

**THE HEBREW HOME FOR THE AGED
AT RIVERDALE**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2016

THE HEBREW HOME FOR THE AGED AT RIVERDALE

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Independent Auditor's Report

**Board of Trustees
The Hebrew Home for the Aged at Riverdale**

Report on the Financial Statements

We have audited the accompanying financial statements of The Hebrew Home for the Aged at Riverdale, which comprise the balance sheet as of December 31, 2016, and the related statements of activities 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.

Auditor's 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 auditor's 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 financial position of The Hebrew Home for the Aged at Riverdale as of December 31, 2016, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As more fully disclosed in Note 1 to the financial statements, Palisade Nursing Home Company, Inc. was merged into The Hebrew Home for the Aged at Riverdale with an effective date of October 1, 2016. Our opinion is not modified with respect to this matter.

As further disclosed in Note 2 to the financial statements, The Hebrew Home for the Aged at Riverdale implemented Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. Our opinion is not modified with respect to this matter.

Loeb & Troper LLP

March 30, 2017

THE HEBREW HOME FOR THE AGED AT RIVERDALE

BALANCE SHEET

DECEMBER 31, 2016

ASSETS

Current assets	
Cash	\$ 2,810,128
Cash - residents' funds	489,549
Investments (Notes 4 and 14)	18,808,320
Accounts receivable - net (Note 2)	32,592,266
Grants receivable (Note 2)	943,311
Contributions receivable - current - net (Note 5)	234,353
Due from affiliates (Note 3)	771,151
Other current assets	<u>1,615,093</u>
Total current assets	<u>58,264,171</u>
Assets limited as to use - cash	<u>13,365,040</u>
Noncurrent assets	
Investments (Note 4)	7,081,527
Retirement plan investments (Note 4)	312,260
Contributions receivable - long-term (Note 5)	2,025,643
Due from affiliates (Note 3)	1,593,591
Fixed assets - net (Note 6)	55,259,821
Capitalized museum and art collections	<u>8,192,992</u>
Total noncurrent assets	<u>74,465,834</u>
Total assets	<u>\$ 146,095,045</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

BALANCE SHEET

DECEMBER 31, 2016

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses (Note 3)	\$ 22,418,346
Accrued pension cost (Note 7)	1,464,000
Residents' funds	489,549
Refundable advances	370,100
Annuity obligations	50,364
Line of credit (Note 8)	1,684,000
Loans payable (Note 8)	416,470
Estimated amount due to third parties (Note 10)	1,181,632
Mortgages payable (Note 9)	2,488,161
Retirement benefits payable (Note 11)	6,851
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Total current liabilities	30,569,473
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Long-term liabilities	
Accrued pension cost (Note 7)	11,502,704
Annuity obligations	442,049
Line of credit (Note 8)	1,000,000
Loans payable (Note 8)	13,603,871
Estimated amount due to third parties (Note 10)	10,313,863
Mortgages payable (Note 9)	46,746,016
Retirement benefits payable (Note 11)	883,341
	<hr/>
Total long-term liabilities	84,491,844
	<hr/>
Total liabilities	115,061,317
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Net assets (Exhibit B)	
Unrestricted	18,402,811
Temporarily restricted (Note 12)	3,570,917
Permanently restricted (Note 13)	9,060,000
	<hr/>
Total net assets	31,033,728
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Total liabilities and net assets	\$ 146,095,045
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See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE HEBREW HOME FOR THE AGED AT RIVERDALE

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and other support				
Net resident and community programs service revenues (net of contractual allowances and discounts)	\$ 103,013,452			\$ 103,013,452
Provision for bad debt	<u>(3,917,986)</u>			<u>(3,917,986)</u>
Net resident and community programs less provision for bad debt	99,095,466			99,095,466
Other revenue (Note 3)	1,617,043			1,617,043
Net investment income (Note 4)	360,000			360,000
Contributions and grants	4,253,355			4,253,355
Actuarial change in annuity obligations	(19,398)			(19,398)
Net assets released from restrictions (Note 12)	<u>1,508,998</u>	<u>\$ (1,508,998)</u>		
Total operating revenues and other support	<u>106,815,464</u>	<u>(1,508,998)</u>		<u>105,306,466</u>
Operating expenses				
Salaries and employee benefits	55,014,001			55,014,001
Supplies and expenses (including interest of \$1,963,048)	<u>38,113,092</u>			<u>38,113,092</u>
Total operating expenses before depreciation and amortization	<u>93,127,093</u>			<u>93,127,093</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**EXHIBIT B****-2-****STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net operating profit (loss) before depreciation and amortization	\$ 13,688,371	\$ (1,508,998)		\$ 12,179,373
Depreciation and amortization	<u>(5,176,529)</u>			<u>(5,176,529)</u>
Net operating profit (loss)	8,511,842	(1,508,998)		7,002,844
Nonoperating activity				
Net investment income (Note 4)	37,331	291,138		328,469
Contributions and grants	<u>75,400</u>	<u>859,235</u>		<u>934,635</u>
Change in net assets before other changes	8,624,573	(358,625)		8,265,948
Transfers to related parties (Note 3)	(656,458)			(656,458)
Merger of Palisade Nursing Home Company, Inc. (Note 1)	20,958,627			20,958,627
Adjustment to reflect pension funded status (Note 7)	<u>1,739,493</u>			<u>1,739,493</u>
Change in net assets (Exhibit C)	30,666,235	(358,625)		30,307,610
Net assets (deficit) - beginning of year	<u>(12,263,424)</u>	<u>3,929,542</u>	\$ <u>9,060,000</u>	<u>726,118</u>
Net assets - end of year (Exhibit A)	<u>\$ 18,402,811</u>	<u>\$ 3,570,917</u>	<u>\$ 9,060,000</u>	<u>\$ 31,033,728</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE HEBREW HOME FOR THE AGED AT RIVERDALE

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 30,307,610
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	5,176,529
Amortization of deferred financing costs	126,278
Merger of Palisade Nursing Home Company, Inc.	(20,299,972)
Actuarial change in annuity obligations	19,398
Contributions restricted for annuity agreements	30,669
Net loss on investments	82,572
Contributed art	(75,400)
Decrease (increase) in assets	
Accounts receivable	(7,034,886)
Grants receivable	2,646,903
Contributions receivable	140,566
Estimated amount due from third parties	1,603,656
Due from affiliates	5,743,537
Other current assets	150,197
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	454,783
Accrued pension cost	(907,704)
Refundable advances	82,200
Estimated amount due to third parties	(7,734,644)
Due to affiliates	(242,895)
Retirement benefits payable	40,005
	<hr/>
Net cash provided by operating activities	10,309,402
	<hr/>
Cash flows from investing activities	
Purchase of investments	(8,749,096)
Proceeds from sale of investments	884,952
Increase in assets limited as to use	(13,365,040)
Fixed asset acquisitions	(2,889,622)
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Net cash used by investing activities	(24,118,806)
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THE HEBREW HOME FOR THE AGED AT RIVERDALE

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

Cash flows from financing activities	
Proceeds from contributions restricted to long-term investments	\$ 1,450,000
Payments of annuity obligations	(42,475)
Proceeds from loans	16,647,832
Principal payments of loans and capital lease obligation	(2,224,489)
Principal payments of mortgages	<u>(2,207,358)</u>
Net cash provided by financing activities	<u>13,623,510</u>
Net change in cash	(185,894)
Cash - beginning of year	<u>2,996,022</u>
Cash - end of year	<u><u>\$ 2,810,128</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u><u>\$ 1,829,917</u></u>
Noncash transactions	
Merger of Palisade Nursing Home Company, Inc.	
Accounts receivable	\$ 7,730,330
Grant receivable	249,053
Other current assets	52,032
Intercompany receivable	2,762,431
Due from third parties	1,603,656
Fixed assets - net	8,288,556
Accounts payable and accrued expenses	(64,262)
Notes payable	<u>(321,824)</u>
	<u><u>\$ 20,299,972</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1 - NATURE OF ORGANIZATION

The Hebrew Home for the Aged at Riverdale (HHAR) operates an 845-bed nursing facility located in Riverdale, New York. HHAR is licensed by the New York State Department of Health (DOH) and certified by both the Medicaid and Medicare programs to provide health care in New York State. On October 1, 2016 the Palisade Nursing Home (PNH), an affiliated 288-bed nursing facility which operated on the same campus as HHAR, merged into HHAR with HHAR as the surviving entity. With the merger, all assets and liabilities of PNH became assets and liabilities of HHAR. PNH beds were moved to the HHAR operating certificate. As a result, the operations of HHAR include PNH activities for the last three months of 2016. Prior to the merger, all operating expenses common to HHAR and PNH were allocated to each institution by applying recognized cost-finding statistics which reflect the percentage of costs incurred by each entity. Separate financial statements were prepared for PNH premerger, for the nine months ended September 30, 2016. HHAR provided 220,536 days of nursing facility care for the year ended December 31, 2016.

In addition to resident services, HHAR provides a broad spectrum of community health care and supportive services, both at home or at conveniently located community-based sites. These services include adult day care, case management and home health care programs. Outpatient rehabilitation, memory care centers, and an elder abuse shelter services are also provided.

HHAR is funded primarily by resident and community program service revenue paid by Medicaid, Medicare, managed care, and private individuals.

HHAR is affiliated with RiverSpring Health Holding Corp. RiverSpring Services Corp. (RSSC), PNH, The Hebrew Home for the Aged at Riverdale Foundation, Inc. (HHARF), RiverSpring Licensed Home Care Services Agency, Inc. (RSLHCSA), Hebrew Home Housing Development Fund Company, Inc. (HHHDFC), ElderServe Health, Inc. a/k/a RiverSpring Health Plans (ESH), Hudson House Housing Development Fund Company, Inc. (HUHDFC), Riverdale Terrace Housing Development Fund Company, Inc., 1880 Boston Road Housing Development Fund Corporation, Boston Apartments, Inc., and 1880 HDFC Ventures, LLC. The affiliates are related to HHAR either indirectly or directly through some common Board members, through common management or common control.

HHAR is exempt from federal income tax as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments are recorded at fair value. HHAR invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect amounts reported in HHAR's financial statements.

Fair Value Measurements

Fair Value Measurements, ASC Topic 820, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HHAR 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 or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- 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 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.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

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 December 31, 2016 as compared to those used at December 31, 2015.

U.S. Government obligations and equities - Valued at the closing price reported on the active market on which the individual securities are traded.

Loan funds, multi-asset fund and limited partnerships - Valued at the fair value provided by the managers of the funds using various pricing methodologies, includes discount rates or net asset values.

Corporate bonds - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

Pooled separate account and mutual funds - Valued at the net asset value (NAV) of shares held at year-end.

Guaranteed deposit account - Valued at contract value which represents fair value. Contract value represents contributions made plus interest at the declared interest rate, which changes periodically.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HHAR 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.

Accounts receivable - Accounts receivable are recorded when services are rendered and are reported net of allowances for doubtful accounts. Interest is not accrued or recorded on outstanding accounts receivable. As of December 31, 2016, HHAR has recorded an allowance for doubtful accounts in the amount of approximately \$12,128,000.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Grant income and receivable - Revenues from grants are recognized according to the specific grant agreement when qualifying expenditures are incurred. Grants are subject to audit by the granting agency.

Contributions receivable - Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - HHAR determines whether allowances for uncollectible accounts should be provided for its receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent collections and historical information. Receivables are charged to bad debt when they are deemed to be uncollectible based upon a periodic review of the accounts by management.

Assets limited as to use - Assets limited as to use represent funds advanced to HHAR pursuant to financing agreements which are to be used for the acquisition and construction of specific projects.

Estimated amount due from/to third parties - Due from third parties represent accruals by HHAR of positive retroactive revenue adjustments. Due to third parties include accruals by HHAR of estimates of possible negative retroactive revenue adjustments.

Residents' funds - Residents' personal funds are maintained in bank accounts and investments separate from HHAR's accounts. Interest earned on residents' funds is credited to the residents' accounts.

Refundable advances - Payments from government agencies in excess of qualified expenses under the terms of the government contract are reflected on the balance sheet as refundable advances.

Debt issuance costs - Debt issuance costs are reflected as a reduction of the carrying amount of the related debt, and are amortized on the straight-line basis over the life of the associated debt. Amortization of debt issuance costs is included in interest expense.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Items in excess of \$500 with an estimated useful life of greater than one year are capitalized. Depreciation is recorded on the straight-line method over their estimated useful lives as follows:

Land improvements	10 - 20 years
Buildings and improvements	5 - 40 years
Fixed equipment	10 - 20 years

Depreciation of movable equipment and amortization of leased equipment are recorded on the straight-line and double-declining-balance methods, respectively, over the lesser of their lease term or their estimated useful lives, which range from 3 to 25 years.

Capitalized museum and art collections - The capitalized museum and art collections are recorded at cost or at fair value at the date of donation. HHAR's collections are made up of artifacts of historical, cultural, or scientific significance that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

Remainder interests - HHAR is the beneficiary of several real estate partnership remainder interests, the value of which is undeterminable. HHAR only records remainder interests when the values can reasonably be determined. Accordingly, these interests have not been reflected in these financial statements.

Annuity obligations - Annuity obligations are recorded at the actuarial present value of future payments.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. In addition, assets whose use is limited under terms of debt indentures, trust agreements or third-party reimbursement arrangements are unrestricted.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by HHAR has been limited by donors to a specific time period or purpose.

Permanently restricted net assets - Permanently restricted net assets are those limited by donors for investment in perpetuity, the income and appreciation from which are expendable to support HHAR's activities.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Resident and community programs service revenues - Service revenues are reported at the estimated net realizable amounts from residents, clients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue is recognized when services are performed. 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. Community program revenues include the Certified Home Health Agency (CHHA), and Adult Day Care (ADC) programs. Laws and regulations governing health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicare and Medicaid programs.

Services revenues, net of contractual allowances and discounts, include third-party payors of \$86,427,606 and self-pay of \$16,585,846 for a total of \$103,013,452.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Advertising - All advertising costs are expensed in the year they are incurred.

Measure of operations - Unrestricted contributions, except for contributions of long-lived assets, are reflected in operating revenues. Unrestricted investment income other than unrealized gains as well as income derived from limited use funds are included within the performance indicator. Restricted contributions and grants, transfers (to) from related parties, the merger with PNH, and adjustment to pension funded status are excluded from the performance indicator.

Functional expenses - The costs of providing HHAR's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - HHAR has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by applicable taxing authorities.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events - Subsequent events have been evaluated through March 30, 2017, which is the date the financial statements were available to be issued.

New accounting pronouncements/change in accounting principle - In April 2015, FASB issued Accounting Standards Update (ASU) No. 2015-03 - Simplifying the Presentation of Debt Issuance Costs. This update was issued as part of an initiative to reduce complexity in accounting standards. This amendment updates Subtopic 835-30 - Interest - Imputation of Interest and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments to this update are effective for financial statements issued for fiscal years beginning after December 15, 2015.

In connection with the aforementioned, HHAR adopted the new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. In addition, amortization of the debt issuance costs is reported as interest expense rather than as amortization expense. The effect of the change for 2016 was to decrease fixed assets by \$1,774,656, and net \$278,956 against loans payable and net \$1,495,700 against mortgage payable by \$1,495,700 and to record interest expense of \$126,278, instead of amortization expense. Debt issuance costs had been combined within fixed assets in 2015. These amounts have been reclassified to conform the presentation with the ASU. The change does not impact net assets of HHAR.

NOTE 3 - AFFILIATES

The following non-interest-bearing receivable balances are due (to) from affiliates:

Current assets	
ESH	\$ 478,278
ELHCSA	2,291,172
HHARF	(1,267,900)
HHHDFC	(759,225)
HUHDFC	<u>28,826</u>
	771,151
Noncurrent assets	
ESH	<u>1,593,591</u>
	<u>\$ 2,364,742</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 3 - AFFILIATES (continued)**

RSSC provided management services to HHAR. Management fees for 2016 were \$4,042,290. As of December 31, 2016, \$2,661,719 was due to RSSC for these services. These amounts are included within accounts payable and accrued expenses.

HHAR charged RSSC \$456,416 for occupancy, which represents RSSC's allocable share of occupancy. This cost recovery is included within other revenue.

HHAR transferred \$656,458 of legacies and unrestricted contributions to HHARF in 2016.

HHAR purchased personal care and home health aide services from RSLHCSA of \$361,640 for the year ended December 31, 2016. As of December 31, 2016, the amounts due to RSLHCSA was \$231,490. This amount is included in accounts payable and accrued expenses.

HHAR provided skilled nursing residential services and other services for ESH members. During 2016, ESH purchased \$3,864,694 of these services from HHAR. At December 31, 2016, the amount due to HHAR for these services was \$999,818. This amount is included in accounts receivable.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 4 - INVESTMENTS

The following tables set forth by level, within the fair value hierarchy, the investments at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General investments				
Mutual funds				
Fixed income	\$ 372,419			\$ 372,419
Equity	2,549,783			2,549,783
Short Term Bond	274,060			274,060
Multi-Asset fund			\$ 4,474,714	4,474,714
Loan funds			4,043,047	4,043,047
Corporate bonds		\$ 10,613,373		10,613,373
Equities				
Consumer discretionary	44,651			44,651
Consumer staples	22,024			22,024
Energy	25,919			25,919
Financials	74,674			74,674
Health care	30,766			30,766
Industrials	67,950			67,950
Information technology	83,068			83,068
Materials	15,548			15,548
Real Estate	145,075			145,075
Telecommunication services	460			460
Utilities	7,644			7,644
Equity blend	<u>19,440</u>			<u>19,440</u>
Total general investments as reported on the fair value hierarchy	<u>\$ 3,733,481</u>	<u>\$ 10,613,373</u>	<u>\$ 8,517,761</u>	22,864,615
Cash equivalents				<u>3,025,232</u>
Total				<u>\$ 25,889,847</u>
Retirement plan investments				
Mutual funds - equity	<u>\$ 312,260</u>			<u>\$ 312,260</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 4 - INVESTMENTS (continued)

A summary of changes in Level 3 investments is as follows:

	Level 3
Balance, beginning of year	\$ 8,449,978
Unrealized gains (losses)*	(41,198)
Purchases	108,981
Balance, end of year	\$ 8,517,761
* The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	
	\$ (41,198)

The following table presents investments whose fair values are determined using the NAV as a practical expedient:

	Fair Value	Unfunded	Redemption	Redemption
	2016	Commitments	Frequency	Notice
				Period
Multi-Asset Fund (a)	\$ 4,474,714	-	Daily	N/A
Loan funds (b)	4,043,047	-	Daily	N/A
Total	\$ 8,517,761			

- a. **Multi-Asset Fund** - The TIFF Multi-Asset Fund is an investment vehicle under the TIFF Investment Program, Inc. (TIP). TIP is a no-load, open-end management investment company that seeks to improve the net investment returns of its members. The Multi-Asset Fund is available primarily to foundations, endowments, other 501(c)(3) organizations, and certain other non-profit organizations that meet TIP's eligibility requirements. The fund's investment objective is to attain a growing stream of current income and appreciation of principal that at least offset inflation.
- b. **Loan funds** - FJC Agency Loan Fund (ALF) provides secured loans to credit-qualified charitable organizations in furtherance of their charitable missions. The loans are made at a floating interest rate of the Wall Street Journal prime rate plus three percent. There are generally no fees to the borrower or prepayment penalties. A private foundation has pledged to FJC a security interest in treasuries and a money market fund to be used as collateral for the payment of principal amounts in the event of default of any of the agency loans.

-continued-

THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 4 - INVESTMENTS (continued)

Following are the components of investment income for the years ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Operating		
Interest and dividends	\$ 274,703	
Net realized gain on investments	<u>85,297</u>	
Total operating	<u>360,000</u>	
Nonoperating		
Interest and dividends		\$ 331,194
Net realized gain (loss) on investments		10,608
Net unrealized gain (loss) on investments	<u>37,331</u>	<u>(50,664)</u>
Total nonoperating	<u>37,331</u>	<u>291,138</u>
Total	<u>\$ 397,331</u>	<u>\$ 291,138</u>

NOTE 5 - CONTRIBUTIONS RECEIVABLE

All contributions receivable have been reflected at present value. Receivables due past 2017 have been discounted to their present value using a discount rate of 6% and 2.2%.

Less than one year (including \$1,000,000 restricted for investment in endowment)	\$ 1,667,673
One to five years (including \$1,000,000 restricted for investment in endowment)	<u>1,050,000</u>
	2,717,673
Less allowance of doubtful receivables	(433,320)
Less discount to present value	<u>(24,357)</u>
	<u>\$ 2,259,996</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 6 - FIXED ASSETS

Fixed assets comprised the following at December 31:

Land	\$ 874,778
Land improvements	8,047,764
Buildings and improvements	161,433,051
Fixed equipment	3,643,321
Movable equipment	33,074,519
Leased equipment	2,396,388
Construction in progress	<u>2,344,118</u>
	211,813,939
Accumulated amortization of capital leases	(2,386,341)
Accumulated depreciation and amortization	<u>(154,167,777)</u>
	<u>\$ 55,259,821</u>

NOTE 7 - PENSION PLANS

- A) Local 1199 union employees of HHAR are covered by an employer-contributed pension plan administered by the Board of Trustees of Local 1199. Union pension expense, after allocation to affiliates, amounted to \$2,638,477 for 2016.

The following information applies to HHAR's union-managed pension plan, which includes amounts allocated to affiliates:

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act	FIP/RP Status	Contributions 2016	Surcharge Imposed 2016	Expiration Date of Collective Bargaining Agreement
		Zone Status 2016	Pending/ Implemented			
1199 SEIU Health Care Employees Pension Fund	EIN 13-3604862 Plan No. 001	*	N/A	\$ 3,443,260**	No	September 30, 2016***

- * As of the date the financial statements were issued, Form 5500 was not available for the Plan year ended December 31, 2016 and a zone status certification was not yet available. The latest Form 5500 available is for the Plan year ended December 31, 2015.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

** Represents total contributions to the Plan by HHAR before allocation to affiliates.

*** HHAR is currently negotiating an extension of the collective bargaining agreement.

- B) HHAR maintains a defined contribution plan, "The Retirement and Savings Plan." Under this plan, employees may defer a percentage of pay to make 403(b) elective deferral contributions. HHAR matches fifty percent of employee contributions up to 4% of employees' pay. Employees are also eligible for an additional matching contribution based on years of service equal to a percentage of an employee's annual pay as follows:

<u>Years of Service</u>	<u>Percentage of Annual Pay</u>
Less than 10	1%
10, but less than 20	2%
20, but less than 30	3%
30 or more	4%

In addition, HHAR contributes 3% of an employee's salary for all active participants in the plan during the year. Pension expense for the 403(b) plan was \$644,898.

- C) HHAR also maintains a frozen defined benefit plan. Virtually all nonunion employees of HHAR who were employed at the date the plan was frozen are covered by this plan. The benefits are based on the employees' final average compensation. HHAR's funding policy is to contribute annually the amount required to cover the cost and to fund supplemental costs, if any, over a 30-year period from the date each supplemental cost was incurred. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The plan has been frozen since January 1, 2009. HHAR's portion of pension expense for this plan for the year ended December 31, 2016 was \$1,821,639.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

C) (continued)

During 2016, HHAR offered lump-sum distributions to certain vested, terminated employees who are participants in the defined benefit pension plan. As a result, approximately \$3.2 million of lump sum distributions were paid out in December of 2016. Pension cost for 2016 also includes a one-time \$1.2 million settlement loss.

The following table summarizes the benefit obligations, fair value of assets, funded status and accrued benefit costs as of December 31, 2016 and employer contributions, benefits paid and net periodic pension costs for the year then ended:

Benefit obligations	\$ (40,968,766)
Fair value of plan assets	<u>28,002,062</u>
Funded status	\$ <u>(12,966,704)</u>
Employer contributions	\$ <u>1,464,000</u>
Benefits paid (including settlements of \$3,211,693)	\$ <u>4,822,889</u>
Net periodic pension cost (for entire plan)	\$ <u>2,295,789</u>
Adjustment to reflect pension funded status	\$ <u>1,739,493</u>

Weighted average assumptions:

Discount rate	4.61%
Expected return on plan assets	7.50%
Rate of compensation increase	N/A

The expected rate of return on plan assets assumption of 7.50% was selected by the plan sponsor as the best estimate for long-term asset performance. As for all plans, this rate is subject to review and may be revised in either direction in future disclosures.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

C) (continued)

The following table sets forth by level, within the fair value hierarchy, the plan assets at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Guaranteed deposit account	\$ -	\$ 1,637,904	\$ -	\$ 1,637,904
Money Market	-	764,449	-	764,449
Limited partnerships	-	-	115,104	115,104
Mutual funds				
Bond funds	8,605,006	-	-	8,605,006
Large cap - growth	3,109,324	-	-	3,109,324
Large cap - blend	3,180,028	-	-	3,180,028
Mid cap - blend	583,339	-	-	583,339
Small cap - growth	277,081	-	-	277,081
Small cap - index	289,694	-	-	289,694
International	3,107,571	-	-	3,107,571
Market neutral	2,003,111	-	-	2,003,111
Multialternative	<u>4,329,451</u>	<u>-</u>	<u>-</u>	<u>4,329,451</u>
Total investments	<u>\$ 25,484,605</u>	<u>\$ 2,402,353</u>	<u>\$ 115,104</u>	<u>\$ 28,002,062</u>

A summary of changes in Level 3 investments is as follows:

	<u>Level 3</u>
Balance, beginning of year	\$ 197,642
Unrealized gains (losses)*	<u>(82,538)</u>
Balance, end of year	<u>\$ 115,104</u>
* The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ (82,538)</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 7 - PENSION PLANS (continued)

C) (continued)

The investment in limited partnerships is in the process of being liquidated.

The investment policy is a conservative policy with respect to investment of assets with the primary objectives being preservation of capital and the achievement of the maximum possible investment return.

HHAR expects to contribute \$1,464,000 to the pension plan in 2017.

Benefit payments, reflecting expected future services, are projected as follows:

2017	\$ 2,191,008
2018	2,141,324
2019	2,141,609
2020	2,408,007
2021	2,401,663
2022-2025	12,770,625

NOTE 8 - LOANS PAYABLE

Loans payable comprised the following at December 31:

Current portion	
Line of credit (A)	\$ 1,684,000
Equipment loans (B)	164,562
COGEN- Bank Of America (C)	180,908
FJC Early Sense (D)	<u>71,000</u>
	<u>2,100,470</u>
Long-term liabilities	
Line of credit (A)	1,000,000
Equipment loans (B)	9,403
COGEN- New York Green Bank (NYGB) (C)	11,397,832
COGEN- Bank Of America (C)	2,369,092
FJC Early Sense (D)	<u>106,500</u>
	14,882,827
Less unamortized debt issuance costs	<u>(278,956)</u>
Net total	<u>\$ 16,704,341</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 8 - LOANS PAYABLE (continued)

- A. In 2015 HHAR entered into a revolving line of credit with Israel Discount Bank. The line of credit provides for maximum principal drawings of \$5,000,000. Interest on the line of credit is charged at a variable rate based on one month LIBOR plus 3% or the Wall Street Journal's published prime rate (at the option of HHAR). HHAR must bring the balance down to no greater than \$1 million at one point each year. At December 31, 2016, the interest rate was 3.75% and the balance was \$2,684,000.
- B. HHAR entered into a note payable agreement in January 2008 to finance energy equipment. The note requires monthly payments of principal and interest at 2.49%. The note matures in January 2018. Repayment is secured by a security interest in the financed equipment. The loan is guaranteed by HHARF. The note balance on December 31, 2016 was \$120,731.

PNH entered into a note payable agreement August 1, 2007 to finance energy equipment. This note was transferred to HHAR on October 1, 2016. The note requires monthly payments of principal and interest at 2.74%. The note matures in June 2017. The loan is secured by a subordinate security interest in the financed equipment, subordinate to the mortgagor's lien. The loan is guaranteed by HHARF. The note balance on December 31, 2016 was \$53,234.

Required principal payments for the next two years are as follows:

2017	\$ 164,562
2018	<u>9,403</u>
	<u>\$ 173,965</u>

- C. On December 29, 2016 HHAR closed on a \$13,947,832 tax exempt equipment lease to finance the installation of a combined heat and power "CHP" system (co-generation). This project was financed through a public private partnership between Bank of America Merrill Lynch ("B of A") and the New York Green Bank ("NYGB"). This lease is made through the Dormitory Authority of New York's (DASNY) Tax-Exempt Leasing Program ("TELP"). B of A financed \$2,550,000 over four years at an interest rate of 3.359% and NYGB financed \$11,397,832 over 10 years at a rate of 4.446%. B of A and NYGB agreed to roll in interest through June 29, 2017 totaling \$43,122 and interest through June 29, 2018 totaling \$784,611 into principal. Payments will commence as project milestones are met. The loan balances on December 31, 2016 were \$2,550,000 and \$11,397,832. Unamortized debt issuance costs as of December 31, 2016 were \$278,956.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 8 - LOANS PAYABLE (continued)

Minimum lease payments under noncancellable leases as of December 31, 2016 are as follows:

2017	\$ 223,191
2018	1,410,542
2019	2,022,399
2020	2,098,513
2021	1,383,244
Thereafter	<u>10,203,400</u>
Total minimum lease payments	17,341,289
Less amounts representing interest	<u>(3,393,457)</u>
Principal amount of net minimum lease payments	\$ <u>13,947,832</u>

- D. During 2014, PNH issued promissory notes for the purchase of patient monitoring system (Early Sense) totaling \$355,000. These notes were transferred to HHAR on October 1, 2016. These uncollateralized notes are guaranteed by HHARF. The promissory notes have a five-year term with interest and fixed principal payments made quarterly at a floating interest rate of prime plus 3%, which was 6.75% as of December 31, 2016. The promissory note balance on December 31, 2016 was \$177,500.

Required principal payments for the next three years are as follows:

2017	\$ 71,000
2018	71,000
2019	<u>35,500</u>
	\$ <u>177,500</u>

NOTE 9 - MORTGAGES PAYABLE

- A. In 2015 HHAR refinanced its previous three mortgages with new tax exempt financing through tax-exempt bonds issued by Build NYC Resource Corporation. The debt has a term of 15 years with an amortization based on 20 years. The maturity date of the debt is July 1, 2035. The debt is collateralized by a mortgage on HHAR excluding the Goldfine Pavilion, and a pledge of gross receipts of HHAR. Interest will be paid at a rate of 3.42%. As part of the refinancing, the escrow deposits associated with the prior mortgages were released. As of December 31, 2016 the unpaid principal balance was \$50,729,877.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 9 - MORTGAGES PAYABLE (continued)

Required principal payments over the next five years and thereafter are as follows:

2017	\$ 2,488,161
2018	2,574,602
2019	2,664,047
2020	2,756,599
2021	2,852,367
Thereafter	<u>37,394,101</u>
Total	50,729,877
Less unamortized debt issuance costs	<u>(1,495,700)</u>
Net total	\$ <u>49,234,177</u>

NOTE 10 - ESTIMATED AMOUNT DUE FROM/TO THIRD PARTIES, CONTINGENCIES AND RATE ADJUSTMENTS

A. Third-Party Audits

HHAR is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and the New York State Department of Health (DOH). These agencies, as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

B. Medicare Reimbursement

Part A - Medicare Part "A" services for both nursing facility and home care are reimbursed under a Prospective Payment System (PPS), which is a case mix system of mutually exclusive groups with varying prices. The groupings are based on patient assessment data, which is subject to audit.

HHAR has filed cost reports with CMS in connection with the Medicare program. These reports are subject to audit and retroactive adjustments. All settlements are recorded in the period when received. No provision has been made for possible adjustments for outstanding years, since management does not anticipate any material adjustments based on the cost reports. In addition, CMS has the right to audit billings and related documentation.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

**NOTE 10 - ESTIMATED AMOUNT DUE FROM/TO THIRD PARTIES, CONTINGENCIES
AND RATE ADJUSTMENTS (continued)**

C. Medicaid Reimbursement

1. Case Mix Adjustments

Commencing January 2012, nursing facility rates are based on statewide price, utilizing the 2007 RHCF cost report data, adjusted facility-specific and regional labor factors, as well as facility-specific Medicaid case mix.

<u>Facility-Specific Medicaid Case-Mix</u>	<u>Rate Period</u>
July 1, 2014	January 1 - June 30, 2015
January 1, 2015	July - December 31, 2015
July 1, 2015	January 1 - June 30, 2016
January 1, 2016	July - December 31, 2016

DOH increased Medicaid rates for CHHA and Long Term Home Health Care Programs (LTHHCP) to provide funding for recruitment, training and retention of home health aides and/or other personnel with direct patient care responsibility. These rate increases are recorded for the period from June 1, 2006 through December 31, 2014 for CHHA and June 1, 2006 through December 31, 2013 for the LTHHCP. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. This approach and the underlying support are subject to audit by DOH. In addition, HHAR is required to receive attestations from those licensed agencies which it contracts with certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities.

2. Universal Settlement

In March 2016 CMS approved the federal share of Universal Settlement (US). Under this agreement, DOH would make statewide payments totaling \$850 million over a five state fiscal year period in exchange for universal agreement among nursing homes to surrender their rights to pursue outstanding appeals and pending lawsuits and certain future rights to challenge Medicaid reimbursement.

Every nursing home (non-specialty) was provided with total estimated impact of US. Payment of the US will be made over the next five state fiscal years (subject to legislative approval). It should be noted that payments will be reduced by any monies owed to the state at that time. The first state fiscal year is 2013/2014. In addition, as part of the settlement certain Medicaid rate appeals and liabilities are no longer being pursued. In 2016, HHAR reversed \$7,572,454 of liabilities related to Medicaid capital and Part B and recorded \$6,154,637 of revenue.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 10 - ESTIMATED AMOUNT DUE FROM/TO THIRD PARTIES, CONTINGENCIES
AND RATE ADJUSTMENTS (continued)*****C. Medicaid Reimbursement (continued)*****3. Vital Access/Safety Net Provider Program (VAP)**

The VAP program is available to qualified hospitals, nursing homes, Diagnostic Treatment Centers and home care providers for supplemental financial assistance. Funds are used primarily to improve community care and to achieve defined financial, operational and quality improvement goals.

HHAR participated in the CINERGY Collaborative. This collaborative plans to achieve financial efficiency and quality objectives through participation in initiatives focused on shared services and administrative streamlining; health insurance cost containment; collaboration in an IPA model to facilitate managed care contracting and deployment of common clinical and utilization management practices, and enhancement of workforce safety, wellness and effectiveness. As a participating member of CINERGY Collaborative, HHAR received an award for the period of November 2014 through March 2017.

4. Other Medicaid Reimbursement Issues

Medicaid per diem rates for skilled nursing facilities effective for the period April 1, 2009 through December 31, 2011 were updated utilizing the 2002 RHCF cost report data. This base year is subject to audit.

D. OMIG MDS Audit

During 2016, OMIG performed an audit of MDS filings for the periods ending July 25, 2014 and January 25, 2014. Final reports were received from OMIG. An amount has been recorded as a liability in these financial statements for this issue.

E. Medicaid Long-term Care Payment Review

During 2014, OMIG commenced a review of PNH's Medicaid resident accounts from for the period of August 2011 through March 2013 and September 2013 through December 2015 to determine the existence of any overpayment made on behalf of Medicaid residents. At this juncture a report determining any potential liability hasn't been issued, and accordingly HHAR has not recorded a liability relating to this review.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 10 - ESTIMATED AMOUNT DUE FROM/TO THIRD PARTIES, CONTINGENCIES
AND RATE ADJUSTMENTS (continued)*****F. Nursing Home Recruitment and Retention***

DOH has increased nursing facility rates for the purposes of recruitment and retention through March 31, 2009. These rate increases are subject to audit.

G. Home Care Recruitment and Retention

DOH increased Medicaid rates for Long Term Home Health Care Programs to provide funding for recruitment, training and retention of home health aides and/or other personnel with direct patient care responsibility. These funds cover the period from June 1, 2006 through December 31, 2013. In the accompanying financial statements, these funds were reflected as revenue earned through 2013. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. This approach and the underlying support are subject to audit by DOH. In addition, HHAR is required to receive attestations from those licensed agencies which it contracts with certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities.

H. Other Contingencies

HHAR is subject to various claims, lawsuits and proceedings which are routine and incidental to its business which may result in retroactive rate adjustments, fines, and penalties.

NOTE 11 - RETIREMENT BENEFITS PAYABLE

HHAR provides supplemental retirement benefits for certain current and former employees in accordance with agreements. A liability is reflected on the balance sheet.

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 temporarily restricted net assets were available for the following purposes:

Education programs	\$ 564,438
Elder abuse program	2,223,090
Institute on Wellness	63,878
Patient care and activities	<u>719,511</u>
Total	\$ <u>3,570,917</u>

During 2016, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Education programs	\$ 9,375
Elder abuse program	1,219,323
Institute on Wellness	23,498
Patient care and activities	<u>256,802</u>
Total	\$ <u>1,508,998</u>

NOTE 13 - ENDOWMENT FUNDS

General

HHAR's endowment consists of seven individual donor-restricted endowment funds established to support the elder abuse shelter, geriatric medicine, intergeneration programs, Judaica Museum, Quality of Life, and library. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Elder abuse shelter	\$ 500,000
Geriatric medicine	500,000
Intergeneration programs	500,000
Judaica Museum	5,850,000
Quality Of Life Programs	1,300,000
Library	<u>410,000</u>
Total	\$ <u>9,060,000</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 13 - ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law

The Board of Directors of HHAR adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA permits charities to apply a spending policy to endowments based on certain specified standards of prudence. HHAR is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, HHAR classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of HHAR is to maintain the principal endowment funds at the original amount designated by the donor while generating investment income. The investment policy to achieve this objective is to invest in a balanced portfolio of securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

HHAR does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

Changes in Endowment for the Year Ended December 31, 2016

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 347,981	\$ 9,060,000	\$ 9,407,981
Interest and dividends	300,074		300,074
Unrealized and realized losses	(44,037)		(44,037)
Appropriations	<u>(147,772)</u>		<u>(147,772)</u>
Endowment net assets, end of year	\$ <u>456,246</u>	\$ <u>9,060,000</u>	\$ <u>9,516,246</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 14 - CHARITABLE GIFT ANNUITIES

HHAR has several charitable gift annuities (CGA). The present value of payments to beneficiaries of the CGA are calculated using a 3.2% discount rate. Included in the HHAR investment portfolio is \$682,655 of investments held for the CGAs. Gains or losses resulting from changes in actuarial assumptions and adjustments due to the discount are reflected in unrestricted funds in accordance with donor trust agreements, as are the respective net assets.

NOTE 15 - CONCENTRATIONS

The majority of services are paid by New York State. Thus, HHAR is highly dependent on the New York State reimbursement system. New York State can propose reductions in the funding of many programs. This may impact on revenues in the future.

HHAR grants credit without collateral to its residents, most of whom are insured under third-party payors. The mix of receivables from patients and third-party payors was as follows:

Medicaid	41%
Medicare	13
Other	<u>46</u>
	<u>100%</u>

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits.

NOTE 16 - LEASE COMMITMENT

On December 10, 2013, HHAR entered into a noncancelable lease agreement for its CHHA program. The lease expires on January 12, 2021. Rent expense for the year ended December 31, 2016 was \$209,168.

Future lease payments are as follows:

2017	\$ 214,397
2018	219,757
2019	225,251
2020	<u>230,882</u>
	<u>\$ 890,287</u>

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THE HEBREW HOME FOR THE AGED AT RIVERDALE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 17 - FUNCTIONAL EXPENSES**

HHAR provides general health care services to its residents and participants in its community programs. Expenses related to providing these services were as follows:

Health care and services for the elderly	\$ 91,033,154
General and administrative (includes administration, accounting, finance, treasury, human resources, and information systems)	<u>7,270,468</u>
	<u>\$ 98,303,622</u>