Hebrew SeniorLife, Inc. and Affiliates

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2018 and 2017

DIXON HUGHES GOODMAN LLP

Table of Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Trustees
of Hebrew SeniorLife, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Hebrew SeniorLife, Inc. and Affiliates ("HSL") which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2018 financial statements of HRCA Senior Housing, Inc. ("Fireman Community"), HRCA Housing for Elderly, Inc. ("Satter House"), and two of the three component corporations comprising Center Communities of Brookline ("CCB"), which statements reflect total assets constituting 11 percent at September 30, 2018 and total revenue constituting 9 percent for the year ended September 30, 2018 and 2017 of the related consolidated totals. We did not audit the 2017 financial statements of Fireman Community, Satter House, and the three component corporations comprising CCB, which statements reflect total assets constituting 12 percent at September 30, 2017 and total revenue constituting 9 percent for the year ended September 30, 2017 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included in the consolidated financial statements for Fireman Community, Satter House, and certain CCB corporations is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

DHG
DIXON HUGHES GOODMAN LLP

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, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hebrew SeniorLife, Inc. and Affiliates as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating information presented in the supplemental schedules is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual organizations, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, insofar as it relates to HRCA Senior Housing, Inc. (Fireman Community), HRCA Housing for Elderly, Inc. (Satter House), and two of the three component corporations comprising Center Communities of Brookline (CCB) is based on the reports of other auditors, the supplemental schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Greenville, South Carolina
February 5, 2019

Hebrew SeniorLife, Inc. and Affiliates
Consolidated Balance Sheets
(In Thousands)
September 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 38,194**	$ 34,100
Accounts receivable, less allowance for uncollectible accounts of $3,112 in 2018 and $3,535 in 2017	**22,598**	21,701
Investments:		
Unrestricted	**97,526**	66,708
Board designated - unrestricted for operations	**15,120**	15,148
Funds held in trust, current portion	**731**	1,855
Total investments	**113,377**	83,711
Contributions receivable, net	**112**	382
Grants receivable	**767**	943
Entrance fee receivable and deposits held in escrow	**3,058**	1,544
Prepaid expenses and other assets	**3,901**	3,681
Total current assets	**182,007**	146,062
Assets limited as to use:		
By Board designation	**15,284**	14,610
Held in trust – debt indentures and other, less current portion	**27,374**	19,628
Restricted as to use	**14,005**	12,723
Endowment funds	**18,308**	16,424
Restricted contributions receivable	**7,024**	6,058
Total assets limited as to use	**81,995**	69,443
Property, plant, and equipment, net	**350,306**	372,837
Contributions receivable, less current portion	**1,864**	1,392
Other assets	**5,527**	2,488
Total assets	**$ 621,699**	$ 592,222

See accompanying notes.

	2018	2017
LIABILITIES AND NET ASSETS (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	**$ 26,734**	$ 22,905
Accrued interest expense	**1,009**	1,577
Advances on research contracts	**1,260**	1,256
Funds held on behalf of present and future residents	**2,272**	1,755
Due to third-party payors	**1,699**	1,707
Current portion of long-term debt	**6,750**	11,058
Total current liabilities	**39,724**	40,258
Long-term debt, net	**371,487**	355,133
Deferred revenue from nonrefundable entrance fees, net of amortization	**23,317**	22,280
Refundable entrance fees	**303,565**	292,992
Pension obligation	**16,354**	23,532
Other liabilities	**2,232**	2,384
Total liabilities	**756,679**	736,579
Net assets (deficit):		
Unrestricted	**(178,784)**	(184,738)
Temporarily restricted	**25,165**	23,484
Permanently restricted	**18,639**	16,897
Total net deficit	**(134,980)**	(144,357)
Total liabilities and net deficit	**$ 621,699**	$ 592,222

See accompanying notes.

Hebrew SeniorLife, Inc. and Affiliates
Consolidated Statements of Operations
(In Thousands)
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Net patient service revenue	**$ 139,754**	$ 134,121
Earned entrance and monthly service fees	**50,681**	48,019
Rental income	**18,368**	19,165
Grants and contracts, including recovery of indirect costs	**9,552**	10,005
Net assets released from restrictions used for operations	**1,593**	1,216
Investment income	**2,945**	1,220
Other operating revenues	**5,618**	5,729
	228,511	219,475
Operating expenses:		
Salaries and wages	**120,768**	118,909
Employee benefits	**29,263**	30,953
Supplies and direct expenses	**44,134**	41,840
Direct expenditures on grants and contracts	**8,127**	7,743
Depreciation and amortization	**27,028**	28,039
Interest expense	**15,442**	12,756
	244,762	240,240
Operating loss	**(16,251)**	(20,765)
Nonoperating gains (losses):		
Net realized gains on investments	**2,217**	1,692
Contributions and bequests	**3,148**	2,268
Fundraising expenses	**(3,749)**	(2,990)
Change in value of interest rate swap	**496**	2,632
Other nonoperating activities	**12,777**	(1,518)
	14,889	2,084
Deficiency of revenues over expenses	**(1,362)**	(18,681)
Net assets released from restrictions for property and equipment	**500**	85
Change in net unrealized gains (losses) on investments	**(504)**	5,026
Change in pension obligation	**7,320**	10,704
Change in unrestricted net deficit	**$ 5,954**	$ (2,866)

See accompanying notes.

Hebrew SeniorLife, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets (Deficit)
(In Thousands)
Years Ended September 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets (deficit) at September 30, 2016	$ (181,872)	$ 19,492	$ 15,852	$ (146,528)
Deficiency of revenues over expenses	(18,681)	-	-	(18,681)
Restricted contributions	-	4,456	1,045	5,501
Restricted investment income	-	481	-	481
Net realized gains on investments	-	887	-	887
Change in net unrealized gains on investments	5,026	1,899	-	6,925
Net assets released from restrictions used for operations	-	(1,216)	-	(1,216)
Net assets released from restrictions used for property and equipment	85	(85)		-
Change in pension obligation	10,704	-	-	10,704
Other transfer	-	(2,430)	-	(2,430)
Change in net assets (deficit)	(2,866)	3,992	1,045	2,171
Net assets (deficit) at September 30, 2017	$ (184,738)	$ 23,484	$ 16,897	$ (144,357)
Deficiency of revenues over expenses	(1,362)	-	-	(1,362)
Restricted contributions	-	4,629	1,742	6,371
Restricted investment income	-	408	-	408
Net realized gains on investments	-	887	-	887
Change in net unrealized losses on investments	(504)	(19)	-	(523)
Net assets released from restrictions used for operations	-	(1,593)	-	(1,593)
Net assets released from restrictions used for property and equipment	500	(500)	-	-
Change in pension obligation	7,320	-	-	7,320
Other activity	-	(2,131)	-	(2,131)
Change in net assets (deficit)	5,954	1,681	1,742	9,377
Net assets (deficit) at September 30, 2018	**$ (178,784)**	**$ 25,165**	**$ 18,639**	**$ (134,980)**

See accompanying notes.

Hebrew SeniorLife, Inc. and Affiliates
Consolidated Statements of Cash Flows
(In Thousands)
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets (deficit)	**$ 9,377**	$ 2,171
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	**27,028**	28,039
Gain on sale of property, plant, and equipment	**(14,407)**	-
Loss on involuntary conversion	**142**	-
Amortization of bond premium	**(30)**	(32)
Amortization of debt issuance costs	**322**	747
Net realized and unrealized gains on investments	**(3,622)**	(9,483)
Change in value of interest rate swaps	**(261)**	(2,632)
Restricted contributions and investment income	**(6,779)**	(5,982)
Earned entrance fees	**(4,374)**	(4,405)
Non-refundable entrance fees received	**5,509**	4,359
Loss on extinguishment of debt	**1,106**	1,205
Changes in operating assets and liabilities:		
Accounts and grants receivable	**(849)**	1,257
Contributions receivable	**(1,168)**	695
Deposits held in escrow	**(1,314)**	714
Other assets and liabilities	**1,169**	(1,154)
Accounts payable and accrued expenses	**2,183**	319
Advances on research grants	**4**	(151)
Accrued pension obligation	**(7,178)**	(9,708)
Amounts due to third-party payors	**62**	(168)
Net cash provided by operating activities	**6,920**	5,791
Cash flows from investing activities:		
Additions to property, plant, and equipment	**(15,677)**	(10,203)
Net proceeds from sale of property, plant, equipment	**10,095**	-
Sales of investments, trustee and designated funds	**124,374**	89,572
Purchases of investments, trustee and designated funds	**(148,610)**	(110,913)
Increase in funds held under bond agreement	**(13,407)**	-
Other investing activities	**2,270**	(378)
Net cash used in investing activities	**(40,955)**	(31,922)

See accompanying notes.

Hebrew SeniorLife, Inc. and Affiliates
Consolidated Statements of Cash Flows
(In Thousands)
Years Ended September 30, 2018 and 2017 **(Continued)**

	2018	2017
Cash flows from financing activities:		
Payments on long-term debt	**$ (250,128)**	$ (25,147)
Proceeds from long-term debt	**273,558**	41,151
Refundable entrance fees and deposits received	**23,333**	20,802
Refund of entrance fees	**(12,568)**	(14,818)
Restricted contributions and investment income	**6,779**	5,982
Deferred financing costs	**(3,144)**	-
Other financing activities	**300**	(732)
Net cash provided by financing activities	**38,130**	27,238
Increase in cash and cash equivalents	**4,094**	1,107
Cash and cash equivalents at beginning of year	**34,100**	32,993
Cash and cash equivalents at end of year	**$ 38,194**	$ 34,100
Non-cash activities:		
Purchase of property and equipment in accounts payable and accrued liabilities at year-end	**$ 1,415**	$ 1,284
Refund of entrance fee in accounts payable at year-end	**$ 2,900**	$ 4,548
Proceeds from CCB mortgage	**$ 32,310**	$ -
Less: amount to pay off existing debt	**(7,003)**	-
Less: deposit into escrow	**(2,891)**	-
Less: other activities	**(505)**	-
	$ 21,911	$ -
Proceeds from sale of property, plant, and equipment	**$ 26,719**	$ -
Less: amount to pay off existing debt	**(12,845)**	-
Less: proceeds receivable at year-end	**(2,500)**	-
Less: escrow funds released	**(1,279)**	-
	$ 10,095	$ -

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Mission

The accompanying consolidated financial statements include the accounts of Hebrew SeniorLife, Inc. ("HSL Parent") and its controlled Affiliates (collectively, "HSL"). In November 2005, HSL completed a corporate reorganization in which HSL Parent commenced operations and became the parent corporation and sole member of Hebrew Rehabilitation Center ("HRC") and each of the other affiliates described below.

HRC is a not-for-profit, nonsectarian corporation established in 1903, with 725 licensed beds providing inpatient long-term care, medical acute care and recuperative services, as well as outpatient services. HRC provides a wide spectrum of care including comprehensive medical care, ancillary health services, and an integrated therapies program delivered by a staff of Harvard-affiliated physicians and nursing staff. HRC is committed to providing seniors with the highest quality of life through care, research, and training. Some of the directors of HRC are also directors of HSL Parent.

HRCA Housing for Elderly, Inc., d/b/a Jack Satter House ("Satter House"), and HRCA Senior Housing, Inc., d/b/a Simon C. Fireman Community ("Fireman Community"), were incorporated in 1973 and 1982, respectively, as not-for-profit organizations to construct and manage 426 housing units for the elderly. Satter House and Fireman Community were financed under Section 202 of the Federal Housing Act. Some of the directors of Satter House and Fireman Community are also directors of HSL Parent.

Orchard Cove, Inc. ("Orchard Cove") is a not-for-profit corporation in operation since 1993 that owns, maintains, and operates a nonsectarian continuing care retirement community. The mission is to provide conditions that foster independence, health, and security for persons age 62 and older. Orchard Cove consists of 227 independent living units, 28 assisted living suites, and 45 skilled nursing beds. Orchard Cove was formed at the initiative of the Board of Trustees and management of HRC. HRC operates an outpatient satellite clinic at Orchard Cove. Some of the directors of Orchard Cove are also directors of HSL Parent.

Center Communities of Brookline ("CCB") is an enterprise that, in 2002, acquired, rehabilitated, and commenced to operate rental properties in Brookline, Massachusetts, to provide housing and other services to the independent elderly. Some of the directors of the CCB entities are also directors of HSL Parent. Collectively, these entities are referred to as the CCB entities within the accompanying consolidated financial statements:

Center Communities of Brookline Inc., d/b/a The Marilyn and Andre Danesh Family Residences ("Danesh Residences") operates 214 housing units.

HRCA Brookline Housing 112 –120 Centre Court, Inc., d/b/a Julian and Carol Feinberg Cohen Residences ("Cohen Residences") operates 124 housing units.

HRCA Brookline Housing 1550 Beacon Plaza, Inc., d/b/a Mark and Diane Goldman Family Residences ("Goldman Residences") operates 179 housing units. HRC operates an outpatient satellite clinic at CCB.

On December 20, 2017, HRCA Brookline Housing 112 –120 Centre Court, Inc., the owner of Cohen Residences, sold the Tower portion of its property, containing 98 apartment units, to CCB Cohen 112 Centre LLC (a Massachusetts limited liability company that is owned 99.99% by an unrelated party and 0.01% by an entity majority-controlled by HSL. While HSL remains the property manager of this property and its affiliate is the managing member of CCB Cohen 112 Centre LLC, the accompanying consolidated financial statements do not reflect the activity of CCB Cohen 112 Centre LLC because HSL does not have control or hold economic interest as defined by the Accounting Standards Codification glossary. The Tower had a net book value of approximately $13,700,000 and was sold for approximately $26,700,000 resulting in a gain of approximately $13,000,000 which is included in other nonoperating activities on the

consolidated statement of operations. Approximately $13,000,000 of existing debt of Cohen Residences was repaid at the closing of the sale while $2,500,000 of the sale price (subject to adjustments) will be received upon completion of the construction project of Cohen 112 Centre LLC resulting in cash proceeds received in December 2017 of approximately $10,000,000.

Cohen Residences has also committed to lease the remainder of its property to CCB Townhomes 120 Centre LLC (a Massachusetts limited liability company, in which HSL Parent is the sole member), for a term of 75 years for a rent of $1.00 per annum. CCB Townhomes 120 Centre LLC, operates rental property consisting of twenty town houses and six units which are subsidized by a Section 8 contract with the U.S. Department of Housing and Urban Development.

CCB Cohen 112 Centre MM LLC (a Massachusetts limited liability company, majority owned by HSL) is the managing member (.01% ownership interest) of CCB Cohen 112 Centre LLC.

HRCA Brookline Housing 108 Centre Street, Inc. ("108 Centre") was incorporated and the property was acquired in 2003. The property, which is contiguous to Danesh Residences, will be developed to provide housing, support, and services to CCB. Some of the directors of 108 Centre are also directors of HSL Parent.

NewBridge on the Charles, Inc. ("NewBridge") is a not-for-profit corporation formed on April 15, 2004 to acquire land and develop, own, and operate a senior supportive housing community known as NewBridge on the Charles. The mission of NewBridge is to provide services that foster independence, health, and security for seniors so that they may realize their full potential. Some of the directors of NewBridge are also directors of HSL Parent.

During April 2005, NewBridge purchased land in the town of Dedham, Massachusetts, as the site for NewBridge. In December 2007, NewBridge issued $457,075,000 of tax-exempt bonds to pay for project construction and other project-related costs. The first independent living and assisted living residents moved in during June 2009 and development and construction of NewBridge was substantially completed by October 2009.

HRC has transferred 220 of its licensed beds to the NewBridge facility and operates the NewBridge HealthCare Center as a satellite of HRC under a lease agreement with NewBridge. NewBridge facilities consist of 256 independent living units, 91 assisted living suites, and a 268-bed health care center that includes 48 skilled nursing beds.

Hebrew SeniorLife Hospice Care, Inc. ("Hospice") was formed in 2014 to provide professional care to terminally ill patients and their families by helping them attain the highest quality of life possible.

Hebrew SeniorLife ReAge Solutions, Inc. ("HSL ReAge") is a for profit subsidiary of HSL Parent incorporated in 2016 to redefine the experience of aging. HSL Parent is the sole shareholder and all of the directors of HSL ReAge are also directors of HSL Parent. In 2017, HSL ReAge entered in a joint venture agreement with Hebrew Ventures International, in which HSL ReAge owns 35%.

HSL Guarantor LLC (a Massachusetts limited liability company, in which HSL Parent is the sole member) was formed in October 2017. On December 20, 2017, HSL Guarantor LLC ("The Guarantor") entered into a guaranty agreement with CCB Cohen 112 Centre LLC ("The Company") and CREA Cohen Residences LLC ("The Investor"). The agreement guarantees due, prompt and complete performance of all payments and obligations under the agreement. Guarantor is also obligated to hold a demand note of $14,633,117 from HSL. This, at the discretion of the Guarantor may be reduced to $4,000,000 upon payment of the fourth installment of equity from the Investor upon completion of the construction project of CCB Cohen 112 Centre LLC projected to be completed by the end of 2019. In addition, the Guarantor is required to have $1,000,000 minimum cash liquidity in aggregate along with a net worth of $5,000,000 during the term of the agreement. Such evidence of compliance with liquidity terms is to be provided upon request to the Investor not more than once annually.

Hebrew SeniorLife Affiliated Medical Group, Inc., (a Massachusetts corporation, affiliated with HSL through common Board of Director membership) was created to provide physician services through an accountable care organization.

Intercompany balances and transactions are eliminated in consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members of the group.

2. Summary of Significant Accounting Policies

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less when purchased, excluding assets limited as to use. HSL places its cash with high credit quality financial institutions. Cash balances in each bank are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, amounts on deposit may be in excess of the insured limit. It is management's opinion that HSL is not exposed to any significant credit risk related to cash.

Accounts receivable

HSL estimates an allowance for uncollectible patient accounts. Generally, no finance charges are assessed on receivables. Once an account has been determined to be uncollectible, it is charged-off.

Investments

Investments in equity securities with readily determinable fair values, and all investments in debt securities, are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, increases, or decreases of funds' fair value recognized under the equity method, other-than-temporary impairments of investments, interest, and dividends) is included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the deficiency of revenues over expenses. HSL reviews investments where the market value is below cost, and in cases where the decline is considered other than temporary, an adjustment is recorded to recognize a realized loss.

Investments also include private equity funds, limited partnerships, limited liability companies, and other funds (the Funds). When the underlying investments in the Funds do not have readily determinable fair values, HSL records its investment based on the cost method where its ownership interest is 3% or less of the Fund, and the equity method for any investments where its ownership interest is greater than 3% of the Fund. Under the equity method, HSL recognizes its share of the increase or decrease in the Funds' fair value.

Because the Funds may hold some securities without readily determinable fair values, the fund manager may estimate fair value for such securities. These estimates may differ significantly from the values that would have been used had a readily available market value existed, and may also differ significantly from the values at which such investments may be sold and the differences could be material.

Alternative investments held by the defined benefit pension plan are held at fair value as estimated in an unquoted market.

Donated securities are recorded at fair value at the date of the contribution. Realized gains or losses on the sale of securities are calculated on an average-cost basis.

Assets limited as to use

Assets limited as to use include assets set aside by the Board, assets held by trustees under long-term debt indentures and other arrangements and assets restricted by donors.

The Board of Orchard Cove has designated certain funds to be held in reserve to support the entity's commitment to provide high-quality healthcare services, fund capital expenditures, and provide for other contingencies.

Property, plant, and equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Depreciation is provided by use of the straight-line method over the estimated useful lives of these assets based on the following estimated useful lives:

Land improvements	5–50 years
Buildings and improvements	5–40 years
Equipment	3–20 years

Unamortized bond issuance costs

Unamortized bond issuance costs and original issue bond premium and discount are being amortized over the term of the bonds using the effective interest rate method and are netted against long-term debt in the consolidated balance sheets.

Contributions receivable

Unconditional contributions, receivable in regular installments, are recorded at net present value as unrestricted contributions in the consolidated balance sheets or direct additions to temporarily or permanently restricted net assets, if restricted by the donor or time, net of any allowances for uncollectible pledges.

Professional liability insurance

HSL insures its professional liability risks on a claims-made basis. Management is unaware of any matters that would cause the final expense for professional liability risks to vary materially from the amount provided.

Entrance fees from independent living residents

Deferred revenue from entrance fees relate to amounts received from independent living residents at Orchard Cove and NewBridge.

Entrance fees are paid by occupants of the independent living units. A portion of the entrance fee is recorded as deferred revenue from non-refundable entrance fees, and the remainder is recorded as refundable entrance fees. The non-refundable amount is calculated at a rate of 1% of the entrance fee per month of occupancy, up to a maximum percentage in accordance with the terms of the residency and care agreement. The non-refundable amount is amortized to revenue over the estimated remaining actuarial life expectancy of each resident, with the life expectancy reevaluated annually.

The refundable balance for Orchard Cove is refunded if and when the unit is reoccupied. However, the repayment of refundable entrance fees pursuant to the NewBridge residency and care agreements is not contingent upon the receipt of reoccupancy proceeds.

Refundable entrance fees include amounts payable to residents who have transferred permanently from their independent living unit into an assistance in living unit or skilled nursing bed and whose units have subsequently been reoccupied.

Entrance fees are typically due at the time a resident takes occupancy of an independent living unit. However, in certain circumstances, NewBridge and Orchard Cove allow for a deferral of payment, with interest at varying rates, to those residents who have a signed purchase and sale agreement on their home so that the resident may complete the sale of their home, and use the proceeds from the sale to fund the entrance fee.

Entrance fees held in escrow and other deposits

Entrance fees held in escrow and other deposits consist primarily of deposits received from prospective residents who have entered into a residency and care agreement. Entrance fees received prior to occupancy are accounted for as refundable deposits in accordance with the terms of the residency and care agreement. These deposit amounts are held in escrow and interest is paid after occupancy. The deposits are deducted from the entrance fee payable upon occupancy of the unit.

Obligation to provide future services

Orchard Cove and NewBridge periodically calculates the present value of the net estimated cost of future services and use of facilities to be provided to current residents, which is compared to the balance of deferred entrance fee revenue. If the present value of the net estimated cost of future services and use of facilities exceeds the deferred entrance fee revenue, a liability is recorded (obligation to provide future services and use of facilities) with a corresponding charge to income. At September 30, 2018 and 2017, there was no liability for obligation to provide future services and use of facilities. The present value of the net cost of future services and use of facilities was discounted at 4% in 2018 and 2017 for NewBridge and 5% in 2018 and 2017 for Orchard Cove.

Interest rate swap

NewBridge entered into a derivative, exclusively an interest rate swap agreement, to manage interest rate exposures on floating rate debt with the issuance of the 2014 Debt. Interest rate swaps allow NewBridge to swap variable interest rates on a stated notional amount for fixed rates. The fair value of the interest rate swap agreement was approximately $261,000 as of September 30, 2017. The interest rate swap was terminated with the new debt issuance in December 2017.

Realized gains of $495,964 on the swap were recognized in conjunction with the Series 2017 Bond Refinancing that occurred in fiscal year 2018. For the year ended September 30, 2017, the unrealized gain was $2,632,406. Both amounts were recognized in the statement of operations and changes in net deficiency.

Self-insurance reserves

HRC was self-insured with aggregate and individual stop-losses for workers' compensation for claims incurred prior to May 1, 2011. On May 1, 2011, HRC became fully insured for claims incurred on or after May 1, 2011. Costs prior to May 1, 2011, are accounted for on an accrual basis, which requires estimates to be made for future payments on claims incurred.

Restricted net assets

Temporarily restricted net assets are those whose use by HSL has been limited by donors to a specific-time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by HSL in perpetuity. Income from certain permanently restricted net assets is unrestricted as to use and included in the nonoperating section of the deficiency of revenues over expenses. Income on other permanently restricted net assets is purpose restricted, primarily for research and scholarships.

Net patient service revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits and reviews. Retroactive revenue adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits and reviews.

Monthly service fee revenue

Monthly service fee revenue represents fees paid by residents of independent living units and assisted living suites.

Other operating revenues and nonoperating gains (losses)

Other operating revenues include cafeteria and laundry revenue, recovery of fringe benefits and ancillary services revenue. Unrestricted contributions, other investment income and gains, the effect of any non-hedged interest rate swap agreement, and activities incidental to HSL's operations are recorded as nonoperating gains (losses).

Deficiency of revenues over expenses

The consolidated statements of operations include the deficiency of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from deficiency of revenues over expenses, include unrealized gains and losses on investments, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring assets), and changes in the pension obligation.

Income tax status

The Internal Revenue Service has ruled that HRC, Satter House, Fireman Community, Orchard Cove, the CCB entities, 108 Centre, NewBridge, Hospice and HSL Parent are exempt from federal income taxation on related income under Section 501(c)(3) of the Internal Revenue Code (the Code) of 1986, as amended.

HRC has approximately $150,000 of net operating income from unrelated business activities resulting in a potential deferred tax liability of approximately $50,000 which is offset by net operating loss carry forward.

HSL's for-profit subsidiaries account for uncertainty in income taxes in accordance with Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. This standard does not have a material effect on the consolidated financial statements for 2018 and 2017 because the tax benefits of the net operating loss carryforwards have been fully reserved.

Subsequent Events

HSL evaluated the impact of subsequent events through February 5, 2019, which is the date the consolidated financial statements were issued.

Upcoming Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a principles–based standard for recognizing revenue through a five-step process. The ASU requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services promised to customers. This standard is effective for the financial statements for the fiscal year ending September 30, 2019. Management is currently evaluating and has not yet determined the effects of adopting this ASU on the financial statements and disclosures.

In February 2017, the FASB issued ASU 2017-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right-of-use asset for most leases. The amendments in this ASU are effective for the financial

statements for fiscal year ending September 30, 2020, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating and has not yet determined the effects of adopting this ASU on the financial statements and disclosures.

3. Investments

Investments as of September 30 are reported in the consolidated balance sheets as follows (in thousands):

	2018	2017
Current assets:		
Investments – unrestricted	**$ 97,526**	$ 66,708
Investments – board designated for operations	**15,120**	15,148
Current portion of funds held in trust	**731**	1,855
	113,377	83,711
Assets limited as to use:		
By Board designation at Orchard Cove:		
Plant renewal and refurbishment fund	**10,699**	10,227
Health care security fund	**3,821**	3,653
Contingency fund	**764**	730
	15,284	14,610
Held in trust – debt indentures and other, less current portion	**27,374**	19,628
Restricted as to use	**14,005**	12,723
Endowment funds	**18,308**	16,424
	59,687	48,775
	$ 188,348	$ 147,096

Investment income and gains from investments consist of the following (in thousands) for the year ended September 30:

	2018	2017
Unrestricted:		
Operating revenue:		
Investment income	**$ 2,945**	$ 1,220
Nonoperating gains (losses):		
Net realized gains on investments	**$ 2,217**	$ 1,692
Total unrestricted investment income and realized gains	**5,162**	2,912
Change in net unrealized (losses) gains on investments	**(504)**	5,026
	$ 4,658	$ 7,938

Temporarily restricted:		
Dividends and interest	**$ 408**	$ 481
Net realized gains on investments	**887**	887
Change in net unrealized (losses) gains on investments	**(19)**	1,899
	$ 1,276	$ 3,267

At September 30, 2018, HSL had gross unrealized losses of approximately $1,859,000 on securities with a carrying value of approximately $51,503,000. During the year ended September 30, 2018, HSL did not recognize any other-than-temporary impairment losses.

At September 30, 2017, HSL had gross unrealized losses of approximately $863,000 on securities with a carrying value of approximately $19,302,000. During the year ended September 30, 2017, HSL did not recognize any other-than-temporary impairment losses.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term.

4. Fair Value of Financial Instruments

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1*:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2*:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3*:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, HSL utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value.

The methods described above may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HSL 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 estimate of fair value at the reporting date.

HSL invests in certain investments for which quoted prices are not available in active markets for identical instruments. HSL utilizes the net asset value ("NAV") provided by the administrator of the fund as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV. These investments are not required to be classified within a level on the fair value hierarchy.

Financial instruments carried at fair value are classified in the tables below in one of the three categories described above (in thousands) as of September 30:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and cash equivalents	**$ 61,986**	**$ 13**	**$ -**	**$ 61,999**
Fixed income securities funds:				
U.S. Government	**26,573**	**104**	**-**	**26,677**
Domestic	**-**	**377**	**-**	**377**
Foreign	**177**	**-**	**-**	**177**
Equity securities and funds:				
Domestic large cap	**6,838**	**1,022**	**-**	**7,860**
Domestic small/mid cap	**6,132**	**326**	**-**	**6,458**
Foreign	**10,259**	**249**	**-**	**10,508**
Emerging markets	**-**	**505**	**-**	**505**
	$ 111,965	**$ 2,596**	**$ -**	**$ 114,561**
Investments at NAV (a)				**$ 63,169**
Total investments at fair value				**$ 177,730**

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and cash equivalents	$ 49,557	$ 165	$ -	$ 49,722
Fixed income securities funds:				
U.S. Government	4,309	103	-	4,412
Domestic	4,312	386	-	4,698
Foreign	177	-	-	177
Equity securities and funds:				
Domestic large cap	4,490	11,522	-	16,012
Domestic small/mid cap	1,832	387	-	2,219
Foreign	2,082	4,010	-	6,092
Emerging markets	-	4,327	-	4,327
Other investments:				
Global asset allocation funds	2,303	-	-	2,303
	$ 69,062	$ 20,900	$ -	$ 89,962
Investments at NAV (a)				$ 48,097
Total investments at fair value				$ 138,059
LIABILITIES				
Interest rate swap	$ -	$ 261	$ -	$ 261

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Consolidated Balance Sheets.

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 2 liabilities is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields and credit spreads. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HSL 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 estimate of fair value at the reporting date.

The amounts reported in the table above exclude limited partnership interests that HSL has recorded pursuant to the cost or equity method, which were approximately $10,618,000 and $9,037,000 as of September 30, 2018 and 2017, respectively.

There were no transfers between Levels 1 and 2 during the years ended September 30, 2018 and 2017.

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of September 30, 2018 and 2017:

	Fair Value at September 30, 2018	Fair Value at September 30, 2017	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
Absolute return bond fund	**$ -**	$ 2,666,000	None	Weekly	None
Multi-asset fund	**$ -**	$ 4,336,000	None	Daily	None
Global absolute return	**$ 2,230,000**	$ 3,772,000	None	Monthly	None
International concentrated	**$ 4,018,000**	$ 1,901,000	None	Monthly	None
Pinnacle equity fund	**$ 5,956,000**	$ 1,521,000	None	Monthly	30 Days
WTC-CTF diversified	**$ 8,621,000**	$ 4,299,000	None	Monthly	30 Days
SSGA Russell 1000 Growth	**$ 12,121,000**	$ 7,096,000	None	None	15 Days
SSGA Russell 1000 Value	**$ 11,422,000**	$ 7,362,000	None	None	None
SSGA Real Asset NL Ctf	$ **8,209,000**	$ -	None	None	None
Sanderson Intl Value Fund	**$ 6,389,000**	$ 6,497,000	None	None	15 Days
Copper Rock Intl Small Cap	**$ -**	$ 2,058,000	None	None	10 Days
GAM Unconstrained Bond	**$ -**	$ 4,625,000	None	Weekly	None
Polunin Capital Prtns Ltd	**$ 1,882,000**	$ 1,964,000	None	Monthly	30 Days
Newbury Equity Prtns IV LP	$ **251,000**	$ -	None	None	None
Foreign Fixed Income Securities	**$ 2,070,000**	$ -	None	Monthly	None

Other financial instruments include long-term debt. Based upon borrowing rates available to HSL for debt with similar terms and average maturities, the fair value of long-term debt at September 30, 2018 and 2017 approximates its carrying value.

5. Contributions

Contributions recorded during the years ended September 30, 2018 and 2017 were as follows (in thousands):

	2018	2017
Unrestricted contributions and bequests	**$ 3,148**	$ 2,268
Temporarily restricted	**4,629**	4,456
Permanently restricted	**1,742**	1,045
	$ 9,519	$ 7,769

Contributions receivable, net of allowance of approximately $9,350,000 and $9,984,000 as of September 30, 2018 and 2017, were as follows (in thousands):

	2018	2017
Contributions receivable:		
Amounts due in less than one year	**$ 4,410**	$ 4,614
Amounts due in one to five years	**3,008**	2,682
Amounts due in more than five years	**2,239**	1,454
	9,657	8,750
Discount to present value (approximately 3%)	**(657)**	(918)
Contributions receivable, net of discount	**$ 9,000**	$ 7,832

6. Property, Plant, and Equipment

Property, plant, and equipment are composed of the following as of September 30 (in thousands):

	2018	2017
Land	**$ 28,370**	$ 30,615
Land improvements	**50,758**	50,410
Buildings	**437,080**	438,744
Equipment	**160,686**	155,022
Equipment under capital lease	**946**	944
	677,840	675,735
Less allowances for depreciation	**(329,965)**	(309,338)
	347,875	366,397
Construction-in-progress	**2,431**	6,440
Total property, plant, and equipment	**$ 350,306**	$ 372,837

Depreciation expense for the years ended September 30, 2018 and 2017 was $27,028,000 and $27,294,000 respectively.

7. Long-Term Debt

Long-term debt consists of the following as of September 30 (in thousands):

	2018	2017
Hebrew Rehabilitation Center:		
MDFA Revenue Bonds, Series A	**$ 4,873**	$ 5,866
Amounts due under capital lease	**73**	184
Line of credit with bank	**-**	2,000
	4,946	8,050
Orchard Cove:		
MDFA Revenue Bonds, Series 2007	**23,835**	25,315
Plus unamortized original issue premium	**166**	196
	24,001	25,511
CCB:		
Mortgage loans payable	**58,699**	45,387
Notes payable – secured by property	**3,937**	5,417
	62,636	50,804
NewBridge:		
MDFA Revenue Refunding Bonds	**234,395**	-
Plus unamortized original issue premium	**11,858**	**-**
Series 2014A Bonds	**-**	177,708
Series 2014B Bonds	**-**	53,082
Term Loan	**-**	7,839
	246,253	238,629
Other:		
Fireman Community mortgage loan payable	**7,684**	7,813
Satter House mortgage loan payable	**37,407**	38,000
Hospice promissory note payable	**200**	300
	45,291	46,113
	383,127	369,107
Less unamortized debt issuance costs	**(4,890)**	(2,916)
Total long-term debt, net	**378,237**	366,191
Less portion classified as current	**(6,750)**	(11,058)
Long-term debt, net	**$ 371,487**	$ 355,133

Hebrew Rehabilitation Center

HRC and HSL refunded a previous bond issue from the proceeds of $9,974,000 Massachusetts Development Finance Agency (MDFA) fixed rate tax-exempt revenue bonds (Series A) due April 2023, with the first principal payment due in May 2013 and a fixed rate of 2.40%.

In April 2014, HRC and HSL entered into a revolving line of credit note with Century Bank to fund working capital needs. HRC and HSL may borrow up to a combined total of $10,000,000 under this agreement. In December 2017, the note was amended to allow for borrowing up to a combined total of $6,500,000. The note carries an interest rate, at the borrowers' discretion, of two-week to three-month LIBOR plus 1.25% per annum or the Prime rate. The note is subject to a floor of no less than 2.0% and matures in December 2022.

Orchard Cove

In May 2007, Orchard Cove refinanced its Massachusetts Industrial Finance Agency (MIFA) Series 1996A and 1996B bonds with $35,875,000 of tax-exempt revenue bonds (2007 Revenue Bonds) issued through the MDFA. Proceeds from the 2007 Revenue Bonds were used to refund the MIFA Series 1996A and 1996B bonds, establish a Debt Service Reserve Fund, fund issuance costs related to the 2007 Revenue Bonds, and finance a portion of the costs of constructing, equipping and furnishing additional skilled nursing space, and additional assistance in living units, as well as renovate a portion of the health care center.

Interest on the 2007 Revenue Bonds is payable semi-annually on October 1 and April 1. The first principal payment on the Series 2007 Revenue Bonds was due on October 1, 2008, and the final principal payment is due in 2037. The bonds are secured by substantially all of the property and equipment of Orchard Cove. The bonds payable contain certain covenants and restrictions.

The 2007 Revenue Bonds are redeemable at the option of Orchard Cove at various intervals prior to maturity, beginning in 2017, at redemption amounts ranging from 102.4% to 100%.

Center Communities of Brookline

CCB received acquisition financing of $14,588,224 in assumed mortgage notes and rehabilitation financing of $24,000,000 in mortgage notes through Massachusetts Housing Finance Agency d/b/a MassHousing ("MHFA") at the time of acquisition during 2002.

On December 23, 2016, CCB refinanced its long-term debt with Rockport Mortgage Corporation and the U.S. Department of Housing and Urban Development (HUD) at a rate of 3.45%, in the amount of $26,543,300, payable in equal monthly installments of principal and interest for 35 years. The HUD Section 223(f) mortgage is secured by substantially all property. As part of the refinancing, CCB is required to make annual deposits of $61,250 to a reserve for replacement. Withdrawals from the reserve for replacements are subject to approval by HUD. CCB is required to fund certain operating escrow accounts and a repair escrow as part of the mortgage agreement.

CCB also received financing in the form of sellers' notes in the total amount of $3,500,000. These notes accrue interest at the rate of 6% per annum payable quarterly beginning February 1, 2005. Interest accrued through October 1, 2004, is payable, along with all principal, on the maturity date of April 2017. With the proceeds received from the refinancing of its long-term debt, CCB paid in full the total outstanding balance, including interest, of the seller's notes in January 2017.

In December 2017, CCB closed a loan with the Massachusetts Housing Partnership Fund Board (MHP) and the U.S. Department of Housing and Urban Development (HUD) to refinance its existing long-term debt and obtain additional financing for a construction project. The final loan amount is $32,310,000 at a rate of 3.635%, payable in equal monthly installments of principal and interest for 40 years. The mortgage is secured by substantially all property. As part of the refinancing, CCB is required to make monthly deposits to a reserve for replacement, totaling $73,850 in year one. Withdrawals from the reserve for replacements are subject to approval. CCB is also required to fund certain operating escrow accounts as part of the agreement.

In connection with the execution of the loan agreement with HUD and with MHP, CCB is required to maintain certain financial covenants: Debt Coverage Ratio, as defined in the agreement of at least 1.10, tested annually, and a Loan to Value Ratio, as defined in the agreement, of less than 90%, tested from time to time as determined by the lender. In addition, HSL has provided a limited guarantee to indemnify the lender in the case of any loss, damage or cost resulting from specific actions by CCB as defined in the limited guaranty agreement.

NewBridge on the Charles

During December 2007, NewBridge issued $457,075,000 of tax-exempt bonds to pay for construction and other project-related costs. Proceeds of the tax-exempt bonds were also used to pay for certain issuance costs, pay for a portion of the HSL Development Fee and establish certain funds, including a debt service reserve fund.

On October 8, 2014, NewBridge refinanced its existing Series 2007A and 2007B bonds. A portion of the bonds ($244,500,000) was refinanced through issuing tax-exempt bonds through Massachusetts Development Finance Agency. The bonds were then purchased by a syndicate of financial institutions. The remaining balance of the debt ($12,465,000) was refinanced through a "Term Loan" provided by one of the bond purchasers. Both the bonds and term loan were due in October of 2019.

During December 2017, NewBridge issued $236,290,000 of tax exempt Massachusetts Development Finance Agency Revenue Refunding Bonds with a Bond Premium of $11,823,721 and an overall effective interest rate of 4.45%. Annual principal and interest payments are approximately $13,400,000 over the 40 year term of the bonds.

The tax-exempt bonds are secured by a collateral interest in the NewBridge property and equipment.

The bond maturities and interest rates are:

Year of Maturity	Principal Amount	Interest Rate	Yield
2019	$ 2,480,000	3.00%	2.100%
2020	$ 2,550,000	3.00%	2.350%
2021	$ 2,630,000	3.00%	2.600%
2022	$ 2,705,000	3.50%	2.750%
2023	$ 2,800,000	3.50%	2.950%
2024	$ 2,900,000	4.00%	3.100%
2025	$ 3,015,000	4.00%	3.250%
2026	$ 3,135,000	4.00%	3.350%
2027	$ 3,260,000	4.00%	3.450%
2032	$ 18,380,000	4.00%	4.050%
2037	$ 22,810,000	5.00%	4.000%
2042	$ 28,600,000	4.125%	4.300%
2047	$ 35,630,000	5.000%	4.050%
2057	$ 103,500,000	5.000%	4.125%

The proceeds from the sale of the Series 2017 Bonds were used to finance and refinance the following:

- The $176,804,824 outstanding principal amount of the Massachusetts Development Finance Agency's Revenue Refunding Bonds, NewBridge on the Charles, Inc. Issue, Series 2014A
- The $52,811,830 outstanding principal amount of the Massachusetts Development Finance Agency's Revenue Refunding Bonds, NewBridge on the Charles, Inc. Issue, Series 2014B
- The $7,836,000 outstanding principal amount of a term loan
- Fund a $13,406,950 debt service reserve fund for the Series 2017 Bonds

- Finance $2,888,338 for costs of issuance in connection with the Series 2017 Bonds

An interest rate swap agreement NewBridge entered into in October 2014 in conjunction with the 2014 bonds was terminated with the issuance of the 2017 bonds and a $235,000 gain was realized.

Amounts on deposit in the Debt Service Reserve Fund are available to pay principal (including sinking fund installments) and interest on the Series 2017 Bonds, and to meet deficiencies in the Rebate Fund, if any.

The Series 2017 Bonds are redeemable prior to maturity beginning on October 1, 2022 at 100% of their principal amount, plus accrued interest to the redemption date, plus a redemption premium equal to the following:

Redemption Date	Redemption Premium *(as a percent of principal redeemed)*
October 1, 2022 – September 30, 2023	5.00%
October 1, 2023 – September 30, 2024	4.00%
October 1, 2024 – September 30, 2025	3.00%
October 1, 2025 – September 30, 2026	2.00%
October 1, 2026 – September 30, 2027	1.00%
October 1, 2027 and thereafter	0.00%

The Bond Debt Service Coverage Ratio and Liquidity covenant requirements are 1.10 for the fiscal year ended September 30, 2018 and 1.20 for each fiscal year ending September 30, 2019 and thereafter and not less than 125 Days Cash on Hand at the end of each fiscal year commencing September 30, 2018. The tax-exempt bonds are secured by a collateral interest in the NewBridge property and equipment.

Term loan

The remaining Series 2007A and Series 2007B debt that was in excess of the Senior Debt ($12,465,000) was converted to a Term Loan. As part of the December 2017 bond issuance, proceeds from the issuance were utilized to satisfy the remaining outstanding balance of the Term Loan which was $7,836,000.

Other

Other mortgage loans include amounts payable to the U.S. Department of Housing and Urban Development (HUD) and MHFA. The Satter House HUD mortgage was refinanced in August 2017 for approximately $38,000,000 with a fixed interest rate of 3.25% and is due in 2052. The Fireman Community mortgage bears interest at 5.72%. These mortgage loans are secured by substantially all property and rental income of the respective entities.

During 2015, Hospice entered into an agreement with Jewish Family and Children's Service, Inc. (JFCS) to acquire substantially all of the assets and approximately 120 staff of JFCS's home health care and private duty home care business. Hospice did not dispose of any of the JFCS's major assets, and there were no terminations as part of the acquisition. Subject to the terms and conditions outlined in the agreement, Hospice agreed to pay JFCS $575,000 over a five year period through November 2019. The note bears no interest.

Other information

The amount of aggregated annual principal and mandatory sinking fund payment requirements for the next five years and thereafter, are as follows (in thousands and excluding unamortized original issue premium and debt issuance costs):

2019	$ 6,750
2020	6,983
2021	7,129
2022	7,361
2023	7,166
Thereafter	335,714
	$ 371,103

Interest paid by HSL, including payments under the interest rate swap agreement, was approximately $15,730,000 in 2018 and $12,009,000 in 2017.

The terms of certain of the various debt agreements contain restrictive financial and operating covenants.

The terms of the various debt indenture and other agreements require the establishment of certain reserve funds, which are held by trustees. These funds are principally invested in cash and government securities; the fair value of these and other trustee funds at September 30 is as follows (in thousands):

	2018	2017
Sinking/bond funds	**$ 2,197**	$ 2,145
Debt service reserve fund	**16,736**	3,338
Reserve for replacements and residual receipts	**5,831**	4,217
Construction fund	**1,001**	-
Mortgage escrows	**731**	1,855
Term loan collateral	**-**	7,836
Special and other escrows	**1,064**	1,554
Workers' compensation collateral	**545**	538
	28,105	21,483
Less current portion	**(731)**	(1,855)
	$ 27,374	$ 19,628

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30 are restricted as follows (in thousands):

	2018	2017
Research	**$ 8,502**	$ 6,795
Residents and other	**16,663**	16,689
	$ 25,165	$ 23,484

Permanently restricted net assets are invested in perpetuity, the income from which is generally expendable to support the delivery of health care services and geriatric research.

HSL's endowments consist of numerous individual funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

HSL requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. HSL 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 funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. HSL considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of HSL and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments and (6) the investment policies of HSL. Unless otherwise restricted by donor stipulation, HSL appropriates for use in operations annually an amount equal to 4% of the 12-quarter moving average of the individual fund balances as of the quarter ending March 31 prior to the commencement of the fiscal year. Such appropriations are then spent in accordance with the donors' stipulated uses. In establishing this policy, HSL considered the long-term expected return on its endowments.

Endowment asset composition by type of fund as of September 30, 2018, consisted of the following (in thousands):

	Unrestricted Board Designated	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ -**	**$ 6,742**	**$ 18,308**	**$ 25,050**
Board-designated funds	**15,120**	**-**	**-**	**15,120**
	$ 15,120	**$ 6,742**	**$ 18,308**	**$ 40,170**

Endowment asset composition by type of fund as of September 30, 2017, consisted of the following (in thousands):

	Unrestricted Board Designated	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 6,766	$ 16,424	$ 23,190
Board-designated funds	15,148	-	-	15,148
	$ 15,148	$ 6,766	$ 16,424	$ 38,338

For the years ended September 30, 2018 and 2017, HSL had the following endowment-related activities (in thousands):

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment investments at September 30, 2016	$ 13,221	$ 5,260	$ 15,172	$ 33,653
Investment return:				
Investment income	1,546	861	-	2,407
Net appreciation	930	1,594	-	2,524
Total investment return	2,476	2,455	-	4,931
Gifts received	-	-	1,045	1,045
Net asset reclassifications	-	-	207	207
Amounts appropriated for expenditure	(549)	(949)	-	(1,498)
Total change	1,927	1,506	1,252	4,685
Endowment investments at September 30, 2017	$ 15,148	$ 6,766	$ 16,424	$ 38,338
Investment return:				
Investment income	539	845	-	1,384
Net depreciation	(22)	(12)	-	(34)
Total investment return	517	833	-	1,350
Gifts received	-	-	1,742	1,742
Net asset reclassifications	-	-	142	142
Amounts appropriated for expenditure	(545)	(857)	-	(1,402)
Total change	(28)	(24)	1,884	1,832
Endowment investments at September 30, 2018	$ 15,120	$ 6,742	$ 18,308	$ 40,170

HSL investment and spending policies for endowment assets is to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that HSL must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is expected to generate a 7.25% total return annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, HSL relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSL targets a diversified asset allocation that consists of equities, fixed income, and alternative investments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires HSL to retain as a fund of perpetual duration. Deficiencies of this nature that are not significant to the consolidated financial statements for the years ended September 30, 2018 and 2017.

These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

9. Agreements with Third-Party Payors

HRC has agreements with the Commonwealth of Massachusetts under the Medicaid program, and participates in the Medicare program. HRC has had a long-standing agreement with the Commonwealth of Massachusetts such that HRC provides care to Medicaid patients based upon fixed, prospectively determined rates. The contract in effect during fiscal year (FY) 2018 was negotiated during 2012, and extended through 9/30/2019 by amendments 1-6. Amendment 6 provides a two year extension covering FY 2018 and FY 2019, and an increase of 8.1% over the two years. Included in the rate increase was a net gain due to a new non acute hospital assessment and quality program that began in 2018. HRC achieved a net quality payment of approximately $784,000 from the program due to its high quality of care. Medicare reimburses HRC, NewBridge, and Orchard Cove for routine and ancillary services to patients eligible for Medicare benefits on a prospectively determined basis through its SNF (Skilled Nursing Facility), LTCH PPS (Long-Term Care Hospital Prospective Payment System), and OPPS (Outpatient Prospective Payment System) payment methodologies, while physician services are paid on a fee-for-service basis.

HRC, NewBridge, and Orchard Cove have provided for final settlements with the Medicare program and with Medicaid in the period the related services are rendered, and adjusts such estimates, as final settlements are determined. Adjustments to estimates established in prior years have not had a material impact on the consolidated financial statements during the years ended September 30, 2018 and 2017.

Revenue from the Medicaid and Medicare programs together accounted for 78% and 77% of HRC's net patient service revenue in the years ended September 30, 2018 and September 30, 2017, respectively. The Medicare program represented approximately 81% and 80% of the net patient service revenue at NewBridge for the years ended September 30, 2018 and 2017, respectively. At Orchard Cove, revenue from the Medicare program represents approximately 16% and 26% of health care revenue for the years ended September 30, 2018 and 2017, respectively. Laws and regulations governing the Medicaid and Medicare 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 significant amount in the near term.

10. Pension Plan

HSL has a defined benefit pension plan (the Plan) that covers substantially all employees of HRC who were full-time employees prior to 2003. On May 31, 2003, HSL froze the Plan, and benefits based on future years of service stopped accruing as of that date. Benefits under the Plan are based on years of service and the employee's compensation during the last five years of employment prior to 2003. HSL continues to fund the Plan to at least meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

The following table outlines the significant changes in benefit obligations, plan assets, pension liability, and prepaid benefits of the Plan (in thousands) as of September 30:

	2018	2017
Change in projected benefit obligation		
Benefit obligation at beginning of year	**$ 79,174**	$ 86,520
Interest cost	**2,791**	2,849
Actuarial gain	**(3,927)**	(3,337)
Benefits paid	**(4,652)**	(3,925)
Settlements	**-**	(2,933)
Benefit obligations at end of year	**73,386**	79,174
Change in plan assets		
Fair value of plan assets at beginning of year	**55,642**	53,280
Return on plan assets, net	**3,522**	5,020
Employer contribution	**2,520**	4,200
Benefits paid	**(4,652)**	(3,925)
Settlements	**-**	(2,933)
Fair value of plan assets at end of year	**57,032**	55,642
Funded status and pension liability	**$ (16,354)**	$ (23,532)

The assumptions used to develop the projected benefit obligation as of September 30, 2018 and 2017, are as follows:

	2018	2017
Discount rate	**4.125 %**	3.625%

The components of the net periodic pension cost for the years ended September 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Interest cost	$ **2,791**	$ 2,849
Expected return on plan assets	**(3,319)**	(3,124)
Recognized net actuarial loss	**3,190**	4,298
Settlement recognition	**-**	1,173
Net periodic pension cost	**$ 2,662**	$ 5,196

The assumptions used to develop the net periodic pension cost, which are based upon the measurement date at the beginning of the fiscal year, were as follows:

	2018	2017
Measurement date	**September 30, 2018**	September 30, 2017
Discount rate	**3.625%**	3.375%
Expected return on plan assets	**7.250%**	7.250%

Included in unrestricted net assets at September 30, 2018 and 2017, are unrecognized actuarial losses of approximately $24,367,000 and $31,687,000, respectively, which have not yet been recognized in net periodic pension cost. The net actuarial loss expected to be recognized in pension cost in 2019 is approximately $2,450,000.

Plan assets

The Plan's investment objectives are to achieve long-term growth in excess of inflation and to provide a rate of return that, at a minimum, exceeds the actuarial expected long-term rate of return. In order to minimize risk, the Plan attempts to minimize the variability in yearly returns. The Plan also diversifies its holdings among sectors, industries, and companies.

To develop the expected long-term rate of return on plan assets assumption, HRC considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

HRC's pension plan asset allocation (based on market value) at September 30, by asset category, is as follows:

	2018	2017
Equity securities	**34%**	27%
Other	**66**	73
	100%	100%

Financial instruments carried at fair value as of September 30, 2018 and 2017, are classified in the tables below in one of the three categories described in Note 4 (in thousands) as of September 30:

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**$ 1,968**	**$ -**	**$ -**	**$ 1,968**
Equity securities and funds:				
Domestic large cap	**4,229**	**3,236**	**-**	**7,465**
Domestic small/mid cap	**495**	**1,448**	**-**	**1,943**
Foreign	**3,353**	**1,697**	**-**	**5,050**
Emerging markets	**4,593**	**199**	**-**	**4,792**
	$ 14,638	**$ 6,580**	**$ -**	**$ 21,218**
Investments at NAV (a)				**$ 35,814**
Total investments at fair value				**$ 57,032**

	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,954	$ -	$ -	$ 3,954
Equity securities and funds:				
Domestic large cap	4,822	-	-	4,822
Domestic small/mid cap	-	1,061	-	1,061
Other investments:				
Global asset allocation funds	3,564	4,293	-	7,857
	$ 12,340	$ 5,354	$ -	$ 17,694
Investments at NAV (a)				$ 37,948
Total investments at fair value				$ 55,642

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Consolidated Balance Sheets.

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of September 30, 2018 and 2017:

	Fair Value at September 30, 2018	Fair Value at September 30, 2017	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
Western asset GBL	**$ -**	$ 4,644,000	None	None	None
Brandywine Global Opp Fixed	**$ -**	$ 3,574,000	None	None	7 Days
Allianzgi Emerging Mkts	**$ -**	$ 3,135,000	None	None	None
Hexavest World Equity Fund	**$ -**	$ 6,364,000	None	Monthly	7 Days
Arclight Capital Partners	**$ 417,000**	$ 330,000	None	Quarterly	180 Days
Crestline Holdback	**$ 46,000**	$ 46,000	None	Quarterly	95 Days
Direct Lending Fund II	**$ 538,000**	$ 434,000	None	N/A	N/A
Invesco Buy Out Partnership III	**$ 4,000**	$ 4,000	None	N/A	N/A
Invesco Non US Partnership III	**$ 7,000**	$ 7,000	None	N/A	N/A
Invesco Venture Partnership III	**$ 35,000**	$ 35,000	None	N/A	N/A
Long US Govt Bond Index	**$ 6,580,000**	$ 1,638,000	None	None	15 Days
Loomis High Grade Corp	**$ 9,746,000**	$ 2,929,000	None	None	15 Days
MFS Intl Concentrated Fund	**$ 5,341,000**	$ 7,322,000	None	None	10 Days
Orchard Landmark Limited	**$ 518,000**	$ 466,000	None	Quarterly	90 Days
Pinnacle equity fund	**$ 2,305,000**	$ 2,076,000	None	Monthly	30 Days
RCP Fund I Feeder, L.P.	**$ 413,000**	$ 368,000	None	Quarterly	45 Days
Russell 1000 Value Index	**$ 4,864,000**	$ 4,576,000	None	None	None
Real Asset Non-Lending Fund	**$ 5,000,000**	$ -	None	Monthly	30 Days

Contributions

HRC made contributions of $2,520,000 and $4,200,000 to the Plan during the years ended September 30, 2018 and 2017, respectively. Management expects to contribute $2,880,000 during 2019.

Estimated future benefit payments

The following benefit payments are expected to be paid under the Plan (in thousands):

2019	$ 4,486
2020	4,656
2021	4,747
2022	4,806
2023	4,848
Years 2024–2027	24,384

Defined contribution plans

In January 2004, HSL replaced the previous defined benefit and various defined contribution plans with its HSL-wide current retirement plans. These plans are defined contribution plans and include employee voluntary contributions, employer-matching contributions based on employee participation and employer discretionary contributions. Amounts paid or accrued by HSL related to these plans were approximately $1,514,000 in fiscal year 2018 and $1,397,000 in fiscal year 2017 and consisted of employer matching contributions.

11. Concentration of Credit Risk

HRC grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for HRC at September 30, 2018 and 2017, was as follows:

	2018	2017
Medicaid	**63%**	52%
Medicare	**19%**	24%
Self-pay	**12%**	12%
Other	**6%**	12%
	100%	100%

12. Functional Expenses

The expenses related to services provided by HSL are as follows (in thousands) for the year ended September 30:

	2018	2017
Patient care	**$ 132,958**	$ 133,179
Research and education	**8,920**	8,687
Housing operations	**66,619**	63,166
General and administrative	**36,265**	35,208
	$ 244,762	$ 240,240

13. Contingency

During fiscal year 2017, an audit was conducted by the Massachusetts Department of Unemployment Assistance (DUA) for the fiscal years 2011-2016 ("Employer Years"). The audit was conducted to determine the employer's compliance with Massachusetts Unemployment Insurance law M.L.G. Chapter 151A. Based on the DUA audit along with subsequent negotiations with HSL during fiscal year 2018, the DUA took the position that NewBridge was liable for approximately $3.4 million ("Amount Due") in unpaid employment insurance premiums, penalties, and interest due for the Employer Years audited by the DUA. As of September 30, 2017 NewBridge had accrued a $1.6 million charge ("Minimum Charge") to reflect its estimate of what it believed to be the minimum liability due from NewBridge to DUA for the Employer Years. It then recorded an additional $1.8 million at the time of settlement. HSL assumed the $3.4 million charge by contributing $1.6 million in fiscal year 2017 and $1.8 million in fiscal year 2018 to NewBridge.

Supplementary Information

Hebrew SeniorLife, Inc. and Affiliates
Consolidating Balance Sheet Information
(In Thousands)
September 30, 2018

	HSL (Parent), HSL ReAge, Guarantor	HRC, AMG	Hebrew SeniorLife Hospice	Orchard Cove	NewBridge	Fireman Community	Satter House	CCB	Eliminations	Total
ASSETS										
Current assets:										
Cash and cash equivalents	$ 845	$ 4,913	$ 275	$ 4,720	$ 20,333	$ 83	$ 937	$ 6,088	$ -	$ 38,194
Accounts receivable, less allowance	-	16,694	2,314	1,344	2,126	11	3	106	-	22,598
Investments:										
Unrestricted	67,474	-	-	-	30,052	-	-	-	-	97,526
Board designated - unrestricted for operations	15,120	-	-	-	-	-	-	-	-	15,120
Funds held in trust	-	-	-	-	-	117	218	396	-	731
Contributions receivable, net	112	-	-	-	-	-	-	-	-	112
Grants receivable	114	595	-	-	-	-	58	-	-	767
Entrance fee receivable and deposits held in escrow	-	-	-	1,740	561	56	116	585	-	3,058
Prepaid expenses and other assets	171	1,942	40	178	599	36	771	276	(111)	3,901
Total current assets	83,836	24,144	2,629	7,982	53,671	303	2,103	7,451	(111)	182,007
Assets limited as to use:										
By Board designation	-	-	-	15,284	-	-	-	-	-	15,284
Held in trust - debt indentures and other	1,546	-	-	4,713	13,407	992	2,121	4,595	-	27,374
Restricted as to use	6,742	6,719	-	544	-	-	-	-	-	14,005
Endowment funds	18,308	-	-	-	-	-	-	-	-	18,308
Restricted contributions receivable	7,024	-	-	-	-	-	-	-	-	7,024
Property, plant, and equipment, net	5,099	21,592	101	21,639	258,875	5,469	14,683	33,274	(10,427)	350,306
Contributions receivable, less current portion	1,864	-	-	-	-	-	-	-	-	1,864
Advances and other receivables - Orchard Cove	470	300	-	-	-	-	-	-	(770)	-
Interest in net assets of recipient organization	-	-	-	184	-	196	175	-	(555)	-
Advances and other receivables from other affiliates	169	442	-	-	-	-	-	-	(611)	-
Other assets	265	-	751	-	-	-	4	4,507	-	5,527
Total assets	$ 125,323	$ 53,197	$ 3,481	$ 50,346	$ 325,953	$ 6,960	$ 19,086	$ 49,827	$ (12,474)	$ 621,699

See independent auditors' report.

	HSL (Parent), HSL ReAge, Guarantor	HRC, AMG	Hebrew SeniorLife Hospice	Orchard Cove	NewBridge	Fireman Community	Satter House	CCB	Eliminations	Total
LIABILITIES AND NET ASSETS (DEFICIT)										
Current liabilities:										
Accounts payable and accrued expenses	$ 2,558	$ 14,408	$ 506	$ 1,507	$ 6,931	$ 161	$ 367	$ 296	$ -	$ 26,734
Accrued interest expense	-	10	-	622	-	37	101	239	-	1,009
Advances on research grants	310	950	-	-	-	-	-	-	-	1,260
Due to/from HSL/affiliates	-	-	-	574	16,102	34	89	213	(17,012)	-
Funds held on behalf of present and future residents	-	274	-	475	717	55	131	620	-	2,272
Due to third-party payors	-	1,699	-	-	-	-	-	-	-	1,699
Current portion of long-term debt	-	1,041	100	1,555	2,480	137	612	825	-	6,750
Total current liabilities	2,868	18,382	606	4,733	26,230	424	1,300	2,193	(17,012)	39,724
Long-term debt, net	-	3,807	100	22,251	240,716	7,432	36,216	60,965	-	371,487
Deferred revenue from nonrefundable entrance fees, net of amortization	-	-	-	9,523	13,794	-	-	-	-	23,317
Refundable entrance fees	-	-	-	97,577	205,988	-	-	-	-	303,565
Pension obligation	-	16,354	-	-	-	-	-	-	-	16,354
Other liabilities	249	511	-	-	600	-	-	872	-	2,232
Due to (from) affiliates	(120,494)	102,059	2,926	-	-	-	-	-	15,509	-
Total liabilities	(117,377)	141,113	3,632	134,084	487,328	7,856	37,516	64,030	(1,503)	756,679
Net assets (deficit):										
Unrestricted	217,494	(105,592)	(151)	(84,465)	(161,375)	(1,091)	(18,605)	(14,203)	(10,796)	(178,784)
Temporarily restricted	7,942	16,547	-	581	-	95	175	-	(175)	25,165
Permanently restricted	17,264	1,129	-	146	-	100	-	-	-	18,639
Total net assets (deficit)	242,700	(87,916)	(151)	(83,738)	(161,375)	(896)	(18,430)	(14,203)	(10,971)	(134,980)
Total liabilities and net assets (deficit)	$ 125,323	$ 53,197	$ 3,481	$ 50,346	$ 325,953	$ 6,960	$ 19,086	$ 49,827	$ (12,474)	$ 621,698

See independent auditors' report.

Hebrew SeniorLife, Inc. And Affiliates
Consolidating Statement of Operations Information
(In Thousands)
For the Year Ended September 30, 2018

	HSL (Parent), HSL ReAge, Guarantor	HRC, AMG	Hebrew SeniorLife Hospice	Orchard Cove	NewBridge	Fireman Community	Satter House	CCB	Eliminations	Total
Operating revenues:										
Net patient service revenue	$ -	$ 118,758	$ 10,164	$ -	$ 10,832	$ -	$ -	$ -	$ -	$ 139,754
Earned entrance and monthly service fees	-	-	-	21,432	29,249	-	-	-	-	50,681
Rental income	-	-	-	-	-	2,859	6,546	8,963	-	18,368
Health Center lease reimbursement	-	(9,481)	-	-	9,481	-	-	-	-	-
Grants and contracts, including recovery of indirect cost	526	8,976	-	-	-	-	50	-	-	9,552
Net assets released from restrictions for operations	498	889	-	198	-	8	-	-	-	1,593
Investment income	(79)	928	220	1,055	761	16	13	31	-	2,945
Other operating revenues	9,012	2,115	160	386	314	262	725	1,012	(8,368)	5,618
	9,957	122,185	10,544	23,071	50,637	3,145	7,334	10,006	(8,368)	228,511
Operating expenses:										
Salaries and wages	6,984	76,253	7,499	8,306	18,236	793	1,247	1,450	-	120,768
Employee benefits	1,168	19,582	1,499	2,127	4,139	162	274	312	-	29,263
Supplies and direct expenses	3,349	19,795	1,682	7,490	12,554	1,155	2,597	3,880	(8,368)	44,134
Direct expenditures on grants and contracts	399	7,728	-	-	-	-	-	-	-	8,127
Depreciation and amortization	14	3,539	48	3,733	16,116	492	1,551	1,880	(345)	27,028
Interest expense	-	199	-	1,266	10,273	452	1,254	1,998	-	15,442
	11,914	127,096	10,728	22,922	61,318	3,054	6,923	9,520	(8,713)	244,762
Operating income (loss)	(1,957)	(4,911)	(184)	149	(10,681)	91	411	486	345	(16,251)
Nonoperating gains (losses):										
Net realized gains on investments	2,217	-	-	-	-	-	-	-	-	2,217
Land lease payments	867	-	-	(867)	-	-	-	-	-	-
Contributions and bequests	3,007	-	-	-	-	59	25	57	-	3,148
Fundraising expenses	(3,749)	-	-	-	-	-	-	-	-	(3,749)
Change in value of interest rate swap	-	-	-	-	496	-	-	-	-	496
Other nonoperating activities	(527)	3	-	-	(979)	-	-	14,280	-	12,777
	1,815	3	-	(867)	(483)	59	25	14,337	-	14,889
Excess (deficiency) of revenues over expenses	(142)	(4,908)	(184)	(718)	(11,164)	150	436	14,823	345	(1,362)
Net assets released from restrictions for property and equipment	-	500	-	-	-	-	-	-	-	500
Change in unrealized gains (losses) on investments	(270)	-	-	(339)	105	-	-	-	-	(504)
Change in pension obligation	-	7,320	-	-	-	-	-	-	-	7,320
Net assets transferred (from) to affiliates	25,325	-	-	-	7,791	-	(1,035)	(32,081)	-	-
Change in unrestricted net assets (deficit)	$ 24,913	$ 2,912	$ (184)	$ (1,057)	$ (3,268)	$ 150	$ (599)	$ (17,258)	$ 345	$ 5,954

See independent auditors' report.

Hebrew SeniorLife, Inc. and Affiliates
Consolidating Statement of Changes in Restricted Net Assets Information
(In Thousands)
For the Year Ended September 30, 2018

	HSL (Parent), HSL ReAge, Guarantor	HRC, AMG	Orchard Cove	Fireman Community	Satter House	Eliminations	Total
Temporarily Restricted Net Assets							
Balance September 30, 2017	$ 7,683	$ 15,067	$ 638	$ 96	$ -	$ -	$ 23,484
Restricted contributions	1,674	2,821	134	-	175	(175)	4,629
Restricted investment income	318	90	-	-	-	-	408
Net realized gain on investments	712	175	-	-	-	-	887
Change in net unrealized gains (losses)							
on investments	(12)	(7)	-	-	-	-	(19)
Net assets released from restrictions used for operations	(498)	(889)	(198)	(8)	-	-	(1,593)
Net assets released from restrictions							
used for property and equipment	-	(500)	-	-	-	-	(500)
Other activity	(1,935)	(210)	7	7	-	-	(2,131)
Change in temporarily restricted net assets	259	1,480	(57)	(1)	175	(175)	1,681
Net assets at September 30, 2018	$ 7,942	$ 16,547	$ 581	$ 95	$ 175	$ (175)	$ 25,165
Permanently Restricted Net Assets							
Balance September 30, 2017	$ 15,526	$ 1,129	$ 142	$ 100	$ -	$ -	$ 16,897
Restricted contributions	1,738	-	4	-	-	-	1,742
Change in permanently restricted net assets	1,738	-	4	-	-	-	1,742
Net assets at September 30, 2018	$ 17,264	$ 1,129	$ 146	$ 100	$ -	$ -	$ 18,639

See independent auditors' report.

Hebrew SeniorLife, Inc. and Affiliates
Consolidating Statement of Cash Flows Information
(In Thousands)
For the Year Ended September 30, 2018

	HSL (Parent), HSL ReAge, Guarantor	HRC, AMG	Hebrew SeniorLife Hospice	Orchard Cove	NewBridge	Fireman Community	Satter House	CCB	Eliminations	Total
Operating activities										
Change in net assets (deficit)	$ 26,910	$ 4,392	$ (184)	$ (1,110)	$ (3,268)	$ 149	$ (599)	$ (17,258)	$ 345	$ 9,377
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:										
Depreciation and amortization	14	3,539	48	3,733	16,116	492	1,551	1,880	(345)	27,028
Gain on sale of property, plant, equipment	-	-	-	-	-	-	-	(14,407)	-	(14,407)
Loss on involuntary conversion	-	-	-	142	-	-	-	-	-	142
Amortization of bond premium	-	-	-	(30)	-	-	-	-	-	(30)
Amortization of debt issuance costs	-	22	-	53	178	-	29	40	-	322
Net realized and unrealized gains on investments	(2,647)	(168)	-	(347)	(460)	-	-	-	-	(3,622)
Change in value of interest rate swap	-	-	-	-	(261)	-	-	-	-	(261)
Net assets transferred	(23,534)	-	-	-	(7,791)	-	1,035	32,081	(1,791)	-
Restricted contributions and investment income	(3,730)	(2,911)	-	(138)	-	-	-	-	-	(6,779)
Earned entrance fees	-	-	-	(1,625)	(2,749)	-	-	-	-	(4,374)
Non-refundable entrance fees received	-	-	-	3,038	2,471	-	-	-	-	5,509
Loss on extinguishment of debt	-	-	-	-	979	-	-	127	-	1,106
Changes in operating assets and liabilities:										
Accounts and grants receivable	150	(1,707)	574	(270)	(133)	(4)	515	40	(14)	(849)
Contributions receivable	(1,168)	-	-	-	-	-	-	-	-	(1,168)
Deposits held in escrow	-	-	-	(1,252)	(40)	-	5	(27)	-	(1,314)
Other assets and liabilities	1,320	(19)	6	8	(3,287)	(4)	(30)	-	3,175	1,169
Accounts payable and accrued expenses	(45)	(171)	274	(69)	2,150	(13)	97	(52)	12	2,183
Advances on research grants	310	(306)	-	-	-	-	-	-	-	4
Accrued pension obligation	-	(7,178)	-	-	-	-	-	-	-	(7,178)
Amounts due to third-party payors	-	62	-	-	-	-	-	-	-	62
Net cash provided by (used in) operating activities	(2,420)	(4,445)	717	2,133	3,905	620	2,603	2,424	1,382	6,920
Investing activities										
Additions to property, plant, and equipment	$ (11)	$ (5,255)	$ (56)	$ (2,972)	$ (4,694)	$ (256)	$ (851)	$ (1,582)	$ -	$ (15,677)
Net proceeds from sale of property, plant, and equipment	-	-	-	-	-	-	-	10,095	-	10,095
Net assets transferred	23,534	-	-	-	7,791	-	(1,035)	(32,081)	1,791	-
Sales of investments, trustee and designated funds	87,979	3,714	-	25,494	7,187	-	-	-	-	124,374
Purchases of investments, trustee and designated funds	(101,428)	(4,907)	-	(25,821)	(16,454)	-	-	-	-	(148,610)
Increase in funds held under bond agreement					(13,407)					(13,407)
Other investing activities	-	-	-	(6)	-	(337)	850	1,763	-	2,270
Net cash provided by (used in) investing activities	10,074	(6,448)	(56)	(3,305)	(19,577)	(593)	(1,036)	(21,805)	1,791	(40,955)

See independent auditors' report.

	HSL (Parent), HSL ReAge, Guarantor	HRC, AMG	Hebrew SeniorLife Hospice	Orchard Cove	NewBridge	Fireman Community	Satter House	CCB	Eliminations	Total
Financing activities										
Payments on long-term debt	-	(6,603)	(100)	(1,480)	(240,523)	(130)	(593)	(699)	-	(250,128)
Proceeds from long-term debt	-	3,500	-	-	248,147	-	-	21,911	-	273,558
Change in intercompany balances	(11,084)	14,652	(472)	-	-	95	-	157	(3,348)	-
Refundable entrance fees and deposits received	-	-	-	16,788	6,545	-	-	-	-	23,333
Refund of entrance fees	-	-	-	(12,859)	291	-	-	-	-	(12,568)
Change in interest in net assets of recipient organization	-	-	-	-	-		(175)	-	175	-
Restricted contributions and investment income	3,730	2,911	-	138	-	-	-	-	-	6,779
Deferred financing costs	-	-	-	-	(3,144)	-	-	-	-	(3,144)
Other financing activities	-	-	-	(3)	303	-	-	-	-	300
Net cash provided by (used in) financing activities	(7,354)	14,460	(572)	2,584	11,619	(35)	(768)	21,369	(3,173)	38,130
Increase (decrease) in cash and cash equivalents	300	3,567	89	1,412	(4,053)	(8)	799	1,988	-	4,094
Cash and cash equivalents at beginning of year	545	1,346	186	3,308	24,386	91	138	4,100	-	34,100
Cash and cash equivalents at end of year	$ 845	$ 4,913	$ 275	$ 4,720	$ 20,333	$ 83	$ 937	$ 6,088	$ -	$ 38,194
Non-cash activities:										
Purchase of property and equipment in accounts payable and accrued liabilities at year-end	$ -	$ 1,415	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,415
Refund of entrance fee in accounts payable at year-end	$ -	$ -	$ -	$ 2,900	$ -	$ -	$ -	$ -	$ -	$ 2,900
Proceeds from mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 32,310	$ -	$ 32,310
Less: amount to pay off existing debt	-	-	-	-	-	-	-	(7,003)	-	(7,003)
Less: deposit into escrow	-	-	-	-	-	-	-	(2,891)	-	(2,891)
Less: other activities	-	-	-	-	-	-	-	(505)	-	(505)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,911	$ -	$ 21,911
Proceeds from sale of property, plant, and equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 26,719	$ -	$ 26,719
Less: amount to pay off existing debt	-	-	-	-	-	-	-	(12,845)	-	(12,845)
Less: proceeds receivable at year-end	-	-	-	-	-	-	-	(2,500)	-	(2,500)
Less: escrow funds released	-	-	-	-	-	-	-	(1,279)	-	(1,279)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,095	$ -	$ 10,095

See independent auditors' report.