The Washington Home and Community Hospices

Financial Report
June 30, 2015

Contents

Independent Auditor's Report

To the Board of Directors
The Washington Home and Community Hospices
Washington, District of Columbia

Report on the Financial Statements
We have audited the accompanying financial statements of The Washington Home and Community Hospices (The Washington Home) which comprise the statements of financial position as of June 30, 2015 and 2014, 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 from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Washington Home as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 13, in July 2015, The Washington Home entered into an agreement to sell the land and land improvements, building and certain personal property at 3720 Upton Street, N.W., Washington D.C. Closing of the sale is scheduled for December 15, 2016. Management expects future nursing home services as presently provided to either be limited or to cease entirely. The Washington Home currently plans to continue providing end of life hospice care services in the District of Columbia and Maryland."

RSM US LLP

Baltimore, Maryland
December 17, 2015

The Washington Home and Community Hospices

Statements of Financial Position
June 30, 2015 and 2014
(In Thousands)

		2015		2014
Assets				
Current Assets				
Cash and cash equivalents	$	4,279	$	3,581
Patient accounts receivable, net of allowance for doubtful accounts (2015 – $642; 2014 – $664)		2,372		3,443
Cash held for residents		95		84
Other		449		305
Total current assets		7,195		7,413
Investments Held in Trust		8,078		8,493
Investments		29,340		29,806
Property and Equipment, Net		10,729		11,540
Deferred Leasing Costs, Net		332		434
Total assets	$	55,674		57,686
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$	1,431	$	1,763
Accrued salaries, benefits and payroll taxes		1,719		1,802
Cash held for residents		95		84
Deferred rent		-		32
Total current liabilities		3,245		3,681
Amounts Held for Others		439		453
Total liabilities		3,684		4,134
Contingencies				
Net Assets				
Unrestricted		35,038		36,040
Board designated		2,500		2,500
Temporarily restricted		11,123		11,683
Permanently restricted		3,329		3,329
Total net assets		51,990		53,552
Total liabilities and net assets	$	55,674	$	57,686

See Notes to Financial Statements.

The Washington Home and Community Hospices

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Unrestricted Net Assets		
Service revenue:		
Net patient service revenue	**$ 29,400**	$ 34,370
Other	**27**	31
Total patient service revenue	**29,427**	34,401
Provision for bad debts	**(357)**	(165)
Net patient service revenue less provision for bad debts	**29,070**	34,236
Service expenses:		
Salaries and benefits	**22,076**	22,047
Purchased services and other	**7,577**	7,868
Medical supplies and drugs	**1,456**	1,419
Audit, legal and consulting	**905**	807
Utilities	**1,017**	971
Rent	**257**	254
Depreciation and amortization	**1,239**	1,269
Interest	**-**	53
Total operating expenses	**34,527**	34,688
Loss from operations	**(5,457)**	(452)
Other income and expenses:		
Interest and dividends	**1,429**	945
Realized gain on investments	**232**	2,188
Unrealized (loss) gain on investments	**(1,131)**	1,170
Rental income	**3,400**	3,106
Contributions from donors	**424**	410
In-kind contributions	**1**	3
Fundraising expense	**(691)**	(686)
Loss on disposal of property and equipment	**(2)**	(5)
Net assets released from restrictions and reclassifications	**793**	818
Total other income and expenses	**4,455**	7,949
Change in unrestricted net assets	**(1,002)**	7,497

See Notes to Financial Statements.

(Continued)

The Washington Home and Community Hospices

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Temporarily Restricted Net Assets		
Contributions from donors	**$ 205**	$ 302
Income from investments held in trust	**331**	254
Unrealized (loss) gain on investments held in trust	**(2)**	11
Unrealized/realized (loss) gain on investments held in trust, permanently restricted	**(301)**	1,107
Net assets released from restrictions and reclassifications	**(793)**	(818)
Change in temporarily restricted net assets	**(560)**	856
Change in net assets	**$ (1,562)**	$ 8,353
Unrestricted Net Assets – Beginning	**$ 36,040**	$ 28,543
Change in unrestricted net assets	**(1,002)**	7,497
Unrestricted net assets – ending	**$ 35,038**	$ 36,040
Unrestricted Net Assets – Board Designated – Beginning	**$ 2,500**	$ 2,500
Unrestricted net assets – Board designated – ending	**$ 2,500**	$ 2,500
Temporarily Restricted Net Assets – Beginning	**$ 11,683**	$ 10,827
Change in temporarily restricted net assets	**(560)**	856
Temporarily restricted net assets – ending	**$ 11,123**	$ 11,683
Permanently Restricted Net Assets – Beginning	**$ 3,329**	$ 3,329
Permanently restricted net assets – ending	**$ 3,329**	$ 3,329

See Notes to Financial Statements.

The Washington Home and Community Hospices

Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(In Thousands)

		2015	2014
Cash Flows From Operating Activities			
Change in net assets	$	**(1,562)**	8,353
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		**1,239**	1,269
Decrease in allowance for doubtful accounts		**(22)**	(189)
Net unrealized/realized loss (gain) on investments		**1,202**	(4,476)
Loss on disposal of property and equipment		**2**	5
Changes in assets and liabilities:			
(Increase) decrease in:			
Patient accounts receivable		**1,093**	(830)
Other		**(144)**	28
Increase (decrease) in:			
Accounts payable and accrued expenses		**(332)**	(239)
Amounts held for others		**(14)**	(3)
Accrued salaries, benefits and payroll taxes		**(83)**	25
Deferred leasing costs		**-**	(510)
Deferred rent		**(32)**	(23)
Net cash provided by operating activities		**1,347**	3,410
Cash Flows From Investing Activities			
(Purchases) proceeds from sale of investments, net		**(321)**	3,549
Purchases of property and equipment		**(328)**	(415)
Net cash (used in) provided by investing activities		**(649)**	3,134
Cash Flows From Financing Activities			
Net repayments on line of credit		**-**	(5,108)
Net cash used in financing activities		**-**	(5,108)
Net increase in cash and cash equivalents		**698**	1,436
Cash and Cash Equivalents			
Beginning of year		**3,581**	2,145
End of year	$	**4,279**	3,581
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$	**-**	53

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

The Washington Home and Community Hospices (The Washington Home), a not-for profit 501(c)(3) organization founded in the District of Columbia in 1888, provides healthcare to people who are aging, chronically ill, or living with terminal illnesses. The Washington Home operates two lines of business; a 192 bed nursing home facility located in the District of Columbia (the District) and end of life hospice care services in the District of Columbia and Maryland.

Over the years, The Washington Home has provided long-term and end-of-life care to meet the changing needs of area residents. The Washington Home has adapted its services to the needs of the community by expanding its services to include: long-term residential care; Alzheimer's disease and dementia care; sub-acute rehabilitative care; and end-of-life hospice care. The Washington Home added end-of-life home care hospice services to its line of business in 2001. The goal of hospice is to provide comfort care to terminally ill people and their families wherever they live: in private residences, nursing homes, assisted living facilities, group homes or hospitals.

A summary of The Washington Home's significant accounting policies follows:

Financial statement presentation: In accordance with the accounting guidance for financial statements of not-for-profit organizations, The Washington Home is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Furthermore, information is required to segregate program service expenses from management and general expenses.

The Washington Home conforms with the accounting guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). During January 2008, the District of Columbia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. A key component of this guidance is a requirement to classify the portion of investment return from donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The disclosure requirements of this guidance are set forth in Note 5.

Unrestricted net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets: Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of The Washington Home pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Any temporarily restricted resource that is received and used during the same year is considered an unrestricted resource and is reported in unrestricted net assets.

Permanently restricted net assets: Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by The Washington Home's actions. All realized and unrealized gains and losses on these funds are held as temporarily restricted funds to be used for the donor imposed purpose declared at the time the endowment was established.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contributions and contributions receivable: Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donations, gifts, and gifts in-kind are reported at fair value at the date of the gift. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include but are not limited to allowance for doubtful accounts and third-party contractual adjustments.

Cash and cash equivalents: Cash and cash equivalents consist principally of bank deposits, money market funds, and repurchase agreements that are readily convertible into cash with an original maturity of three months or less. Overnight repurchase agreements are collateralized by U.S. government securities.

Other assets: Other assets consist primarily of prepaid expenses and deposits. Prepaid expenses are amortized over the period incurred.

Investments held in trust: Assets deposited with a trustee under terms of a trust indenture are classified as investments held in trust.

Amounts held for others: The Washington Home administers a charitable remainder trust, which provides for the payments of distributions to a designated beneficiary over the trust’s term. If at the end of the trust’s term there are remaining assets, those assets are available for The Washington Home’s use.

Investments: Investments are carried at fair value. The fair value of marketable equity securities, bonds and other investments are based on quoted market prices. Realized and unrealized gains and losses are recorded in either unrestricted or temporary restricted net assets. Cost used in the determination of gains and losses on sales of investments is based on the specific cost of the investment sold.

The Washington Home invests in a professionally managed portfolio that contains mutual funds, marketable equity securities, government obligations, fund of funds, fixed income securities and an interest in a limited partnership. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

A minimal interest in The Washington Century Fund, LP was distributed to The Washington Home and was reported at fair value at the date of contribution. This investment is subsequently measured at fair value.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment purchased are recorded at cost. Donated items are recorded at fair market value at the date of contribution. Improvements and replacements at The Washington Home are capitalized; maintenance and repairs are expensed. Depreciation is computed using the straight-line method over the estimated economic lives of the assets. Leasehold improvements are amortized over their economic lives or the lease agreement period whichever is shorter. Depreciable lives are as follows:

Building and improvements	10 – 40 years
Equipment	5 – 15 years
Land improvements	15 – 30 years

Valuation of long-lived assets: The Washington Home reviews the valuation of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Management determined there were no impairment losses to be recognized during the years ended June 30, 2015 and 2014.

Net patient service revenue: The Washington Home has agreements with third-party payors that provide for payments to The Washington Home at amounts different from its established rates. Payment arrangements include prospectively determined per diem rate payments and cost-based methods subject to retroactive settlement and adjustment.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered to beneficiaries of the District of Columbia Medical Assistance Program (Medicaid) and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Net patient service revenue for The Washington Home for the years ended June 30, 2015 and 2014, includes approximately $9 million (29%) and $10 million (34%), respectively, and $14 million (49%) and $13 million (46%), respectively, for services provided to beneficiaries of the Center for Medicare and Medicaid Services (Medicare) and Medicaid under the provisions of reimbursement arrangements with The Washington Home.

A summary of the payment arrangements with major third-party payors follows:

> *Medicare:* Skilled nursing services provided under the Medicare program are reimbursed based on the Prospective Payment System (PPS) and revenue consists of payments for individual claims at the appropriate payment rates, which include reimbursement for ancillary services.
>
> *Medicaid:* The Washington Home is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by The Washington Home and audits thereof by the Medicaid program.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Patient accounts receivable and allowance for doubtful accounts: Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, The Washington Home analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. 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, The Washington Home analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for a portion of the bill), The Washington Home 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. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Washington Home's allowance for doubtful accounts for self-pay patients was approximately 48% and 77% of self-pay accounts receivable at June 30, 2015 and 2014, respectively. The Washington Home's self-pay write offs increased by $16 for fiscal year 2015 from $376 to $392 for fiscal year 2015. The Washington Home's allowance for doubtful accounts for patients with third-party coverage, which includes commercial insurers, Medicaid and Medicare, was approximately 12% and 20% of third-party accounts receivable at both June 30, 2015 and 2014. Write-offs from third-party payors increased $81 in fiscal year 2014 from $168 to $249 in fiscal year 2015.

The Washington Home has not changed its charity care or uninsured discount policies during fiscal years 2015 or 2014.

Charity care: The Washington Home's policy is to provide charity medical care based upon a review of the patient's financial circumstances. The Washington Home does not pursue collection of the amounts determined to qualify as charity care and, therefore, it is not reported as a component of net patient service revenue. The amount of charity care provided during the years ended June 30, 2015 and 2014, was approximately $174 and $59, respectively, and was estimated by allocating total expense incurred by The Washington Home to the gross revenue associated with providing charity care.

Contributed services and equipment: Contributed professional services are recognized in the accompanying financial statements as a revenue and expense, at their estimated fair value. One of the following two conditions must be met to record contributed professional services: (1) the service creates or enhances a nonfinancial asset or (2) the service requires specialized skills, provided by entities or persons possessing those skills, and would be purchased if they were not donated. Contributed nonprofessional services are not recognized in the accompanying financial statements since the services provided do not meet the previously mentioned requirements for financial statement recognition. Contributed equipment is recorded at its estimated fair value.

Donated services: The Washington Home receives various types of nonprofessional services from volunteers to support its home and hospice services. During 2015, volunteer hours totaled 3,235 and 5,300, respectively, for the home and hospice operations. During 2014, volunteer hours totaled 3,473 and 5,387, respectively, for the home and hospice operations.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes: The Washington Home is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) and did not have any unrelated business income for the years ended June 30, 2015 and 2014. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

The Washington Home has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, The Washington Home may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated The Washington Home's tax positions and has concluded that The Washington Home has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

Generally, The Washington Home is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for years before June 30, 2012.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, other assets, and cash held for residents approximate fair value given the short-term nature of these financial instruments. Third-party payor settlements are based on management's estimate and approximate fair value. Fair values of investments are based on quoted market prices. Additional required disclosures are included in Note 7.

Rental income and expense: Rental income is recognized as rentals become due. Rental payments received in advance are deferred and recognized as income in the period to which the rent relates. Revenue from long-term leases is recognized at the amount received each year, which is not materially different from the straight-line method. All leases between The Washington Home and the tenants of the properties are operating leases.

Rents are expensed on a straight-line basis in accordance with the terms of the lease. Deferred rent is recorded in the amount of the difference between the actual payments made and the straight-line expense. All leases between The Washington Home and the landlords of the properties are operating leases.

Deferred leasing costs: The Washington Home exercised the fourth five-year renewal option commencing October 1, 2013, and ending September 30, 2018 (see Note 6). Total leasing costs of $922 incurred to renew the rental contract are being deferred and amortized over the five-year term of the related lease using the straight-line method. Accumulated amortization was $590 and $488 at June 30, 2015 and 2014, respectively. Amortization expense for the years ended June 30, 2015 and 2014, amounted to $102 and $97 respectively.

Future amortization expense is as follows:

Year Ending June 30,		
2016	$	102
2017		102
2018		102
2019		26
	$	332

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recently issued accounting guidance: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* defer the effective date of ASU 2014-09 for The Washington Home to annual reporting periods beginning after December 15, 2018. The impact of adopting ASU 2014-09 on The Washington Home's financial statements for subsequent periods has not yet been determined.

Subsequent events: The Washington Home evaluated subsequent events through December 17, 2015, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments and investments held in trust consisted of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 2,777	$ 2,381
U.S. government and agency issues	-	718
Mutual funds	26,224	27,041
Fixed income securities	467	439
Marketable equity securities	5,616	5,514
Limited partnerships	34	91
Alternative investments	2,300	2,115
Totals	37,418	38,299
Temporarily restricted net assets	(11,123)	(11,683)
Permanently restricted net assets	(3,329)	(3,329)
Investments available for unrestricted use	$ 22,966	$ 23,287

(In Thousands)

Note 3. Property and Equipment

Property and equipment consisted of the following at June 30:

		2015		2014
Land	$	57	$	57
Land improvements		392		387
Leasehold improvements		906		906
Building and improvements		31,716		31,567
Furniture and equipment		6,096		6,056
Construction in progress		129		30
		39,296		39,003
Less accumulated depreciation		(28,567)		(27,463)
	$	10,729	$	11,540

Depreciation expense for the years ended June 30, 2015 and 2014 was $1,137 and $1,172, respectively.

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following funds at June 30:

		2015		2014
William Woodville, in memory of his sister, Elizabeth Woodville, fund for care of indigent hospice residents	$	1,834	$	1,834
Frederick R. Blaylock and Peter J. and Catherine B. Henderson fund for care of indigent cancer residents		473		473
James Johnson fund for indigent hospice residents		34		34
Marrs fund for indigent hospice residents		8		8
Pamela Murdock fund for the Employee of the Year Award		8		8
Mobil Foundation for child bereavement services		3		3
Hospice caregiver's relief		41		77
Time restricted for general operations for periods after June 30		1,052		1,078
Endowment funds included in temporarily restricted net assets (see Note 5)		7,670		8,168
	$	11,123	$	11,683

(In Thousands)

Note 4. Temporarily Restricted Net Assets (Continued)

The net assets released from restriction were used for the following purposes:

	2015	2014
Hospice caregiver's relief	$ 239	$ 337
Time restricted for general operations for periods after June 30	31	138
Endowment funds included in temporarily restricted net assets (see Note 5)	523	343
	$ 793	$ 818

Note 5. Endowment Funds and Other Permanently Restricted Net Assets

The Washington Home's endowment funds consist of five individual funds established for a variety of purposes. They include four donor restricted endowment funds and a fund designated by the Board of Directors to function as endowment. As required by generally accepted accounting principles, net assets associated with the endowment fund designated by the Board of Directors to function as an endowment, are classified and reported based on the existences or absence of donor imposed restrictions. Therefore, The Washington Home's Board Designated endowment fund is classified as part of unrestricted net assets.

Interpretation of relevant law: The Washington Home has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowments funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Washington Home classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Washington Home in a manner consistent with the standard of prudence prescribed by UPMIFA. In addition, The Washington Home has 10 individual funds that are to remain in perpetuity, but not considered endowments under UPMIFA. These 10 funds are reported in permanently restricted net assets, and their activity is reported as other donor-restricted funds in the following tables.

(In Thousands)

Note 5. Endowment Funds and Other Permanently Restricted Net Assets (Continued)

Composition of endowment and other permanently restricted net assets by type of fund, as of June 30:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 2,500	$ -	$ -	$ 2,500
Donor-restricted endowment funds	-	664	1,176	1,840
Other donor-restricted funds	-	7,006	2,153	9,159
	$ 2,500	$ 7,670	$ 3,329	$ 13,499

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 2,500	$ -	$ -	$ 2,500
Donor-restricted endowment funds	-	690	1,176	1,866
Other donor-restricted funds	-	7,478	2,153	9,631
	$ 2,500	$ 8,168	$ 3,329	$ 13,997

Changes in endowment and other permanently restricted net assets for the years ended June 30:

	2015					
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted-Endowment	Other Permanently Restricted	Total
Permanently restricted net assets, beginning of year	$ -	$ 2,500	$ 8,168	$ 1,176	$ 2,153	$ 13,997
Investment return						
Investment income	-	-	326	-	-	326
Net change in value (realized and unrealized)	-	-	(301)	-	-	(301)
Total investment return	-	-	25	-	-	25
Appropriation of assets and transfers	-	-	(523)	-	-	(523)
	$ -	$ 2,500	$ 7,670	$ 1,176	$ 2,153	$ 13,499

(In Thousands)

Note 5. Endowment Funds and Other Permanently Restricted Net Assets (Continued)

	2014					
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted-Endowment	Other Permanently Restricted	Total
Permanently restricted net assets, beginning of year	$ (278)	$ 2,500	$ 7,155	$ 1,176	$ 2,153	$ 12,706
Investment return						
Investment income	-	-	153	-	-	153
Net change in value (realized and unrealized)	-	-	1,203	-	-	1,203
Total investment return	-	-	1,356	-	-	1,356
Appropriation of assets and transfers	278	-	(343)	-	-	(65)
	$ -	$ 2,500	$ 8,168	$ 1,176	$ 2,153	$ 13,997

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 UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $278 as of June 30, 2013. These deficiencies resulted from unfavorable market fluctuations that occurred during the year ended June 30, 2013, and prior years, and were fully recovered at June 30, 2014. There were no funds with deficiencies at June 30, 2015.

Return objectives and risk parameters: The Washington Home has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the value of the original endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return (after inflation) of at least 5% annually on a rolling three- to five-year period while assuming a moderate amount of risk. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long term rate of return investment objectives, The Washington Home 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). The organization targets a diversified asset allocation that places a great emphasis on equity based investments to achieve long term return objectives within prudent risk constraints.

Spending policy and related investment objectives: The Washington Home has a policy for appropriating funds each year of no more than 5% of the three-year moving value of the total portfolio at the fiscal year end. However operating and capital needs are always considered when applying this guide line. Actual appropriation may vary from year-to-year with the average goal of 5% over a period of time. When agreeing to this spending policy, The Washington Home considered the long-term expected return on its endowment. These spending policies are consistent with The Washington Home's objective to maintain the corpus of the assets held in perpetuity, to provide a consistent and predictable funding stream to support spending which is consistent with donor restrictions, as well as, to provide growth through new gifts and investment returns.

(In Thousands)

Note 6. Leases

The Washington Home leases a portion of its real estate to the U.S. Postal Service under a 20-year lease agreement that commenced in 1978, with seven, five-year renewal options. At the beginning of each of the five-year renewal option periods, the rent will be 8% of the appraised value of the land at the beginning of such periods. On June 11, 2008, the parties exercised the third five-year renewal option commencing October 1, 2008, and ending September 30, 2013. The parties exercised the fourth five-year renewal option commencing October 1, 2013, and ending September 30, 2018. During 2015 and 2014, The Washington Home recognized rental revenue associated with this lease of $3,400 and $3,106, respectively.

The Washington Home has entered into various agreements to rent office space under noncancelable operating lease agreements. Certain leases include escalation clauses and expire through 2021. Rental expense was $260 and $257 for the years ended June 30, 2015 and 2014, respectively. Deferred rent at June 30, 2015 and 2014, was $0 and $32, respectively, resulting from straight-lining the rent abatements and known annual escalations. Minimum rental payments to be made under these leases for the ensuing years are as follows:

Year Ending June 30,		
2016	$	26
2017		108
2018		111
2019		115
2020		118
Thereafter		91
	$	569

Note 7. Fair Value Measurements

The Washington Home has adopted guidance issued by the FASB which defines fair value as 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.

Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

(In Thousands)

Note 7. Fair Value Measurements (Continued)

Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Washington Home's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following tables summarize The Washington Home's assets and liabilities that were accounted at fair value on a recurring basis as of June 30:

	2015			
	Level 1	Level 2	Level 3	Net Balance
Mutual funds				
Fixed income	$ 6,702	$ -	$ -	$ 6,702
Growth and income	5,694	-	-	5,694
International	4,651	-	-	4,651
Large cap	3,471	-	-	3,471
Emerging markets	2,197	-	-	2,197
Mid cap	1,687	-	-	1,687
Natural resources	1,013	-	-	1,013
Equities	385	-	-	385
REIT	160	-	-	160
Small cap	180	-	-	180
Commodities	84	-	-	84
Marketable equity securities				
Large cap	4,790	-	-	4,790
Small cap	798	-	-	798
Mid cap	28	-	-	28
Fund of funds	-	-	2,300	2,300
Fixed income securities	-	467	-	467
Limited partnerships	-	-	34	34
Total assets at fair value	$ 31,840	$ 467	$ 2,334	34,641
Cash and cash equivalents				2,777
Total investments				$ 37,418

(In Thousands)

Note 7. Fair Value Measurements (Continued)

	2014			
	Level 1	Level 2	Level 3	Net Balance
U.S. government and agency issues	$ -	$ 718	$ -	$ 718
Mutual funds				
Fixed income	6,700	-	-	6,700
Growth and income	6,010	-	-	6,010
International	4,762	-	-	4,762
Large cap	3,167	-	-	3,167
Emerging markets	2,374	-	-	2,374
Mid cap	1,728	-	-	1,728
Natural resources	1,487	-	-	1,487
Equities	388	-	-	388
REIT	192	-	-	192
Small cap	146	-	-	146
Commodities	84	-	-	84
Alternative investments	3	-	-	3
Marketable equity securities				
Large cap	4,145	-	-	4,145
Small cap	1,357	-	-	1,357
Mid cap	12	-	-	12
Fund of funds	-	-	2,115	2,115
Fixed income securities	-	439	-	439
Limited partnerships	-	-	91	91
Total assets at fair value	$ 32,555	$ 1,157	$ 2,206	35,918
Cash and cash equivalents				2,381
Total investments				$ 38,299

The Washington Home excludes cash and cash equivalents from the fair value hierarchy as cash is generally measured at cost. As such, approximately $2,777 and $2,381 of cash and cash equivalents in The Washington Home's investment portfolio at June 30, 2015 and 2014, respectively, has been excluded from this table.

Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investment in corporate bonds and government obligations are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 2 in the fair value hierarchy.

In determining the fair value of the limited partnership, the discounted cash flow method was used for the underlying real estate investments, which utilized certain unobservable inputs and are considered Level 3 measurements.

(In Thousands)

Note 7. Fair Value Measurements (Continued)

The following table is a reconciliation of the beginning and ending balance for fair value measurements using significant unobservable inputs (Level 3):

	Fund of Funds	Limited Partnership
Balance at June 30, 2013	$ -	$ 180
Distributions	-	(89)
Unrealized gain	27	-
Additions	2,088	-
Balance at June 30, 2014	2,115	91
Distributions	-	(25)
Unrealized gain (loss)	165	(32)
Additions	20	-
Balance at June 30, 2015	$ 2,300	$ 34
Unrealized gains (losses) and change in value relating to assets still held as of June 30, 2015	$ 192	$ (80)

Fund of funds: The Home's investment in fund of funds represents an interest in multiple funds of funds investment vehicles managed by a principal investment manager. The investment funds typically pursue such strategies as equity, event-driven, credit-driven, global macro, multi-category and managed futures investments.

In each underlying fund, securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by relevant market participants. The fund of funds then obtains and independently evaluates its share of the valuation from the underlying investment manager.

Each underlying fund has redemption restriction periods ranging from 12 to 24 months.

Note 8. Pension Plans

The Washington Home offers a 401(k) plan (the 401(k) Plan) to its employees. The 401(k) Plan's attributes include eligibility upon hire, an employer matching contribution of 25% up to 6% of employee contributions after six months of service, and a vesting of 20% for each year of service. No additional discretionary payments were made for the 2015 and 2014 plan year. The Washington Home 401(k) employer contributions were $80 and $64 in 2015 and 2014, respectively, and are included in salary and benefits expense.

Note 9. Concentrations of Credit Risk

The Washington Home maintains its cash with a bank and amounts on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. At times, these balances may exceed the federal insurance limits; however, The Washington Home has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2015 and 2014.

(In Thousands)

Note 9. Concentrations of Credit Risk (Continued)

The Washington Home is located in Washington, D.C. The Washington Home grants credit without collateral to its patients, most of whom are local residents of Washington, D.C., Montgomery and Prince George's Counties of Maryland. The majority of patients are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors are as follows at June 30:

	2015	2014
Medicare	21%	36%
Medicaid	42%	39%
Private	23%	13%
Insurance and other	14%	12%
	100%	100%

Note 10. Functional Expenses

The Washington Home provides healthcare services to residents within its geographical location. Expenses related to providing these services are for the years ended June 30:

	2015			
	Healthcare	General and Administrative	Fundraising	Total
Service expenses				
Salaries and benefits	$ 19,936	$ 2,140	$ 89	$ 22,165
Purchased services and other	6,993	584	24	7,601
Medical supplies and drugs	1,456	-	-	1,456
Audit, legal and consulting	213	692	-	905
Utilities	1,017	-	-	1,017
Rent	185	72	3	260
Depreciation and amortization	1,239	-	-	1,239
Total operating expenses	31,039	3,488	116	34,643
Fundraising expenses	-	-	575	575
Total expenses June 30, 2015	$ 31,039	$ 3,488	$ 691	$ 35,218

(In Thousands)

Note 10. Functional Expenses (Continued)

	2014			
	Healthcare	General and Administrative	Fundraising	Total
Service expenses				
Salaries and benefits	$ 19,847	$ 2,200	$ 92	$ 22,139
Purchased services and other	7,041	827	34	7,902
Medical supplies and drugs	1,419	-	-	1,419
Audit, legal and consulting	11	796	-	807
Utilities	971	-	-	971
Rent	182	72	3	257
Depreciation and amortization	1,269	-	-	1,269
Interest	53	-	-	53
Total operating expenses	30,793	3,895	129	34,817
Fundraising expenses	-	-	557	557
Total expenses June 30, 2014	$ 30,793	$ 3,895	$ 686	$ 35,374

Note 11. Contingencies

Medicaid cost reports have been audited and final settled through the year ended June 30, 2007. However, the years since this time continue to be subject to adjustment, which could result in either a retroactive payment or receipt of Medicaid funds. The timing and results of the Medicaid audits are undeterminable. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

DC Medicaid adjusts reimbursement rates for nursing homes based on inflation in three year intervals. The District of Columbia uses the annual cost report submitted each year by nursing homes as the source for changes in cost, staff mix and resident care needs. The most recent review of rates occurred for fiscal year 2007 and resulted in a revision of retroactive reimbursement rates and a settlement to The Washington Home. DC Medicaid finalized the review and audit of the 2007 cost report for The Washington Home during fiscal year ended June 30, 2011. This resulted in the receipt of approximately $4,100 in retroactive revenue in the fiscal year ended June 30, 2011. The cost report audit for fiscal year ended June 30, 2010, was completed during the fiscal year ended June 30, 2014. In 2015, DC Medicaid reopened their cost report audit for the fiscal year ended June 30, 2010, and determination of any rebasing adjustments for that period are pending as of December 17, 2015. During the year ended June 30, 2015, management has evaluated its third-party cost reporting and has determined no reserve is necessary for potential retroactive settlements.

During the year ended June 30, 2014, the Washington Home received the remaining settlement payment of $4,702 from DC Medicaid as an estimate of their expected rebasing adjustments for reimbursement rates for the period of October 1, 2007, through April 30, 2014. The $4,702 in rebasing adjustments is recorded in net patient service revenue in the statement of activities and changes in net assets for the year ended June 30, 2014. The Washington Home used a portion of the rebasing proceeds to repay the margin loan during the year ended June 30, 2014.

Note 11. Contingencies (Continued)

During the year ended June 30, 2015, the Washington Home received a tentative payment of $118 from DC Medicaid as an estimate of their expected rebasing adjustments to reimbursement rates for the period of October 1, 2012, through December 31, 2013. The $118 in rebasing adjustments is recorded in net patient service revenue in the statement of activities and changes in net assets for the year ended June 30, 2015.

Note 12. Certain Significant Risks and Uncertainties

The Washington Home and others in the health care business are subject to certain inherent risks, including the following:

- Substantial dependence on revenue derived from reimbursement by the federal Medicare and state Medicaid programs which have been drastically cut in recent years and which entail exposure to various healthcare fraud statutes
- Government regulations, government budgetary constraints, and proposed legislative and regulatory changes
- Lawsuits alleging malpractice and related claims

Such inherent risks require the use of certain management estimates in the preparation of The Washington Home's financial statements and it is reasonably possible that a change in such estimates may occur.

The Washington Home's operations are subject to a variety of federal, state and local legal and regulatory risks, including without limitation the federal Anti-Kickback statute and the federal Ethics in Patient Referral Act (so-called Stark Law), many of which apply to virtually all companies engaged in the health care services industry. The Anti-Kickback statute prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare and Medicaid patients. The Stark Law prohibits, with limited exceptions, financial relationships between ancillary service providers and referring physicians.

The Medicaid and Medicare programs are highly regulated. Compliance with laws and regulations governing the Medicare and Medicaid programs is subject to government review and interpretation, as well as significant regulatory action, including fines, penalties and possible exclusion from the Medicare and Medicaid programs. The failure of The Washington Home, not unlike other healthcare organizations, to comply with applicable reimbursement regulations could adversely affect The Washington Home's business. It is not possible to quantify fully the effect of potential legislative or regulatory changes, the administration of such legislation or any other governmental initiatives on business. Accordingly, there can be no assurance that the impact of these changes or any future health care legislation will not adversely affect business. There can be no assurance that payments under governmental and private third-party payor programs will be timely, will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs.

Note 12. Certain Significant Risks and Uncertainties (Continued)

The Washington Home is subject to two limitations on Medicare payments for hospice services. The first limitation relates to inpatient days of care. If the number of general inpatient days of care that any of the Company's hospice programs provide to Medicare beneficiaries exceeds 20% of the total days of care that program provides to all Medicare beneficiaries for an annual period beginning on November 1, the days in excess of the 20% amount will be reimbursed only at the routine home care rate. The Washington Home's hospice program did not exceed the payment limits on general inpatient care services for the fiscal year ended June 30, 2015.

The second limitation is on overall payments made by Medicare to The Washington Home on a per hospice program basis (the Medicare CAP). The Medicare CAP amount is calculated by the Medicare fiscal intermediary at the end of the hospice CAP period (November 1 through October 31). As of June 30, 2015 and 2014, there was no outstanding liability for the Medicare CAP rate adjustments.

The Washington Home's financial condition and results of operations may be materially and adversely affected by the reimbursement process, which in the health care industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled. In addition, under the Medicare program, if the federal government makes a formal demand for reimbursement, even related to contested items, payment must be made for those items before the provider is given an opportunity to appeal and resolve the case.

From time to time, The Washington Home has been party to various legal proceedings in the ordinary course of business. Adverse results in one or more of the cases could have a material adverse effect on The Washington Home. Management of The Washington Home believes that insurance coverage for these matters is adequate and that their ultimate resolution will not have a material effect on the financial statements.

Note 13. Subsequent Events

In July 2015, The Washington Home entered into an agreement to sell the land and land improvements, building and certain personal property at 3720 Upton Street, N.W., Washington D.C. (the Property) to an unrelated third party (Purchaser). The purchase price is $32,500,000. The agreement provides for the Purchaser to pay four installments into escrow at specified dates, which will be applied to the purchase price at closing. The agreement is subject to termination should the installments not be made by the Purchaser. The installments are nonrefundable to the Purchaser. Closing of the sale is scheduled for December 15, 2016. The Washington Home has the option to lease the property from the Purchaser after closing for up to six months. The Washington Home will cease nursing home operations at this location upon closing of the sale and transition of all residents; management expects future nursing home services as presently provided to either be limited or to cease entirely. The Washington Home currently plans to continue providing end of life hospice care services in the District of Columbia and Maryland.