

MCLEAN AFFILIATES, INC.

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

As of and for the Years Ended
September 30, 2015 and 2014

MCLEAN AFFILIATES, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
McLean Affiliates, Inc.

We have audited the accompanying financial statements of McLean Affiliates, Inc. (McLean), a subsidiary of the McLean Fund, which comprise the balance sheet as of September 30, 2015, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to McLean'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 McLean's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McLean Affiliates, Inc., a subsidiary of the McLean Fund, as of September 30, 2015, and the results of its operations and changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of McLean Affiliates, Inc. as of September 30, 2014, were audited by Saslow Lufkin & Buggy, LLP who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated December 4, 2014, expressed an unmodified opinion on those statements.

Crowe Horwath LLP

Simsbury, Connecticut
December 11, 2015

(Continued)

MCLEAN AFFILIATES, INC.
BALANCE SHEETS
For the Years Ended September 30, 2015 and 2014

	(in thousands)	
	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,636	\$ 7,163
Accounts receivable, net of allowance of \$481 and \$508 in 2015 and 2014, respectively	1,690	1,553
Prepaid expenses and other current assets	340	388
Notes receivable	<u>215</u>	<u>390</u>
Total current assets	9,881	9,494
Investments	4,796	5,003
Assets whose use is limited	182	220
Interest in net assets of The McLean Foundation, Inc.	592	649
Property, plant and equipment:		
Land	30	30
Land improvements	1,874	1,944
Buildings	26,404	25,557
Fixed equipment	8,364	8,626
Movable equipment	2,513	2,984
Construction in progress	<u>886</u>	<u>363</u>
	40,071	39,504
Less: accumulated depreciation	<u>(20,967)</u>	<u>(20,740)</u>
	19,104	18,764
Other non-current assets	<u>184</u>	<u>218</u>
Total assets	<u>\$ 34,739</u>	<u>\$ 34,348</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,027	\$ 1,049
Accrued salaries, wages, payroll taxes and other	1,067	1,063
Accrued expenses	380	412
Deferred revenue	472	388
Deposits held for residents	<u>590</u>	<u>748</u>
Total current liabilities	3,536	3,660
Refundable entry fees	4,667	5,026
Deferred income from refundable entry fees	1,844	2,078
Deferred income from non-refundable entry fees	3,709	3,497
Other liabilities	<u>79</u>	<u>94</u>
Total liabilities	13,835	14,355
Net assets:		
Unrestricted net assets	19,108	18,477
Temporarily restricted net assets	<u>1,796</u>	<u>1,516</u>
Total net assets	<u>20,904</u>	<u>19,993</u>
Total liabilities and net assets	<u>\$ 34,739</u>	<u>\$ 34,348</u>

MCLEAN AFFILIATES, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended September 30, 2015 and 2014

	(in thousands)	
	<u>2015</u>	<u>2014</u>
Unrestricted revenues and other support:		
Net patient service revenues	\$ 24,188	\$ 26,412
Provision for bad debts	<u>(35)</u>	<u>(32)</u>
Net patient service revenues less provision for bad debts	24,153	26,380
Contributions received from other related entities	445	445
Other unrestricted revenues	<u>181</u>	<u>186</u>
Total unrestricted revenues and other support	24,779	27,011
Expenses:		
Salaries and wages	12,545	13,466
Employee benefits	2,908	3,138
Other expenses	6,720	6,743
Depreciation and amortization	<u>1,637</u>	<u>1,585</u>
Total expenses	<u>23,810</u>	<u>24,932</u>
Gain from operations	969	2,079
Other income:		
Other income (expense)	37	(17)
Interest and dividend income	446	262
Realized losses on sales of investments	<u>-</u>	<u>(49)</u>
Total other income	<u>483</u>	<u>196</u>
Excess of revenues over expenses	1,452	2,275
Other changes in unrestricted net assets:		
Change in net unrealized (losses) gains on investments	(652)	66
Transfers to McLean Special Additions & Contingency Fund	-	(3,159)
Development activity, net	<u>(169)</u>	<u>530</u>
Change in unrestricted net assets	631	(288)
Changes in temporarily restricted net assets:		
Change in interest in net assets of The McLean Foundation, Inc.	(57)	51
Development activity	337	380
Net other activity of temporarily restricted net assets	<u>-</u>	<u>(28)</u>
Change in temporarily restricted net assets	<u>280</u>	<u>403</u>
Change in net assets	911	115
Net assets at beginning of the year	<u>19,993</u>	<u>19,878</u>
Net assets at end of the year	<u>\$ 20,904</u>	<u>\$ 19,993</u>

MCLEAN AFFILIATES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	(in thousands)	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 911	\$ 115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized losses (gains) on investments	652	(66)
Realized losses on sales of investments	-	49
Depreciation and amortization expense	1,637	1,585
Realized losses on the disposal of property, plant and equipment	429	-
Entry fees received	867	961
Amortization of entry fees received	(890)	(802)
Contributions received from other related entities	(445)	(445)
Development activity, net	169	(530)
Transfers to McLean Special Additions & Contingency Fund	-	3,159
Change in interest in net assets of The McLean Foundation, Inc.	57	(51)
Changes in operating assets and liabilities:		
Accounts receivable, net	(137)	186
Prepaid expenses and other current assets	48	(41)
Other non-current assets	34	88
Accounts payable	(22)	(609)
Accrued salaries, wages, payroll taxes and other	4	1
Accrued expenses	(32)	10
Deferred revenue	84	(26)
Deposits held for residents	(158)	220
Other liabilities	(15)	(67)
Net cash provided by operating activities	<u>3,193</u>	<u>3,737</u>
Cash flows from investing activities:		
Purchases of investments	(444)	(3,942)
Sales of investments	-	3,159
Purchases of property, plant and equipment	(2,406)	(788)
Change in assets whose use is limited	38	(45)
Net cash used in investing activities	<u>(2,812)</u>	<u>(1,616)</u>
Cash flows from financing activities:		
Notes receivable	175	484
Refundable entry fees received	(359)	600
Contributions received from other related entities	445	445
Development activity, net	(169)	530
Transfers to McLean Special Additions & Contingency Fund	-	(3,159)
Net cash provided by (used in) financing activities	<u>92</u>	<u>(1,100)</u>
Net change in cash and cash equivalents	473	1,021
Cash and cash equivalents, beginning of year	<u>7,163</u>	<u>6,142</u>
Cash and cash equivalents, end of year	<u>\$ 7,636</u>	<u>\$ 7,163</u>

MCLEAN AFFILIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS)
As of and for the Years Ended September 30, 2015 and 2014

NOTE 1 - GENERAL

Organization: McLean Affiliates, Inc. (McLean) was incorporated as a non-profit entity on October 1, 2008, as a subsidiary of the McLean Fund (the Fund), a trust created by the last will of George P. McLean. Prior to this incorporation McLean operated as a unit of the Fund. The subsidiaries of the Fund include McLean, The McLean Foundation, Inc. (the Foundation) and the McLean Game Refuge (the Refuge).

McLean operates as a Continuing Care Retirement Community (CCRC) and a long-term care facility located in Simsbury, Connecticut. As of September 30, 2015, McLean has 89 Medicaid and Medicare certified skilled nursing beds, 71 assisted living units, 3 residential care home beds, and 86 independent living apartments and cottages. During 2015, McLean de-licensed 30 Medicaid and Medicare certified skilled nursing beds to expand assisted living services.

McLean provides a full range of services, including physical therapy, occupational therapy and speech therapy. The average occupancy for McLean was 90% and 86% for 2015 and 2014, respectively. In addition, McLean provides home care, hospice, adult day care and meals on wheels services to residents of Simsbury and surrounding towns.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related footnotes. Areas where significant estimates that are sensitive to change in the near term are used in the accompanying financial statements include allowance for doubtful accounts, fair value of investments and accrued expenses. Actual results could differ from those estimates.

Net Asset Categories: To ensure observance of limitations and restrictions placed on the use of resources available, the accounts of McLean are maintained in the following net asset categories:

Unrestricted: Unrestricted net assets represent available resources other than donor restricted contributions.

Temporarily restricted - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

Permanently restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity. McLean does not have any permanently restricted net assets.

Excess of Revenues Over Expenses: The statements of operations and changes in net assets includes excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions by donor restriction which were to be used for the purposes of acquiring such assets and other development related activity as further discussed at Note 15).

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenues: Patient revenues are recorded when patient services are performed. Amounts received from certain payors are different from the established billing rates of McLean, and these differences are accounted for as contractual allowances.

Net patient service revenues are reported at the estimated net realizable amount from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

Bad Debts: McLean uses the indirect method to record bad debts. McLean records an allowance for doubtful accounts against its outstanding accounts receivable, which is based on its estimation of bad debts. This estimate is based on McLean's past experience with collecting its receivables and an analysis of its current accounts receivable. Bad debt expense amounted to \$35 and \$32 for the years ended September 30, 2015 and 2014, respectively.

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

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

Investments: McLean invests in mutual funds, which are valued at fair market value. Investment income or losses, including realized and unrealized gains and losses on investments, and interest and dividends are included in the statements of activities and changes in net assets.

Other Than Temporary Impairments on Investments: McLean accounts for other than temporary impairments in accordance with FASB ASC 320-10 "Investments - Debt and Equity Securities" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. McLean did not record an impairment charge for the years ended September 30, 2015 and 2014.

Assets Whose Use is Limited: Assets whose use is limited include assets restricted under State law governing CCRC entrance fee escrow arrangements and assets set aside in accordance with State law governing operating CCRC escrow and reserve funds.

(Continued)

MCLEAN AFFILIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS)
As of and for the Years Ended September 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in Net Assets of The McLean Foundation, Inc.: FASB ASC 958, "Not-for-Profit Entities", requires McLean to recognize as an asset, any investments held by the Foundation on McLean's behalf. As the use of these assets is restricted by donor stipulation, they are recorded as temporarily restricted net assets. McLean's interest in the net assets of the Foundation as of September 30, 2015 and 2014 amounted to \$592 and \$649, respectively, and is reflected in the accompanying balance sheets. Activity for the year, including support received from the Foundation and changes in the interest in net assets of the Foundation, is reflected in the accompanying statements of operations and changes in net assets.

Notes Receivable: Notes receivable includes promissory notes entered into with CCRC residents in lieu of all or a portion of their entrance fees. These amounts are to be paid in full upon sale of the residents' real estate or a fixed date, whichever is earlier.

Property, Plant and Equipment: Property, plant and equipment are recorded at cost. Routine maintenance, repairs, renewals and replacement costs are charged against income. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in other income in the statements of operations and changes in net assets.

McLean provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their useful lives, which range from 3 to 40 years. Total depreciation and amortization expense for the years ended September 30, 2015 and 2014 amounted to \$1,637 and \$1,585, respectively.

Asset Retirement Obligation: McLean accounts for any conditional asset retirement obligations in accordance with the provisions of FASB ASC 410, "Asset Retirement and Environmental Obligations". FASB ASC 410 requires that an entity recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. The fair value of a liability for conditional asset retirement obligations must be recognized when incurred, generally upon acquisition, construction, development or through the normal operation of the asset. In accordance with the requirements of FASB ASC 410, McLean conducted a review of its facilities to determine if there are any assets that give rise to the obligation to perform asset retirement activity, which may not be within its control, such as the remediation or removal of asbestos containing materials.

McLean has certain items in its buildings that it believes may contain asbestos. McLean currently has no plans to renovate the areas that contain these items or remove these items from service. However, McLean has determined what it believes to be a reasonable settlement date to retire these items in the event that such retirement is not within their control. The initial estimated current cost associated with the retirement of these items was determined to be \$52 and was recorded as an asset retirement obligation in other liabilities on the accompanying balance sheets. For the years ended September 30, 2015 and 2014, the estimated current cost accreted amounted to \$3 and has been reflected in the statements of operations and changes in net assets.

Deferred CCRC Contract Costs: McLean has deferred certain costs associated with placing initial CCRC contracts within new Villas. These costs have been capitalized in accordance with FASB ASC 954, "Healthcare Entities" and will be amortized over the initial CCRC contract periods.

Tax Status: McLean is a not-for-profit trust as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes pursuant to Section 501(a) of the Code.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

McLean accounts for income taxes in accordance with FASB ASC 740, "Income Taxes". McLean accounts for uncertain tax positions in accordance with certain provisions of FASB ASC 740, which provides a framework for how organizations should recognize, measure, present and disclose uncertain tax positions in their financial statements. Under FASB ASC 740, McLean may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. McLean did not record any unrecognized tax benefits nor did McLean record any penalties or interest associated with unrecognized tax benefits as of September 30, 2015 and 2014. Management believes McLean is operating in accordance with its non-profit tax status and accordingly, no provision for income taxes has been recorded.

All U.S. federal tax years from 2010 and forward are eligible for audit by the Internal Revenue Service.

New Accounting Pronouncements: In July 2012, the FASB issued ASU No. 2012-01, "Continuing Care Retirement Communities - Refundable Advanced Fees". ASU No. 2012-01 clarifies that an entity should classify an advanced fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon re-occupancy by a subsequent resident, which is limited to the proceeds of re-occupancy. Refundable advanced fees that are contingent upon re-occupancy by a subsequent resident but are not limited to the proceeds of re-occupancy should be accounted for and reported as a liability. This ASU is effective for fiscal years beginning after December 15, 2013, with retrospective application required. The adoption of ASU No. 2012-01 did not have a material effect on the financial statements.

NOTE 3 - HEALTH CARE INDUSTRY

Federal Regulatory Environment: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that McLean is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE 4 - INVESTMENTS

The composition of investments as of September 30, 2015 and 2014 represents mutual funds. As of September 30, 2015, mutual funds are at fair market value and cost of \$4,796 and \$5,382, respectively. As of September 30, 2014, mutual funds are at fair market value and cost of \$5,003 and \$4,938, respectively. The mutual funds have been in a continuous unrealized loss position as of September 30, 2015 for less than 12 months.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS

McLean classifies its investments in accordance with FASB ASC 820, "Fair Value Measurements and Disclosures," which defines fair value, establishes a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements. The definition of fair value under FASB ASC 820 focuses on the price that would be received to sell the asset, which is referred to as the exit price.

FASB ASC 820 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - Observable inputs that reflect quoted prices for identical assets in active markets that McLean has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include:

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

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

Level 3 - Unobservable inputs reflecting McLean's estimates for assumptions that market participants would use in pricing the asset (including assumptions about risk).

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

McLean has classified its investment in its mutual fund as Level 1 as of September 30, 2015 and 2014, in accordance with FASB ASC 820. A Level 1 classification uses observable inputs that reflect quoted prices for identical assets in active markets that McLean has the ability to access at the measurement date. McLean has classified its Interest in the net assets of the McLean Foundation, Inc. as Level 2 as of September 30, 2015 and 2014, in accordance with FASB ASC 820. A Level 2 classification uses quoted prices for similar assets in active markets.

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the years ended September 30, 2015 and 2014, there were no transfers in or out of Levels 1, 2 or 3.

(Continued)

MCLEAN AFFILIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS)
As of and for the Years Ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

As of September 30, 2015 and 2014, McLean's other financial instruments included accounts receivable, accounts payable and accrued expenses. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

NOTE 6 - NET PATIENT SERVICE REVENUES

The following table summarizes net patient service revenues for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Gross patient service revenues:		
Long-term care	\$ 11,870	\$ 13,746
Post acute care	4,802	6,136
Home health services	4,229	4,767
Independent living	4,160	4,135
Assisted living	3,945	3,459
Outpatient services	<u>536</u>	<u>521</u>
	29,542	32,764
Less: contractual allowances	<u>(5,354)</u>	<u>(6,352)</u>
Total net patient service revenues	<u>\$ 24,188</u>	<u>\$ 26,412</u>

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most third-party payors are different from established billing rates of McLean and these differences are accounted for as contractual allowances. Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients and others for services rendered.

McLean has agreements with third-party payors that provide for payments to McLean at amounts different from established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare - Inpatient long-term care services rendered to Medicare program beneficiaries are paid based upon a per-diem prospective payment rate. Home care services rendered to Medicare program beneficiaries are paid based upon a sixty-day episodic prospective payment rate.

Medicaid - Inpatient long-term care services rendered to Medicaid program beneficiaries are paid based upon a per-diem cost based payment rate which is subject to State audit adjustments. Home care services rendered to Medicaid program beneficiaries are paid based upon a per visit or per hour payment rate.

During 2015 and 2014, approximately 28% and 29% of net patient revenue was received under the Medicare program and 20% and 22% under the Medicaid program, respectively. Significant concentrations of net patient receivables are 70% Medicare and 23% Medicaid as of September 30, 2015, and 58% Medicare and 32% Medicaid as of September 30, 2014.

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NOTE 6 - NET PATIENT SERVICE REVENUES (Continued)

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, McLean analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate appropriate allowance for doubtful accounts and provision for bad debts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, McLean analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), McLean records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

McLean's allowance for doubtful accounts for self-pay patients is 100% of self-pay accounts receivable as of September 30, 2015 and 2014. McLean's self-pay write-offs totaled approximately \$28 and \$20 for the years ended September 30, 2015 and 2014, respectively. McLean does not maintain a material allowance for doubtful accounts from third-party payors, nor does it have significant write-offs from third-party payors.

NOTE 7 - ASSETS WHOSE USE IS LIMITED

McLean maintains assets whose use is limited in accordance with State law governing CCRC entrance fee escrow agreements and CCRC operating escrow and reserve fund agreements. These funds are deposited with a trustee under terms of the escrow agreements. These funds, amounting to \$182 and \$220 as of September 30, 2015 and 2014, respectively, and are invested in short-term U.S. Treasury notes and cash equivalents.

NOTE 8 - CCRC ENTRY FEES AND OBLIGATIONS TO PROVIDE FUTURE BENEFITS

Certain McLean residents are provided living accommodations, other facilities and services, and certain medical care in exchange for payment of entrance fees and monthly service charges. Residents can choose from refundable and non-refundable agreements.

Under the terms of non-refundable agreements, entrance fees are not refundable to residents who reside independently at McLean for more than four years. A resident, who leaves prior to four years under this agreement, is refunded a portion of their entrance fee, which declines approximately two percent per month for each month the unit was occupied. These entrance fees are recorded as deferred revenue upon receipt and amortized on a straight-line basis into revenue over the estimated remaining residential life expectancy of the individual resident. Upon termination of the agreement, the amount of unamortized, non-refundable entrance fee is recorded as revenue.

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MCLEAN AFFILIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS)
As of and for the Years Ended September 30, 2015 and 2014

NOTE 8 - CCRC ENTRY FEES AND OBLIGATIONS TO PROVIDE FUTURE BENEFITS (Continued)

Under the terms of refundable agreements, portions of entrance fees are fully refundable at a designated percentage. The entire amount of this designated refundable percentage is recorded as refundable entry fees on the balance sheets. The remaining non-refundable portion of the entrance fees are accounted for and amortized in line with the non-refundable agreements. Refunds due under these agreements, not paid as of year end, are recorded as current liabilities.

Based upon McLean's existing fee structure and management's expectation that future monthly service charges will be reflective of related operating costs, McLean is not required to record a liability for its obligation to provide future services and facilities to current residents. Based upon management's projections, McLean does not believe such a liability on its CCRC contracts exists at this time.

Prior to September 30, 2012, McLean capitalized \$275 of costs related to acquiring the initial CCRC contracts. These costs include wages and marketing costs directly related to acquiring these contracts and are being amortized on a straight-line basis over the average remaining residential life expectancies. These amounts are included in other non-current assets on the balance sheets and represent \$183 and \$200 as of September 30, 2015 and 2014, respectively.

NOTE 9 - EMPLOYEE BENEFIT PLAN

McLean sponsors a 401(k) Retirement Savings Plan (the Plan) for its employees. The Plan is a defined contribution plan covering all salaried and hourly employees of McLean who elect to participate and have been scheduled to work 1,000 hours a year and have reached 20 ½ years of age. Participants may contribute up to the Internal Revenue Service Salary Deferral Limits. McLean contributes to the Plan on behalf of its qualified employees based on their wages once the employee has completed one year of service as defined. McLean contributed \$813 and \$809 to the Plan for the years ended September 30, 2015 and 2014, respectively.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest in net assets of The McLean Foundation, Inc.	\$ 592	\$ 649
Sorenson media center	742	594
Healthcare services and other	<u>462</u>	<u>273</u>
Total	<u>\$ 1,796</u>	<u>\$ 1,516</u>

(Continued)

MCLEAN AFFILIATES, INC.
NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS)
As of and for the Years Ended September 30, 2015 and 2014

NOTE 11 - FUNCTIONAL EXPENSES

McLean provides short and long-term care, residential care and home care services to residents in Simsbury, Connecticut and its surrounding geographic locations. Expenses related to providing these services are as follows for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Long-term care	\$ 8,285	\$ 8,754
Home health services	3,622	4,383
Post acute care	3,199	3,849
Independent living	3,126	3,007
Assisted living	3,101	2,560
General and administrative	1,959	1,816
Outpatient services	<u>518</u>	<u>563</u>
Total	<u>\$ 23,810</u>	<u>\$ 24,932</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

The Fund is an entity that holds investment assets used to support the subsidiaries of the Fund. The Fund provided McLean with contributions for programs that McLean provides. These contributions amounted to \$385 for each of the years ended September 30, 2015 and 2014. These contributions have been recorded within contributions received from other related entities in the statements of operations and changes in net assets.

The Foundation is a non-profit corporation whose purpose is to receive, maintain and apply funds to promote and engage in activities in furtherance of the public welfare, principally by supporting and assisting the Fund and its operating entities. McLean received contributions from the Foundation for general use. This support amounted to \$60 and \$60 for the years ended September 30, 2015 and 2014, respectively, and has been recorded within contributions received from other related entities.

McLean has been reimbursed by the Refuge for expenses that have been paid on its behalf. This reimbursement amounted to \$169 and \$188 for the years ended September 30, 2015 and 2014, respectively, and has been recorded as a reduction to certain operating expenses in the statements of operations and changes in net assets.

McLean transferred \$3,159 to the McLean Special Additions & Contingency Fund, a component of the McLean Fund, during 2014.

(Continued)

NOTE 13 - CLAIMS MADE LIABILITY COVERAGE AND RELATED CONTINGENCIES

McLean maintains claims made professional and general liability insurance to cover medical malpractice and general liability risks. The current insurance coverage has no deductible. The coverage for professional and general liability that exists as of September 30, 2015, extends to May 28, 2016.

In the past, McLean has had very few claims for medical malpractice and general liability. McLean believes that there are no significant claims that have been incurred but not reported as of September 30, 2015 and 2014, as such, McLean has not recorded a reserve for incurred but not reported medical malpractice and general liabilities as of these dates.

NOTE 14 - DEFERRED REVENUE

McLean recognizes deferred revenues in relation to its private payor long-term care and assisted living businesses. In addition, McLean recognizes deferred revenues under its home health Medicare prospective payment system. As of September 30, 2015 and 2014, McLean recorded \$472 and \$388, respectively, as a current liability.

NOTE 15 - DEVELOPEMENT ACTIVITY

In 2013, the Foundation transferred development activities related to McLean to McLean. Contributions and related expenses for unrestricted development activities are reported within other changes in unrestricted net assets. In addition, contributions with donor imposed restrictions are reported within changes in temporarily restricted net assets.

NOTE 16 - NON-CASH ACTIVITY

During the years ended September 30, 2015 and 2014, McLean disposed of and wrote off \$1,061 and \$1,667 of property, plant and equipment, respectively, which was fully depreciated. During 2015, McLean recognized a \$429 loss on disposal of property, plant and equipment which had a cost of \$775 and accumulated depreciation of \$346.

NOTE 17 - SUBSEQUENT EVENTS

Management has considered the existence of subsequent events within these financial statements through December 11, 2015, which represents the date that these financial statements were available to be issued. Management believes there are no subsequent events to report.