50,731 owed to these firms.

The Organization also purchases services from companies owned by or employing individual board members. Total amounts expended for such services, which primarily include hospitalist and investment services, during the year ended September 30, 2016 totaled approximately \$528,007. As of September 30, 2016, there was \$597 owed to these companies.

NOTE 5 – ASSETS LIMITED AS TO USE

The following is a summary of assets limited as to use, as of September 30, 2016:

Current assets limited as to use	
Security deposits - cash	\$ 444,196
Patient funds held in trust - cash	201,355
	<u>645,551</u>
Investments restricted under debt agreements	
Mortgage reserve funds	419,806
Liquidity reserve fund	367,787
Replacement reserve funds	522,872
	<u>1,310,465</u>
Total assets limited as to use	<u>\$ 1,956,016</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 5 – ASSETS LIMITED AS TO USE (CONTINUED)

The following is a summary of the asset allocation of assets limited to use, as of September 30, 2016:

	<u>Amount</u>	<u>%</u>
Cash and cash equivalents	\$ 1,588,229	81%
U.S. obligations	<u>367,787</u>	<u>19%</u>
	<u>\$ 1,956,016</u>	<u>100%</u>

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, as of September 30, 2016:

Land	\$ 2,612,381
Building and building improvements	45,591,578
Furnishings and equipment	5,288,841
Motor vehicles	489,158
Construction in progress	<u>269,263</u>
	54,251,221
Less accumulated depreciation	<u>(39,206,875)</u>
Net property, plant and equipment	<u>\$ 15,044,346</u>

Depreciation and amortization expense amounted to \$1,447,656 for the year ended September 30, 2016.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 7 – INVESTMENTS

Investments, which include donor and board restricted investments, are stated at fair value and consist of the following as of September 30, 2016:

Pooled funds held by JCF	\$ 809,560	100%
Foreign bonds	500	0%
Domestic equity securities	209	0%
Money market funds	<u>1,447</u>	<u>0%</u>
	<u>\$ 811,716</u>	<u>100%</u>

As of September 30, 2016, net realized and change in unrealized losses on investments and assets limited as to use totaled \$70,715.

The pooled funds represent approximately 100% of the units in a portfolio of investments managed by the JCF as of September 30, 2016.

All of the pooled funds at JCF as of September 30, 2016 are invested in equity securities.

JCF holds several funds and split-interest agreements of which the Organization is the designated charitable beneficiary. Because JCF retains variance powers, these funds do not qualify for recording as unconditional promises to give or net assets under the provisions of FASB ASC 958-05. As of September 30, 2016, JCF held \$1,701,648 of certain designated and charitable gift annuities for the benefit of the Organization.

There were no individual securities that are in an unrealized loss position as of September 30, 2016.

NOTE 8 – FAIR VALUE MEASUREMENTS

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the financial instruments carried at fair value as of September 30, 2016 by the valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Investments (including donor and board restricted)				
Foreign bonds	\$ --	\$ 500	\$ --	\$ 500
Pooled funds held in custody	--	--	809,560	809,560
Domestic equity securities	209	--	--	209
Money market funds	--	1,447	--	1,447
Total	<u>209</u>	<u>1,947</u>	<u>809,560</u>	<u>811,716</u>
Other assets limited as to use				
Cash and money market funds	1,588,229	--	--	1,588,229
U.S. government securities	--	367,787	--	367,787
Total	<u>1,588,229</u>	<u>367,787</u>	<u>--</u>	<u>1,956,016</u>
Total	<u>\$ 1,588,438</u>	<u>\$ 369,734</u>	<u>\$ 809,560</u>	<u>\$ 2,767,732</u>
Pension plan assets				
Cash and money market funds	\$ 339,403	\$ --	\$ --	\$ 339,403
Corporate and foreign bonds	--	148,820	--	148,820
Common equity mutual funds	3,571,998	--	--	3,571,998
Preferred equity securities	59,250	--	--	59,250
Equity mutual funds	2,095,251	--	--	2,095,251
Total	<u>\$ 6,065,902</u>	<u>\$ 148,820</u>	<u>\$ --</u>	<u>\$ 6,214,722</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED)

A rollforward as of September 30, 2016 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

Balance as of October 1, 2015	\$ 2,693,092
Investment income:	
Net realized/unrealized gain on investments	76,666
Interest and dividends	18,853
Investment fees	(18,936)
Distributions	(1,963,106)
Purchase of investments	<u>2,991</u>
Balance as of September 30, 2016	<u>\$ 809,560</u>

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

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

The following is a description of the valuation methodologies used for investments measured at fair value with Level 2 inputs as of September 30, 2016:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

The following table lists the investment in the pooled fund held by the Foundation as of September 30, 2016:

2016	Fair Value	# of Funds	Unfunded Commitments	Timing to Draw Down	Redemption Period	Redemption Notice Period	Remaining Life
Pooled funds held in custody (a)	\$ 809,860	1	\$ --	N/A	Monthly	60 days or 6 months if 100% redemption	N/A

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended September 30, 2016, there have been no significant transfers in or out of Levels 1, 2 or 3.

As of September 30, 2016, the Organization's other financial instruments included accounts receivable, other assets, accounts payable, other liabilities and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

NOTE 9 – LINES OF CREDIT

The Organization previously had access to various lines of credit that all have expired as of September 30, 2016, other than one remaining line of credit agreement that has a total availability of \$150,000. This remaining line is to be used only for letters of credit, with a 2% fee for each letter of credit issued, with interest at the Wall Street Journal's prime rate if drawn upon. This line of credit had no outstanding balance as of September 30, 2016.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 10 – NOTES AND BONDS PAYABLE

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

\$20,242,000 Government National Mortgage Association (GNMA) mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association	\$ 10,797,178
\$17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B	14,890,000
\$11,050,811 Housing and Urban Development (HUD) mortgage	<u>11,050,811</u>
	36,737,989
Mortgage acquisition costs	<u>(660,938)</u>
	<u>\$ 36,077,051</u>

WELLS FARGO MORTGAGE

The mortgage payable to Wells Fargo Bank was initially to be paid in monthly installments of \$105,435, including interest at 5.0% through October 2041. Effective June 22, 2015, the Organization refinanced this mortgage through a partial payment claim. As a result of the refinancing, \$8,333,821 of the principal and \$2,716,990 of accrued interest on the original mortgage was paid back to Wells Fargo Bank by the Department of Housing and Urban Development. Wells Fargo then provided a \$11,041,000 loan for the remaining balance on the original mortgage. This mortgage is payable to Wells Fargo Bank in monthly installments of \$52,741, including interest at 3.5% through October 2041 as of September 30, 2015. The mortgage is secured by land and buildings. The Federal Housing Administration under the Section 223(a)(7) Housing Program insures this note payable.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 10 – NOTES AND BONDS PAYABLE (CONTINUED)

HOUSING OF URBAN DEVELOPMENT (HUD) MORTGAGE

As a result of the Wells Fargo mortgage refinancing described above, the \$11,050,811 of amounts paid by HUD to Wells Fargo were financed by a new loan that has an annual interest rate of 3.35% on the outstanding balance and is payable only to the extent that the Home has surplus cash remaining at the end of each payment period after the payment of: (i) all sums due or currently required to be paid under the terms of the loan, (ii) all amounts required to be deposited in the reserve fund for replacements; and (iii) all other obligations of the mortgage property other than the HUD mortgage. The loan is callable on July 22, 2035, however, the outstanding principal is due in full on October 1, 2041.

During the year ended September 30, 2016, the Organization incurred \$247,298 in interest expense related to the mortgage notes. Additionally, the amount of accrued interest was \$325,245 as of September 30, 2016.

CHEFA SERIES B BONDS

The CHEFA Series B Bonds were issued in November 2007: (i) to refund the Series A Bonds; (ii) to finance and refinance the costs of the construction and equipping of a new wing at Hoffman SummerWood Community's assisted living facility to house an additional 43 assisted living units and to expand certain portions of the existing facility. The CHEFA bonds consist of Series B variable rate bonds due July 1, 2037. The bonds are secured by land, building and a letter of credit with an expiration date of November 7, 2017. During the year ended September 30, 2016, the Organization incurred \$177,251 in interest expense related to the bonds. The interest rate related to these bonds is a variable rate, which was .06% as of September 30, 2016.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 10 – NOTES AND BONDS PAYABLE

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

The debt instruments have certain reporting requirements and financial and non-financial covenants that the Organization was not in compliance with as of September 30, 2016. In addition, due to the bankruptcy described in Note 1, the Organization is in default of substantially all of its debt agreements. In addition, the notes and bonds payable have been included within liabilities subject to potential compromise at September 30, 2016.

NOTE 11 – CAPITAL LEASE OBLIGATIONS

The Organization has entered into various capital leases for equipment. The value of minimum future lease payments under these capital lease obligations are as follows:

2017	\$ 31,043
2018	19,264
2019	<u>1,074</u>
	51,381
Less amounts representing interest	<u>(8,034)</u>
	<u>\$ 43,347</u>

NOTE 12 – PENSION PLANS

BARGAINING UNIT PLAN

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12 – PENSION PLANS (CONTINUED)

BARGAINING UNIT PLAN (CONTINUED)

The risks of participating in this multi-employer plan are different from single-employer plans in the following aspects:

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

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan’s unfunded vested benefits. The Organization has not received information from the plans’ administrators to determine its share of unfunded vested benefits. The Organization does not anticipate withdrawal from its own or other company plans, nor is the Organization aware of any expected plan terminations.

Pension Plan EIN	Pension Protection Act (PPA) Certified		FIP/RP Status Pending/ Implemented (2)	Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement (3)
	2016	2015		2016	2015		
Pension Trust Fund Laborers' International Union of North American National Pension Fund	52-6074345	Red	Red	Implemented	\$ 337,073	\$ 344,691	No September 30, 2016

- 1) This is the most recent PPA zone status available in 2016 that pertains to the plan’s years ended December 31, 2016 and 2015. The zone status is based on information received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the orange zone are less than 80% funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 12 – PENSION PLANS (CONTINUED)

- 2) The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.
- 3) Lists the expiration dates of the collective bargaining agreements to which the plans are subject.

NONBARGAINING UNIT PLAN

The Organization has a noncontributory, defined benefit pension plan covering all nonbargaining unit employees who satisfied certain eligibility requirements. Employer contributions made to this plan were \$172,230 for the year ended September 30, 2016. This plan was frozen on September 30, 2007 and replaced by a 401(k) Retirement Plan that provides for an employer match of up to 2% of the employees annual salary for the year ended September 30, 2016. The Organization makes matching contributions to the plan at the discretion of the Board of Trustees. No contributions were made for the year ended December 31, 2016. Benefits under the defined benefit plan are based on years of service.

Significant disclosures relating to the defined benefit plan, as of September 30, 2016 are listed below. These disclosures do not include any anticipated adjustments resulting from the bankruptcy described in Note 1.

Changes in benefit obligations	
Benefit obligations at beginning of year	\$ 9,759,912
Interest cost	405,890
Benefits paid to participants	(521,674)
Actuarial loss (gain)	<u>927,862</u>
Benefit obligations at end of year	<u>\$ 10,571,990</u>
Changes in plan assets	
Fair value of plan assets at beginning of year	\$ 5,992,102
Actual return on plan assets	572,064
Employer contributions	172,230
Benefits paid	<u>(521,674)</u>
Fair value of plan assets at end of year	<u>\$ 6,214,722</u>
Accrued pension liability	<u>\$ (4,357,268)</u>

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 12 – PENSION PLANS (CONTINUED)

NONBARGAINING UNIT PLAN (CONTINUED)

The following were the weighted-average assumptions used to determine the pension benefit obligations as of September 30, 2016:

Discount rate	4.30%
Expected long-term return on plan assets	6.20%

The following were the weighted-average assumptions used to determine net periodic pension cost for year ended September 30, 2016:

Discount rate	3.50%
Expected return on plan assets	6.20%

Amounts recorded in unrestricted net assets as of September 30, 2016, not yet amortized as components of net periodic benefit costs, are as follows:

Unamortized net actuarial loss	<u>\$ 4,021,196</u>
--------------------------------	---------------------

The amortization of the above items expected to be recognized in net periodic benefit costs is \$395,380 for the year ended September 30, 2017.

The components of net periodic benefit cost for the year ended September 30, 2016 are as follows:

Components of net periodic benefit cost	
Interest cost	\$ 405,890
Expected return on plan assets	(330,457)
Recognized net loss	<u>329,104</u>
Net periodic benefit cost	<u>\$ 404,537</u>

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 12 – PENSION PLANS (CONTINUED)

NONBARGAINING UNIT PLAN (CONTINUED)

The changes in benefit obligations recognized in unrestricted net assets for the year ended September 30, 2016 are as follows:

Change in net loss	\$ 686,255
Amortization of net loss	<u>(329,104)</u>
Total recognized in unrestricted net assets	<u>\$ 357,151</u>

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

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

Equity securities	92%
Debt securities	3%
Cash equivalents	<u>5%</u>
	<u>100%</u>

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

2017	\$ 612,000
2018	505,000
2019	765,000
2020	725,000
2021	904,000
2022 - 2026	<u>2,904,000</u>
	<u>\$ 6,415,000</u>

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 12 – PENSION PLANS (CONTINUED)

NONBARGAINING UNIT PLAN (CONTINUED)

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

NOTE 13 – EMPLOYEE HEALTH INSURANCE

The Organization maintains a self-insured health insurance plan for its employees. Under the plan, the Organization pays an insurance company certain fixed and variable costs, including administration fees, actual claims incurred and a premium for losses exceeding a negotiated amount. The Organization's cost for the plan totaled \$4,877,412 for the year ended September 30, 2016. The Organization has also recorded a liability for incurred but not reported claims of \$526,337 as of September 30, 2016. In addition, the Organization has purchased stop loss insurance coverage. The coverage is initiated when a loss reaches \$150,000 on a per claim basis.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Organization leases various office equipment under operating leases expiring through September 2017. Minimum five year payments are not material to the overall financial statements. On August 10, 2010, the Organization entered into an operating lease beginning October 1, 2010 and through September 2015 for HCS's Home Health and Hospice office space. Rental expense under these leases amounted to \$41,216 for the year ended September 30, 2016. Effective February 28, 2016, this lease was terminated.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

LITIGATION

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

NOTE 15 – SPECIAL EVENTS

The following is a summary of special events income (included in gifts, bequests and special events) and expenses (included in development expenses) within the consolidated statements of operations and changes in net assets as of September 30, 2016:

Ticket sales and sponsorships	\$ 221,064
Less expenses	<u>(89,275)</u>
Net special events income	<u>\$ 131,789</u>

NOTE 16 – TEMPORARILY RESTRICTED NET ASSETS

The following is a summary of temporarily restricted net assets as of September 30, 2016:

Second Century Campaign	\$ 3,239
Other Funds	28,276
Annual Fund	42,436
The Music Fund	5,000
The Rabbi Fund	<u>9,334</u>
	<u>\$ 88,285</u>

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

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 17 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets amounted to \$2,313,313 as of September 30, 2016, which include investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services. The related endowment assets associated are currently in a deficiency position and are further discussed in Note 19.

NOTE 18 – PROFESSIONAL LIABILITY INSURANCE

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through September 30, 2013, the Organization was covered by a claims-made policy. There are no known claims or incidents that may result in the assertion of additional claims. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the consolidated financial statements as of September 30, 2016. The \$736,829 of expected insurance liabilities and recoveries as of September 30, 2016, discussed earlier in Note 2, relates to workers' compensation and general liability coverages.

NOTE 19 – ENDOWMENT NET ASSETS

The Organization's endowment net assets consisted of multiple funds established for a variety of purposes. The endowment included donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor restrictions. As a result of the financial hardship and resulting bankruptcy, the Organization was forced to liquidate and use most of its investment portfolio to fund operating losses. The permanently restricted endowment is currently in a deficiency position of \$1,501,597 as of September 30, 2016. In accordance with GAAP, deficiencies in donor-restricted endowment funds in which the donor or law requires the Organization to retain as a fund of perpetual duration have been recorded within unrestricted net assets.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 19 – ENDOWMENT NET ASSETS (CONTINUED)

The remaining endowment net assets represent donor restricted endowment funds. Changes in endowment net assets for the year ended September 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, October 1, 2015	\$ 95,542	\$ 411	\$ 2,313,313	\$ 2,409,266
Distributions and fees	<u>(95,542)</u>	<u>(411)</u>	<u>--</u>	<u>(95,953)</u>
Balance, September 30, 2016	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,313,313</u>	<u>\$ 2,313,313</u>

NOTE 20 – FUNCTIONAL EXPENSES

Expenses of the Organization incurred during the year ended September 30, 2016, by functional area, were as follows:

Health care services	\$ 34,976,098
General and administrative	16,754,825
Fundraising	<u>155,505</u>
	<u>\$ 51,886,428</u>

NOTE 21 – SUBSEQUENT EVENTS

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

The Organization has evaluated subsequent events through July 21, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events requiring disclosure in these financial statements, other than the developments in the bankruptcy proceedings discussed in Note 1.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2016

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, Inc.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Assets									
Current Assets									
Cash and cash equivalents	\$ 25,698	\$ 131,892	\$ 58,264	\$ 254,220	\$ 18,608	\$ --	\$ 488,682	\$ --	\$ 488,682
Assets limited as to use, current portion	--	201,355	--	444,196	--	--	645,551	--	645,551
Patient accounts receivable, net	--	2,187,785	329,203	25,218	--	--	2,542,206	--	2,542,206
Other current assets	338,574	1,119,030	9,324	167,797	164,864	11,721	1,811,310	--	1,811,310
Total Current Assets	<u>364,272</u>	<u>3,640,062</u>	<u>396,791</u>	<u>891,431</u>	<u>183,472</u>	<u>11,721</u>	<u>5,487,749</u>	<u>--</u>	<u>5,487,749</u>
Assets Limited as to Use, net of current portion	<u>--</u>	<u>706,347</u>	<u>--</u>	<u>604,118</u>	<u>--</u>	<u>--</u>	<u>1,310,465</u>	<u>--</u>	<u>1,310,465</u>
Property, Plant and Equipment, net	<u>--</u>	<u>3,470,850</u>	<u>158,315</u>	<u>11,490,181</u>	<u>--</u>	<u>--</u>	<u>15,119,346</u>	<u>(75,000)</u>	<u>15,044,346</u>
Other Assets									
Investments	--	1,247	--	--	810,469	--	811,716	--	811,716
Deposits	230,000	223,675	--	8,155	--	--	461,830	--	461,830
Due from affiliates	23,702	--	--	--	--	--	23,702	--	23,702
Total Other Assets	<u>253,702</u>	<u>224,922</u>	<u>--</u>	<u>8,155</u>	<u>810,469</u>	<u>--</u>	<u>1,297,248</u>	<u>--</u>	<u>1,297,248</u>
Total Assets	<u>\$ 617,974</u>	<u>\$ 8,042,181</u>	<u>\$ 555,106</u>	<u>\$ 12,993,885</u>	<u>\$ 993,941</u>	<u>\$ 11,721</u>	<u>\$ 23,214,808</u>	<u>\$ (75,000)</u>	<u>\$ 23,139,808</u>

See accompanying independent auditors' report.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2016

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, Inc.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Liabilities and Net Assets			-						
Current Liabilities									
Accounts payable and accrued expenses	\$ 191,982	\$ 1,858,488	\$ 108,291	\$ 55,092	\$ -	\$ 11,195	\$ 2,225,048	\$ -	\$ 2,225,048
Accrued vacation and employee benefits	38,381	325,267	35,429	28,695	--	15,367	443,139	--	443,139
Funds held in trust	--	193,836	--	444,196	--	--	638,032	--	638,032
Deferred revenue	--	89,809	748	77,592	--	--	168,149	--	168,149
Total Current Liabilities	<u>230,363</u>	<u>2,467,400</u>	<u>144,468</u>	<u>605,575</u>	<u>--</u>	<u>26,562</u>	<u>3,474,368</u>	<u>--</u>	<u>3,474,368</u>
Other Liabilities									
Liabilities subject to potential compromise	1,138,278	30,169,043	132,800	15,356,141	--	65,491	46,861,753	--	46,861,753
Total Other Liabilities	<u>1,138,278</u>	<u>30,169,043</u>	<u>132,800</u>	<u>15,356,141</u>	<u>--</u>	<u>65,491</u>	<u>46,861,753</u>	<u>--</u>	<u>46,861,753</u>
Total Liabilities	<u>1,368,641</u>	<u>32,636,443</u>	<u>277,268</u>	<u>15,961,716</u>	<u>--</u>	<u>92,053</u>	<u>50,336,121</u>	<u>--</u>	<u>50,336,121</u>
Net Assets									
Unrestricted deficit	(793,104)	(24,639,899)	272,838	(2,967,831)	(1,314,583)	(80,332)	(29,522,911)	(75,000)	(29,597,911)
Temporarily restricted	42,437	45,637	--	--	211	--	88,285	--	88,285
Permanently restricted	--	--	5,000	--	2,308,313	--	2,313,313	--	2,313,313
Total Net Assets	<u>(750,667)</u>	<u>(24,594,262)</u>	<u>277,838</u>	<u>(2,967,831)</u>	<u>993,941</u>	<u>(80,332)</u>	<u>(27,121,313)</u>	<u>(75,000)</u>	<u>(27,196,313)</u>
Total Liabilities and Net Assets	<u>\$ 617,974</u>	<u>\$ 8,042,181</u>	<u>\$ 555,106</u>	<u>\$ 12,993,885</u>	<u>\$ 993,941</u>	<u>\$ 11,721</u>	<u>\$ 23,214,808</u>	<u>\$ (75,000)</u>	<u>\$ 23,139,808</u>

See accompanying independent auditors' report.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, Inc.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Changes in Unrestricted Net Assets									
Operating revenues									
Net patient service revenues	\$ --	\$ 35,724,101	\$ --	\$ --	\$ --	\$ 379,448	\$ 36,103,549	\$ --	\$ 36,103,549
Home health care revenue	--	--	3,803,591	--	--	--	3,803,591	--	3,803,591
Senior day center services	--	--	581,057	--	--	--	581,057	--	581,057
Net patient revenues	--	35,724,101	4,384,648	--	--	379,448	40,488,197	--	40,488,197
Provision for bad debts	--	400,004	293,094	--	--	--	693,098	--	693,098
Net patient revenues less provision for bad debt	--	35,324,097	4,091,554	--	--	379,448	39,795,099	--	39,795,099
Member services and rental income - Hoffman SummerWood Community	--	--	--	6,242,921	--	--	6,242,921	--	6,242,921
Grants	98,329	9,200	63,330	--	--	--	170,859	--	170,859
Management fees	2,013,258	--	--	--	--	--	2,013,258	(2,013,258)	--
Other income	36,584	105,589	189,897	276,157	--	150,138	758,365	(150,137)	608,228
Total operating revenues	2,148,171	35,438,886	4,344,781	6,519,078	--	529,586	48,980,502	(2,163,395)	46,817,107
Operating expenses									
Nursing services	--	17,150,095	1,770,229	--	--	42,012	18,962,336	--	18,962,336
Administration	1,408,906	3,926,691	2,400,316	2,842,212	--	498,001	11,076,126	(2,013,258)	9,062,868
Health benefits	205,575	3,775,807	515,640	266,780	--	109,137	4,872,939	--	4,872,939
Nutritional services	--	2,934,549	68,378	1,094,512	--	--	4,097,439	--	4,097,439
Medical services	--	2,369,214	35,206	--	--	523,177	2,927,597	(150,137)	2,777,460
Building operations	--	1,353,361	26,822	589,254	--	--	1,969,437	--	1,969,437
Depreciation and amortization	--	463,135	66,890	917,631	--	--	1,447,656	--	1,447,656
Environmental services	--	1,687,476	1,339	248,126	--	--	1,936,941	--	1,936,941
Pharmacy services	--	1,517,267	--	--	--	--	1,517,267	--	1,517,267
Provider tax	--	1,270,173	--	--	--	--	1,270,173	--	1,270,173
Interest expense	2,919	661,181	--	221,914	--	--	886,014	--	886,014
Rehabilitation services	--	1,108,873	73,009	--	--	--	1,181,882	--	1,181,882
Development	411,712	--	--	--	229,148	--	640,860	--	640,860
Social services	--	582,538	5,408	--	--	--	587,946	--	587,946
Life enrichment services	--	344,228	--	--	--	--	344,228	--	344,228
Health information management	--	164,412	--	--	--	--	164,412	--	164,412
Cognitive program services	--	166,570	--	--	--	--	166,570	--	166,570
Total operating expenses	2,029,112	39,475,570	4,963,237	6,180,429	229,148	1,172,327	54,049,823	(2,163,395)	51,886,428
(Loss) Income from Operations	119,059	(4,036,684)	(618,456)	338,649	(229,148)	(642,741)	(5,069,321)	--	(5,069,321)

See accompanying independent auditors' report.

**HEBREW HEALTH CARE, INCORPORATED AND AFFILIATES
(DEBTOR-IN-POSSESSION)**

CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, Inc.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Non-operating gains (losses)									
Interest and dividend income and distributions	\$ --	\$ --	\$ --	\$ 7,134	\$ 114,972	\$ --	\$ 122,106	\$ --	\$ 122,106
Gifts, bequests and special events	737,071	--	--	--	10,053	--	747,124	--	747,124
Loss on disposal of property, plant and equipment	--	--	(4,724)	--	--	--	(4,724)	--	(4,724)
Total non-operating gains	<u>737,071</u>	<u>--</u>	<u>(4,724)</u>	<u>7,134</u>	<u>125,025</u>	<u>--</u>	<u>864,506</u>	<u>--</u>	<u>864,506</u>
Excess of Revenues Over (Under) Expenses	<u>856,130</u>	<u>(4,036,684)</u>	<u>(623,180)</u>	<u>345,783</u>	<u>(104,123)</u>	<u>(642,741)</u>	<u>(4,204,815)</u>	<u>--</u>	<u>(4,204,815)</u>
Other Changes in Unrestricted Net Assets (Deficit)									
Excess of revenues over (under) expenses	856,130	(4,036,684)	(623,180)	345,783	(104,123)	(642,741)	(4,204,815)	--	(4,204,815)
Intercompany transfers	2,665,516	4,776,427	971,287	(1,228,186)	(8,521,509)	1,336,465	--	--	--
Change in pension instrument	--	(357,151)	--	--	--	--	(357,151)	--	(357,151)
Change in Unrestricted Net Assets (Deficit)	<u>3,521,646</u>	<u>382,592</u>	<u>348,107</u>	<u>(882,403)</u>	<u>(8,625,632)</u>	<u>693,724</u>	<u>(4,561,966)</u>	<u>--</u>	<u>(4,561,966)</u>
Temporarily Restricted Net Assets									
Net realized and unrealized losses	--	(187)	--	--	--	--	(187)	--	(187)
Change in Temporarily Restricted Net Assets	<u>--</u>	<u>(187)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(187)</u>	<u>--</u>	<u>(187)</u>
Change in Net Assets (Deficit)	<u>3,521,646</u>	<u>382,405</u>	<u>348,107</u>	<u>(882,403)</u>	<u>(8,625,632)</u>	<u>693,724</u>	<u>(4,562,153)</u>	<u>--</u>	<u>(4,562,153)</u>
Net Assets (Deficit) - Beginning	<u>(4,272,313)</u>	<u>(24,976,667)</u>	<u>(70,269)</u>	<u>(2,085,428)</u>	<u>9,619,573</u>	<u>(774,056)</u>	<u>(22,559,160)</u>	<u>(75,000)</u>	<u>(22,634,160)</u>
Net Assets (Deficit) - End	<u>\$ (750,667)</u>	<u>\$ (24,594,262)</u>	<u>\$ 277,838</u>	<u>\$ (2,967,831)</u>	<u>\$ 993,941</u>	<u>\$ (80,332)</u>	<u>\$ (27,121,313)</u>	<u>\$ (75,000)</u>	<u>\$ (27,196,313)</u>

See accompanying independent auditors' report.