

**AUDITED
FINANCIAL STATEMENTS**

**GENESEE VALLEY PRESBYTERIAN
NURSING CENTER
d/b/a KIRKHAVEN**

DECEMBER 31, 2014

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

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INDEPENDENT AUDITOR'S REPORT

Board of Governors
Genesee Valley Presbyterian Nursing
Center d/b/a Kirkhaven
Rochester, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Genesee Valley Presbyterian Nursing Center d/b/a Kirkhaven which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 reasonable 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 Genesee Valley Presbyterian Nursing Center d/b/a Kirkhaven as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 23, 2015

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

**STATEMENTS OF FINANCIAL POSITION
December 31,**

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	\$ 12,863	\$ 80,949
Accounts receivable, net of allowance	1,471,514	1,158,307
Prepaid expenses and other current assets	121,442	109,235
Total current assets	<u>1,605,819</u>	<u>1,348,491</u>
Assets whose use is limited	1,456,064	1,569,672
Beneficial interest in Foundation	2,229,714	2,208,535
Property and equipment, net of accumulated depreciation	5,964,490	6,147,428
Mortgage acquisition costs, net	92,462	98,875
Resident funds held in trust	54,088	49,805
Total assets	<u>\$ 11,402,637</u>	<u>\$ 11,422,806</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 981,248	\$ 1,040,686
Deferred revenue	13,865	33,829
Line of credit	454,397	469,962
Debt - due within one year	294,417	283,739
Due to affiliated parties	200,149	1,497
Total current liabilities	<u>1,944,076</u>	<u>1,829,713</u>
Debt - due after one year	5,208,006	5,502,423
Pension liability	3,550,905	997,221
Amounts due to third party payors	655,424	510,552
Workers compensation liability	501,716	501,716
Deferred compensation liability	122,485	62,811
Resident funds held in trust	54,088	49,805
Total liabilities	<u>12,036,700</u>	<u>9,454,241</u>
Net assets:		
Unrestricted	(2,863,777)	(239,970)
Temporarily restricted	1,272,059	1,252,124
Permanently restricted	957,655	956,411
Total net assets	<u>(634,063)</u>	<u>1,968,565</u>
Total liabilities and net assets	<u>\$ 11,402,637</u>	<u>\$ 11,422,806</u>

See accompanying notes.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31,**

	<u>2014</u>	<u>2013</u>
Service revenue:		
Self pay	\$ 782,113	\$ 1,349,847
Medicare A	726,624	810,346
Medicare B	248,275	102,051
Medicaid	6,483,954	6,647,356
Other insurance	1,515,348	1,147,157
PACE managed care	1,470,810	943,527
NYS cash receipts assessment	568,669	595,463
Total service revenue	<u>11,795,793</u>	<u>11,595,747</u>
Other operating revenue:		
Miscellaneous revenue	25,620	26,413
Cafeteria and vending income	28,012	29,412
Foundation support	263,942	140,827
Total other operating revenue	<u>317,574</u>	<u>196,652</u>
Total operating revenue	12,113,367	11,792,399
Operating expenses:		
Nursing services	4,065,968	4,283,488
Ancillary services	1,127,431	978,690
Resident support services	3,162,092	3,108,580
Administrative support services	830,484	900,062
Employee benefits	1,200,604	1,647,297
Property and interest expense	386,865	399,787
NYS cash receipts assessment	586,919	630,253
Bad debts	149,272	51,681
Total operating expenses	<u>11,509,635</u>	<u>11,999,838</u>
Depreciation and amortization	<u>549,575</u>	<u>527,074</u>
Income (loss) from operations	54,157	(734,513)
Non-operating revenue (expense):		
Interest and dividend income	974	1,113
Loss on extinguishment of debt	-	(59,146)
Former workers' compensation trust deficit estimate	-	(420,000)
Miscellaneous income	23,128	22,454
Total non-operating revenue (expense)	<u>24,102</u>	<u>(455,579)</u>
Excess (deficiency) of revenue over expense	78,259	(1,190,092)

See accompanying notes.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
Years Ended December 31,**

	<u>2014</u>	<u>2013</u>
Change in unrestricted net assets related to the pension plan	<u>(2,702,066)</u>	<u>2,438,605</u>
Change in unrestricted net assets	(2,623,807)	1,248,513
Temporarily restricted net assets:		
Change in beneficial interest in Foundation	<u>19,935</u>	<u>277,658</u>
Change in temporarily restricted net assets	19,935	277,658
Permanently restricted net assets:		
Change in beneficial interest in Foundation	<u>1,244</u>	<u>1,296</u>
Change in permanently restricted net assets	1,244	1,296
Change in net assets	(2,602,628)	1,527,467
Net assets - beginning of year	<u>1,968,565</u>	<u>441,098</u>
Net assets - end of year	<u>\$ (634,063)</u>	<u>\$ 1,968,565</u>

See accompanying notes.

GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN

STATEMENTS OF CASH FLOWS
Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,602,628)	\$ 1,527,467
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in allowance for doubtful accounts	154,500	(45,000)
Depreciation and amortization	549,575	527,074
Loss on extinguishment of debt	-	59,146
Change in unrestricted net assets related to the pension plan	2,702,066	(2,438,605)
Change in beneficial interest in Foundation	(21,179)	(278,954)
(Increase) decrease in assets:		
Accounts receivable	(467,707)	106,816
Prepaid expenses and other current assets	(12,207)	(30,833)
Due from affiliated parties	-	4,981
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(59,438)	57,409
Accounts payable - construction	-	(280,652)
Deferred revenue	(19,964)	10,648
Due to third party payors	144,872	107,981
Due to affiliated parties	198,652	1,497
Pension liability	(148,382)	187,442
Workers compensation liability	-	420,000
Deferred compensation liability	59,674	22,569
Cash provided (used) by operating activities	<u>477,834</u>	<u>(41,014)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(360,224)	(713,839)
Change in assets whose use is limited	113,608	(512,544)
Cash used by investing activities	<u>(246,616)</u>	<u>(1,226,383)</u>
Cash flows from financing activities:		
Mortgage refinancing costs incurred	-	(66,700)
Gain on extinguishment of debt	-	71,760
Net (decrease) increase in line of credit	(15,565)	269,962
Proceeds on refinancing of long-term debt	-	1,248,204
Principal payments on long-term debt	(283,739)	(256,260)
Cash (used) provided by financing activities	<u>(299,304)</u>	<u>1,266,966</u>
Net change in cash and cash equivalents	(68,086)	(431)
Cash and cash equivalents - beginning of year	<u>80,949</u>	<u>81,380</u>
Cash and cash equivalents - end of year	<u>\$ 12,863</u>	<u>\$ 80,949</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 248,143</u>	<u>\$ 270,110</u>

See accompanying notes.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations: Genesee Valley Presbyterian Nursing Center d/b/a Kirkhaven (Kirkhaven) is a 147-bed not-for-profit nursing facility located in Rochester, New York.

Display of Net Assets by Class: The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of accounting principles generally accepted in the United States of America (US GAAP). Such principles require that resources be classified for reporting purposes into three net asset categories (temporarily restricted, permanently restricted and unrestricted) according to the existence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use has been limited by donors for a specific purpose or time period. Temporarily restricted net assets are purpose restricted for Kirkhaven's general use subject to the Seniorsfirst Foundation, Inc.'s approval, and for specific purpose use at Kirkhaven such as the Pathways household project, a van, enhanced dining, the beauty shop, resident recreation, and pastoral care services. Certain temporarily restricted net assets are time restricted. Permanently restricted net assets are those for which donors require the principal of the gift to be maintained in perpetuity.

Cash and Cash Equivalents: Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less.

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable are stated at amount invoiced and are net of allowances for doubtful accounts. Kirkhaven estimates the allowance based on management's analysis of specific balances, taking into consideration the age of past due accounts, the status of the billing process with third-party payers, the value of remaining assets held by residents, and anticipated collections resulting from legal action. Receivables are considered impaired if payment is not received in accordance with terms. It is Kirkhaven's policy to write-off uncollectible receivables when management determines the receivable will not be collected. As of December 31, 2014 the allowance for doubtful accounts amounted to \$364,500 (\$210,000 - 2013).

Property and Equipment: Property and equipment is stated at cost if purchased or at the fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 40 years. Kirkhaven capitalizes all assets with a cost of \$200 or greater and an estimated useful life of more than one year. Depreciation expense for the year ended December 31, 2014 was \$543,161 (\$519,595 - 2013).

Mortgage Acquisition Costs: In 2013, Kirkhaven refinanced its mortgage and wrote off the associated unamortized mortgage acquisition costs of \$130,906 to Loss on Extinguishment of Debt in accordance with US GAAP. Costs of \$102,614 were capitalized as Mortgage Acquisition Costs. These costs are being amortized using the straight-line method over the term of the mortgage. Amortization expense for the year ended December 31, 2014 amounted to \$6,414 (\$7,479 - 2013). Accumulated amortization as of December 31, 2014 amounted to \$10,155 (\$3,741 - 2013). Amortization expense for each of the five years subsequent to December 31, 2014 is expected to be \$6,414.

Deferred Revenue: Cash received in advance of services rendered is classified as deferred revenue.

Resident Funds: Kirkhaven acts as a custodian for resident funds. These funds are expended at the direction of its residents for personal items.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value: As defined by US GAAP, fair value is 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. A hierarchy for ranking the quality and reliability of the information is used to determine fair values. Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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 are used to maximize the use of observable inputs and minimize the use of unobservable inputs. There has been no change in the methodologies used at December 31, 2014 and 2013.

Cash and Cash Equivalents: Stated at cost, which approximates fair value. Cash and cash equivalents are classified at Level 1.

Mutual Funds: Valued at the net asset value (NAV) of the shares held by at year end. The NAV is the closing price reported on the active market on which the securities are traded. Mutual funds are classified as Level 1.

U.S. Government Securities, Corporate Obligations, Mortgage Backed Obligations, Municipal Obligations, and Common Stocks: Valued at the closing price reported on the active market on which the individual securities are traded. Investments are classified as Level 1.

Revenue Recognition: Kirkhaven provides service to residents under agreements with third-party payors (Medicaid, Medicare and HMOs) under provisions of their respective cost reimbursement formulas. If amounts received are less than Kirkhaven's established billing rates, the difference is accounted for as a reduction of revenue. Final determination of the reimbursement rates is subject to review by appropriate third-party payors. Provisions are made in the financial statements for anticipated adjustments that may result from such reviews. Differences between the estimated amounts accrued and final settlements are reported in operations in the year of settlement. There were no settlements recognized by Kirkhaven during the years ended December 31, 2014 and 2013.

Lease Revenue: During October 2010, Kirkhaven leased rooftop and ground space sufficient for the installation, operation and maintenance of a cellular antenna to a communication company. Under the terms of the lease agreement, Kirkhaven will receive monthly lease payments, which shall increase by three percent annually, through September 2015 with four, five year extensions available at the leasee's option. Kirkhaven recognized lease revenue, reflected in Non-Operating Revenue, of \$23,128 during the year ended December 31, 2014 (\$22,454 - 2013).

Contributions: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Kirkhaven reports contributions for which the donor imposed restriction was met in the same year that the contribution is received as unrestricted net asset activity.

Volunteers have donated significant amounts of time in support of Kirkhaven activities. However, the value of these services is not reflected in the accompanying statements, as these services do not meet the criteria for recognition in accordance with US GAAP.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk: Kirkhaven has significant concentrations of resident accounts receivable with Medicaid and Medicare of approximately 54% for the year ended December 31, 2014 (56% - 2013). Revenues from the Medicaid and Medicare programs accounted for approximately 64% of Kirkhaven's nursing home and other revenue for the year ended December 31, 2014 (68% - 2013).

In addition, financial instruments that potentially subject Kirkhaven to concentrations of credit risk consist principally of cash accounts in financial institutions. Although the cash accounts may exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institutions. Management reviews the financial viability of these institutions on a periodic basis.

Income Taxes: Kirkhaven is a not-for-profit organization as described in Section 509(a) of the Internal Revenue Code and is exempt from income taxes as a corporation qualified under Section 501(c)(3) of the Code. Kirkhaven is not considered a private foundation by the Internal Revenue Service. Kirkhaven files its return of Organization Exempt from Income Tax in the U.S. federal jurisdiction and its Annual Filing of Charitable Organizations in New York State. The tax years 2011 - 2013 generally remain open to examination in taxing jurisdictions in which Kirkhaven is subject to filing requirements of those jurisdictions.

Kirkhaven has considered the recognition requirements for uncertain income tax positions. Kirkhaven believes that its income tax filing positions would be sustained upon examination, and does not anticipate any adjustments that would result in a material adverse affect on the Kirkhaven's financial condition.

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

Reclassifications: Certain 2013 amounts have been reclassified to conform with current presentation. The reclassification has no effect on net income as originally reported.

Subsequent Events: These financial statements have not been updated for subsequent events occurring after March 23, 2015 which is the date these financial statements were available to be issued.

NOTE 2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited represent amounts designated for the following purposes:

Mortgage Escrow Deposits: Represent tax, insurance, and other escrow funds deposited as required under the terms of Kirkhaven's debt financing agreements.

Reserve for Replacement: Represents funds deposited as required under the terms of Kirkhaven's debt financing agreements. The funds can be utilized with the approval of the U.S. Department of Housing and Urban Development, for maintaining the nursing facility.

Funded Depreciation Reserves: Represents funds deposited as required by the New York State Department of Health (DOH) for capital expenditures. Effective January 1, 2007, DOH no longer requires nursing facilities to fund depreciation.

Non-Qualified Deferred Compensation Plan: Represents funds invested as required under the terms of Kirkhaven's non-qualified deferred compensation plan with the CEO.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. ASSETS WHOSE USE IS LIMITED (CONTINUED)

The balances of assets whose use is limited are as follows at December 31:

	<u>2014</u>	<u>2013</u>
Mortgage escrow deposits	\$ 124,525	\$ 79,299
Reserve for replacement	1,188,982	1,146,911
Funded depreciation reserves	20,072	280,651
Non-qualified deferred compensation plan	<u>122,485</u>	<u>62,811</u>
Total	<u>\$ 1,456,064</u>	<u>\$ 1,569,672</u>

Kirkhaven measured its investments at fair value on a recurring basis as Level 1 within the hierarchy which is based on quoted market prices. Assets whose use is limited are invested in the following as of December 31:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Cash and cash equivalents:				
Mortgage escrow deposits	\$ 124,525	\$ 124,525	\$ 79,299	\$ 79,299
Reserve for replacement	1,188,982	1,188,982	1,146,911	1,146,911
Funded depreciation reserves	20,072	20,072	280,651	280,651
Mutual funds – large value stocks:				
Non-qualified deferred compensation plan assets	<u>109,782</u>	<u>122,485</u>	<u>55,783</u>	<u>62,811</u>
Total	<u>\$ 1,443,361</u>	<u>\$ 1,456,064</u>	<u>\$ 1,562,644</u>	<u>\$ 1,569,672</u>

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 438,016	\$ 438,016
Building and improvements	13,306,078	13,180,188
Land improvements	183,273	186,301
Movable equipment	2,213,378	2,175,599
Construction in progress	<u>45,231</u>	<u>36,877</u>
	16,185,976	16,016,981
Less: Accumulated depreciation	<u>10,221,486</u>	<u>9,869,553</u>
Net property and equipment	<u>\$ 5,964,490</u>	<u>\$ 6,147,428</u>

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. LINE OF CREDIT

Kirkhaven increased the amount available on the line of credit to \$750,000 during the year ended December 31, 2014 (\$500,000 - 2013) with a bank that bears interest at the one-month LIBOR rate (.17% at December 31, 2014) plus 3.00% rounded upward, if necessary, to the nearest 1/16th of 1%. The line is secured by all non-real estate assets of Kirkhaven and a pledge of assets from the Seniorsfirst Foundation, Inc. equal to the outstanding amount of the line of credit. As of December 31, 2014, \$454,397 was outstanding on the line of credit (\$469,962 - 2013).

NOTE 5. DEBT

Debt consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Mortgage payable in monthly installments of \$41,087, including interest at 3.70% through May 2029. Mortgage is collateralized by substantially all of Kirkhaven's assets, and is insured by the U.S. Department of Housing and Urban Development under Program Section 232 - Nursing Homes, Intermediate Care Facilities, and Board and Care Homes.	\$ 5,502,423	\$ 5,786,162
Less current portion	<u>294,417</u>	<u>283,739</u>
Amount due after one year	<u>\$ 5,208,006</u>	<u>\$ 5,502,423</u>

Annual maturities of debt subsequent to December 31, 2015 are as follows:

2016	\$ 305,497
2017	316,994
2018	328,924
2019	341,303
2020	354,147
Thereafter	<u>3,561,141</u>
	<u>\$ 5,208,006</u>

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. ENDOWMENTS

Changes in Endowment Net Assets for the year ended December 31:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, January 1, 2013	\$ 209,859	\$ 955,115
Investment return:		
Investment income	21,214	-
Net realized and unrealized losses on endowment funds	<u>113,551</u>	<u>-</u>
Total investment return	134,765	-
Contributions	-	1,296
Appropriation of endowment assets for expenditure	<u>(42,000)</u>	<u>-</u>
Endowment net assets, December 31, 2013	302,624	956,411
Investment return:		
Investment income	17,212	-
Net realized and unrealized gains on endowment funds	<u>43,188</u>	<u>-</u>
Total investment return	60,400	-
Contributions	-	1,244
Appropriation of endowment assets for expenditure	<u>(40,000)</u>	<u>-</u>
Endowment net assets, December 31, 2014	<u>\$ 323,024</u>	<u>\$ 957,655</u>

Interpretation of Relevant Law

The Board of Directors has interpreted New York State Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the historical dollar value of the corpus of the permanent restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Seniorsfirst Foundation, and therefore Kirkhaven, classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. Investment income of the invested assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Seniorsfirst Foundation in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires Kirkhaven to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2014 or 2013. Deficiencies would result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs that would be deemed prudent by Seniorsfirst Foundation.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. ENDOWMENTS (CONTINUED)

Return Objectives, Risk Parameters, and Strategies Employed for Achieving Objectives

To ensure the preservation of the corpus of the permanently restricted endowment funds, the total fair value of all commingled investment assets are classified first to the level of the permanently restricted endowment funds corpus. If the fair value of investment assets falls below the level of the permanently restricted endowment fund corpus, an endowment fund deficiency receivable from the unrestricted net assets would be recognized until the deficiency was recovered.

Spending Policy

The Board of Directors has established a Total Return Policy (TRP) for use in regulating how Seniorsfirst Foundation investment earnings and appreciation are made available for use by the supporting organizations. The TRP allows for an annual release of Seniorsfirst Foundation's temporarily restricted net assets to Kirkhaven equal to 5% of the rolling previous 12 quarters beneficial interest balances of Kirkhaven. Amounts distributed during the year ended December 31, 2014 amounted to \$93,500 (\$85,300 – 2013). If the Seniorsfirst Foundation accumulated earnings in the temporarily restricted net assets are not sufficient to cover the 5% TRP transfer (underwater position), no TRP transfer is permitted that year. Seniorsfirst Foundation considered several factors in establishing its policy, as enumerated in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and New York Prudent Management of Institutional Funds Act (NYPMIFA), including the preservation of the endowment funds, the purposes of the organization and the fund, general economic conditions, possible effects of inflation or deflation, expected total return from income and appreciation of investments, other resources of the organization, the organization's investment policy, and alternatives to spending from the endowment fund and the possible effects of those alternatives on the organization.

NOTE 7. PENSION PLANS

Kirkhaven has a contributory 401(k) defined contribution pension plan which covers employees who have one year of service and are age twenty-one or older. Kirkhaven matches participants' contributions to the Plan up to 3% of their compensation. Kirkhaven's contributions to the plan were \$13,506 for the year ended December 31, 2014 (\$14,848 - 2013).

Kirkhaven has a voluntary, employee-contributory 403(b) plan.

Kirkhaven also has a non-contributory defined benefit pension plan covering substantially all employees hired prior to January 1, 2006. The plan provides benefits based on years of service and the employee's compensation. Kirkhaven's funding policy is to contribute an amount within the requirements of the Employee Retirement Income Security Act. At December 31, 2005, Kirkhaven's defined benefit pension plan was frozen to existing participants. No new participants are eligible for admission into the plan subsequent to December 31, 2005.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. PENSION PLANS (CONTINUED)

The following table presents information about the Plan's assets that are measured at fair value on a recurring basis as of December 31, 2014 and 2013, using Level 1 inputs which are based on unadjusted quoted market prices within active markets.

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 267,783	\$ 206,771
Mutual funds	826,114	686,662
U.S. government securities	386,123	458,138
Corporate obligations	668,979	661,369
Mortgage-backed obligations	90,813	117,430
Municipal obligations	30,864	25,869
Common stock:		
Consumer discretionary	350,556	444,585
Consumer staples	487,349	257,709
Energy	453,203	706,576
Financials	1,506,522	1,333,868
Health care	666,752	549,469
Industrials	412,843	560,413
Information technology	497,315	482,582
Materials	97,805	249,448
Telecommunication services	94,892	99,327
Utilities	271,484	100,980
	<u>\$ 7,109,397</u>	<u>\$ 6,941,196</u>

Obligations and Funded Status: The following table sets forth the Plan's funded status and amounts recognized in Kirkhaven's financial statements. The measurement date for plan assets and obligations was December 31, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Amounts at the end of years:		
Benefit obligation	\$ 10,660,302	\$ 7,938,417
Fair value of plan assets	\$ 7,109,397	\$ 6,941,196
Funded status (plan assets less plan obligations)	\$ (3,550,905)	\$ (997,221)
Amounts recognized for the years:		
Benefit cost recognized in expense	\$ 19,618	\$ 337,442
Employer contributions	\$ 168,000	\$ 150,000
Benefits paid	\$ 248,947	\$ 235,232
Amounts recognized in the statements of financial position:		
Pension liability	\$ (3,550,905)	\$ (997,221)
Accumulated unrestricted net assets related to the pension plan	\$ 3,239,206	\$ 537,140
Net amounts recognized	<u>\$ (311,699)</u>	<u>\$ (460,081)</u>

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. PENSION PLANS (CONTINUED)

The amount in the accumulated unrestricted net assets related to the pension plan consists of a net actuarial loss as of December 31, 2014 in the amount of \$3,239,206 (\$537,140 - 2013).

The amounts in the accumulated unrestricted net assets related to the pension plan that are expected to be amortized into net periodic benefit cost during the next fiscal year are \$202,722.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation	\$ 10,660,302	\$ 7,938,417
Accumulated benefit obligation	\$ 9,968,763	\$ 7,359,349
Fair value of plan assets	\$ 7,109,397	\$ 6,941,196

Assumptions:

Assumptions used in computing ending obligations:

Discount rate	4.00%	5.00%
Rate of compensation increase	3.00%	3.50%

Assumptions used in computing expected

return on assets	8.50%	8.50%
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The overall expected long-term rate of return on assets is based on historical returns, market trends, and investment objectives.

Plan Assets: Kirkhaven's pension plan weighted-average asset allocations by asset category are as follows:

<u>Asset Portfolio</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	4%	3%
Fixed income	28	28
Common stock	<u>68</u>	<u>69</u>
Total	<u>100%</u>	<u>100%</u>

Kirkhaven utilizes a professional investment manager for the plan assets, overseen by the finance committee of the board of directors. A formal investment policy approved by the committee establishes an average asset allocation range and preferred target of 5% cash and cash equivalents, 25% fixed income, and 70% equity securities. The investment policy also establishes a long-term return on investment objective of 500 basis points over the annual inflation rate and a short-term return on investment objective competitive with standard benchmark indices for each specific market sector. The investment manager follows a value-oriented philosophy of investing and is prohibited by the investment policy from the use of derivatives and other high risk investments.

Cash Flows: Kirkhaven expects to contribute approximately \$150,000 to the defined benefit pension plan in 2015.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. PENSION PLANS (CONTINUED)

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

2015	\$	271,585
2016	\$	293,268
2017	\$	291,873
2018	\$	310,436
2019	\$	333,506
Next five succeeding years	\$	2,218,881

Non-Qualified Deferred Compensation Plan - Kirkhaven provides an opportunity for the CEO to receive employer contributions for the purpose of providing additional retirement benefits through a section 457(b) deferred compensation plan. Deferred compensation expense of \$16,800 was accrued by Kirkhaven for the year ended December 31, 2014 (\$13,475 - 2013). There is a related asset and liability recorded on the statements of financial position as non-current assets whose use is limited and other long term liabilities, respectively. Assets equal to \$45,999, along with the related deferred compensation liability, previously reported on the balance sheet of Valley Manor were transferred to Kirkhaven as a result of the Valley Manor restructuring (note 9). The CEO must be employed by Seniorsfirst through January 1, 2021 for the account to be fully vested and not subject to forfeiture. If forfeiture occurs, the balance will be returned to the entity. If the CEO's employment relationship is involuntarily terminated prior to January 1, 2021, the account shall then become vested, valued and payable to the CEO. An Employment Agreement has been entered into between the organization and the CEO through December 31, 2016.

NOTE 8. WORKERS' COMPENSATION SELF INSURANCE

Kirkhaven was self-insured for workers' compensation claims through a captive group arrangement with other healthcare providers. The New York State Workers' Compensation Board took over the trust during 2011 due to the self-insured trust's failure to meet and maintain liquidity and long term solvency requirements. The New York State Workers' Compensation Board initially calculated a preliminary trust liability for Kirkhaven and entered into a temporary payment plan whereby Kirkhaven was making monthly payments of \$7,515 from July 2011 through October 2013. In December 2013, the New York State Workers' Compensation Board issued a revised trust liability for Kirkhaven with a liability of approximately \$1.4 million. Kirkhaven is a member of a trust defense group, which consists of the majority of former trust members, who have hired legal counsel to represent them in defending against the claims of the New York State Workers' Compensation Board. Currently, the New York State Workers' Compensation Board has postponed any further collection activity related to their most recent trust liability assessments and the trust defense group is considering its own next steps including further analysis, negotiation and litigation options. Kirkhaven believes that there are numerous issues/errors with the latest revised liability. Because of the unknown ultimate amount of the trust liability, the balance sheet includes only an estimate based on the Organization's most current assessment and assumptions of its trust liability less payments made. At December 31, 2014 and 2013, the liability recorded is approximately \$500,000, and may be subsequently increased or decreased as the process develops and more factual data becomes known. There were no developments or factual data identified in 2014, therefore, no changes were made to the liability.

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
d/b/a KIRKHAVEN**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. WORKERS' COMPENSATION SELF INSURANCE (CONTINUED)

In 2010 and 2011, Kirkhaven participated in the Human Services Self-Insurance Workers' Compensation Trust Fund (HST). The HST was incorporated in 1996 to offer competitive workers compensation and statutory disability benefits programs to non-profit human services organizations throughout New York State. The HST set annual premium rates for its members based on the claims experience and other costs of the Trust as a group. Each member's premiums were adjusted by a member specific claims experience modification factor. By choosing members carefully, engaging in best practices for risk management, conducting vigilant claims administration and cost sharing administrative overhead, the HST's objective was to minimize premium costs to its exclusive members. The HST closed January 1, 2012. As of December 31, 2014, the Trust had approximately 60 months of cash available to pay remaining open claims, which is above the NYS Workers Compensation Board 18 month minimum requirement. It is not currently anticipated that there would be any additional member assessments.

Effective January 1, 2012, Kirkhaven ceased participating in a self-insured trust, and enrolled in a standard workers' compensation insurance product where premiums are determined based on industry rates and facility-specific experience ratings.

The amount charged to expense for workers' compensation claims for Kirkhaven was \$200,278 for the year ended December 31, 2014 (\$685,606 - 2013).

NOTE 9. RELATED PARTY TRANSACTIONS

Due To Affiliated Parties: At December 31, 2014, Kirkhaven was indebted to affiliated parties in the net amount of \$200,149 (\$1,497 - 2013). The amounts are non-interest bearing, unsecured obligations with no defined repayment terms.

Beneficial Interest in Net Assets of Foundation: As required by US GAAP, Kirkhaven has recorded its interest in the net assets of the Seniorsfirst Foundation, Inc., a financially interrelated organization. Annually, Kirkhaven's interest is adjusted for its share of the change in the net assets of the Foundation. At December 31, 2014, interest in net assets of the Foundation amounted to \$2,229,714 (\$2,208,535 - 2013).

Valley Manor Restructuring: Effective August 1, 2014, Valley Manor (formerly a related party) was restructured and Episcopal Seniorlife Communities (ESLC) became the sole member of Valley Manor. Prior to this restructuring, Kirkhaven had a cost sharing agreement with Valley Manor. Subsequent to the Valley Manor restructuring, Kirkhaven has restructured several components of these support services to maintain its costs.

NOTE 10. FUNCTIONAL EXPENSES

The costs of providing healthcare services at December 31 have been summarized below. Certain costs have been allocated among services and supporting services benefitted.

	<u>2014</u>	<u>2013</u>
Healthcare	\$ 10,868,145	\$ 11,202,099
General and administrative	<u>1,191,065</u>	<u>1,324,813</u>
Total functional expenses	<u>\$ 12,059,210</u>	<u>\$ 12,526,912</u>

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. OTHER MATTERS

Kirkhaven has a legal obligation to remove asbestos that is contained in some areas of its location. Shall the need arise to disturb the contained area, a liability will be recorded based on the estimated cost to remediate the asbestos. At December 31, 2014, a liability has not been recognized for this obligation because sufficient information is not available to estimate the fair value of the disposal.

In compliance with the enacted NYS Revitalization Act, the Board of Directors approved specific revisions to the corporate bylaws effective July 1, 2014.

GENESEE VALLEY PRESBYTERIAN NURSING CENTER
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SCHEDULES OF OPERATING EXPENSES
Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Nursing services:		
Nursing administration	\$ 682,145	\$ 873,340
Skilled nursing	3,383,823	3,410,148
Total nursing services	<u>4,065,968</u>	<u>4,283,488</u>
Ancillary services:		
Ambulance	9,179	10,920
Laboratory	13,180	17,958
Radiology	9,260	9,097
Pharmacy	227,664	182,797
Podiatry	1,729	7,800
Dental	16,100	17,770
Physical therapy	420,683	350,165
Occupational therapy	288,642	271,160
Speech therapy	92,597	61,964
Audiology	-	85
Psychiatry	6,397	6,974
Physician services	42,000	42,000
Total ancillary services	<u>1,127,431</u>	<u>978,690</u>
Resident support services:		
Life enrichment	47,473	142,460
Pastoral care	53,302	50,905
Pet therapy	1,381	888
Households	602,996	313,377
Household training	19,375	15,694
Social work	136,808	135,084
Health information management	46,686	45,882
Food and nutrition	928,024	971,610
Cafeteria	27,742	29,890
Plant maintenance and operation	320,101	339,970
Utilities	274,648	267,307
Housekeeping	147,109	307,663
Laundry	262,490	243,455
Security	112,469	100,800
Transportation	8,206	2,955
Staff development	65,549	63,541
Reception	53,627	55,189
Barber and beauty shop	20,174	19,204
Legionella	12,906	-
Scabies	19,050	-
Newspaper - residents	1,976	2,706
Total resident support services	<u>3,162,092</u>	<u>3,108,580</u>

**GENESEE VALLEY PRESBYTERIAN NURSING CENTER
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**SCHEDULES OF OPERATING EXPENSES (CONTINUED)
Years Ended December 31,**

	<u>2014</u>	<u>2013</u>
Administrative support services:		
Administration	\$ 224,840	\$ 226,099
Fiscal	236,781	249,534
Information technology	80,852	63,163
Seniorsfirst administration	135,512	144,060
Public relations and marketing	1,428	24,397
Purchasing	16,426	12,395
Human resources	134,645	180,414
Total administrative support services	<u>830,484</u>	<u>900,062</u>
Employee benefits:		
FICA	471,123	504,996
Health insurance	363,860	468,169
Workers' compensation	200,278	265,606
Pension plan - defined benefit	66,664	384,466
Pension plan - 401K	23,235	22,794
Disability	15,572	18,946
Unemployment	79,190	40,580
Dental	-	360
Life insurance	181	1,673
Other	5,857	1,759
Allocation	(25,356)	(62,052)
Total employee benefits	<u>1,200,604</u>	<u>1,647,297</u>
Property and interest expenses:		
Lease and rentals	41,507	39,764
Insurance	97,215	89,913
Interest expense and mortgage fees	248,143	270,110
Total property and interest expenses	<u>386,865</u>	<u>399,787</u>
Bad debts	149,272	51,681
NYS cash receipts assessment	<u>586,919</u>	<u>630,253</u>
Total operating expenses	<u>\$ 11,509,635</u>	<u>\$ 11,999,838</u>
Total wages	\$ 6,244,394	\$ 6,629,007
Total other	5,265,241	5,370,831
Total operating expenses	<u>\$ 11,509,635</u>	<u>\$ 11,999,838</u>