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**ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2015 AND 2014**

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONTENTS

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Independent Auditors' Report	1-2
Consolidated Statements of Financial Position - September 30, 2015 and 2014	3-4
Consolidated Statements of Activities for the Years Ended September 30, 2015 and 2014	5-6
Consolidated Statements of Cash Flows for the Years Ended September 30, 2015 and 2014	7
Notes to Consolidated Financial Statements	8-25
Independent Auditors' Report on Supplementary Information	26
Consolidating Statement of Financial Position - September 30, 2015	27-28
Consolidating Statement of Activities for the Year Ended September 30, 2015	29-30

# BlumShapiro

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## Independent Auditors' Report

To the Board of Directors  
Odd Fellows Healthcare, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Odd Fellows Healthcare, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Odd Fellows Healthcare, Inc. and Subsidiaries as of September 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As discussed in Note 1, during the year ended September 30, 2015, Odd Fellows Healthcare, Inc. and Subsidiaries elected early adoption of Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest*. The amendments require retrospective application. As a result, certain amounts related to deferred financing costs have been reclassified as of and for the year ended September 30, 2014. Our opinion is not modified with respect to this matter.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
March 18, 2016

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2015 AND 2014

### ASSETS

	<u>2015</u>	<u>2014</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,287,997	\$ 3,083,136
Accounts receivable, net	939,147	782,048
Accounts receivable from entrance fees	3,418,700	1,956,900
Prepaid expenses	65,641	30,397
Supplies inventory	11,023	6,467
Total current assets	<u>7,722,508</u>	<u>5,858,948</u>
<b>Other Assets</b>		
Investments	2,780,243	2,941,901
Beneficial interest in perpetual trust	58,504	63,636
Deferred costs, net	77,407	-
Total other assets	<u>2,916,154</u>	<u>3,005,537</u>
<b>Property and Equipment</b>		
Land	2,184,000	2,184,000
Land improvements	890,545	234,835
Building and building improvements	30,368,296	15,793,666
Transportation equipment	52,818	52,818
Nonmovable equipment	671,401	653,586
Movable equipment	2,324,921	2,138,759
	<u>36,491,981</u>	<u>21,057,664</u>
Less accumulated depreciation	(12,730,072)	(11,433,225)
Construction in progress	7,555,771	14,534,292
Net property and equipment	<u>31,317,680</u>	<u>24,158,731</u>
<b>Total Assets</b>	<u>\$ 41,956,342</u>	<u>\$ 33,023,216</u>

The accompanying notes are an integral part of the consolidated financial statements

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED) SEPTEMBER 30, 2015 AND 2014

### LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 2,911,559	\$ 256,329
Current maturities of capital lease obligations	20,556	14,267
Line of credit	322,607	368,107
Current portion of entrance fees refunds payable	4,014,000	2,295,748
Accounts payable and other accrued expenses	2,423,924	2,885,574
Retainage payable	692,910	504,000
Accrued payroll	72,092	145,927
Accrued vacation and sick pay	283,983	230,424
Accrued payroll taxes and other withholdings	60,606	98,922
Accrued provider tax	193,762	205,407
Total current liabilities	<u>10,995,999</u>	<u>7,004,705</u>
<b>Long-Term Liabilities</b>		
Long-term debt, net	15,027,204	11,923,375
Capital lease obligations, net of current portion	20,258	27,245
Entrance fees refunds payable, net of current portion	3,528,400	3,185,000
Nonrefundable deferred fees, net	1,772,482	-
Accrued pension liability	4,083,741	3,922,691
Total long-term liabilities	<u>24,432,085</u>	<u>19,058,311</u>
<b>Net Assets</b>		
Unrestricted	6,286,754	6,755,335
Temporarily restricted	83,000	41,229
Permanently restricted	158,504	163,636
Total net assets	<u>6,528,258</u>	<u>6,960,200</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 41,956,342</u>	<u>\$ 33,023,216</u>

The accompanying notes are an integral part of the consolidated financial statements

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Operating Revenue</b>		
Resident revenues, net of contractual allowances and discounts	\$ 10,455,352	\$ 10,630,372
Provision for bad debts	-	(102,324)
Net resident revenues less provision for bad debts	<u>10,455,352</u>	<u>10,528,048</u>
Ancillary revenues	2,167,180	1,982,078
Rental income and fees	410,042	404,108
Resident service fees	523,756	116,792
Interest and investment income	76,602	86,171
Amortization of deferred revenue from entrance fees	259,613	65,652
Contributions	133,220	138,409
Miscellaneous income	229,237	132,375
Net assets released from restriction	18,420	37,626
Total operating revenues	<u>14,273,422</u>	<u>13,491,259</u>
<b>Operating Expenses</b>		
Salaries	6,661,118	6,553,752
Employee benefits	1,608,964	1,852,594
Depreciation and amortization	1,296,848	607,000
Provider tax	756,553	838,252
Supplies	723,927	686,751
Ancillary	697,085	631,503
Interest	562,782	268,857
Food	396,115	391,245
Utilities	366,954	353,288
Miscellaneous	304,486	260,459
Advertising and public relations	156,866	27,451
Legal and accounting	121,500	185,233
Consultants	117,534	130,950
Repairs and maintenance	113,156	110,820
Insurance	108,734	92,870
Purchased services	87,430	71,012
Fees - officers	53,760	49,729
Data processing	33,952	26,974
Investment fees	30,010	20,212
Telephone	24,809	17,982
Auto	9,846	10,609
Total operating expenses	<u>14,232,429</u>	<u>13,187,543</u>
<b>Operating Income</b>	<u>40,993</u>	<u>303,716</u>

The accompanying notes are an integral part of the consolidated financial statements

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED) FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Nonoperating Income (Expense)</b>		
Net realized and unrealized gains (losses) on investments	\$ (194,464)	\$ 117,350
Income from perpetual trust	-	1,371
Pension liability changes other than net periodic cost	<u>(315,110)</u>	<u>(590,757)</u>
Net nonoperating expense	<u>(509,574)</u>	<u>(472,036)</u>
Decrease in unrestricted net assets	<u>(468,581)</u>	<u>(168,320)</u>
<b>Temporarily Restricted Net Assets</b>		
Interest and investment income	2,672	3,441
Contributions	66,320	57,026
Net realized and unrealized gains (losses) on investments	(7,763)	4,555
Investment fees	(1,038)	(783)
Net assets released from restriction	<u>(18,420)</u>	<u>(37,626)</u>
Increase in temporarily restricted net assets	<u>41,771</u>	<u>26,613</u>
<b>Permanently Restricted Net Assets</b>		
Increase (decrease) in value of beneficial interest in perpetual trust	<u>(5,132)</u>	<u>1,940</u>
<b>Change In Net Assets</b>	(431,942)	(139,767)
<b>Net Assets - Beginning of Year</b>	<u>6,960,200</u>	<u>7,099,967</u>
<b>Net Assets - End of Year</b>	<u>\$ 6,528,258</u>	<u>\$ 6,960,200</u>

The accompanying notes are an integral part of the consolidated financial statements



# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (431,942)	\$ (139,767)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from entrance fees, net of refunds	2,631,947	3,199,500
Depreciation and amortization	1,296,848	607,000
Bad debt expense	-	102,324
Net realized and unrealized investment (gains) losses	202,227	(121,905)
Change in value of beneficial interest in perpetual trust	5,132	(1,940)
Amortization of deferred revenue from entrance fees	(259,613)	(65,652)
Interest for deferred financing costs	50,030	15,695
(Increase) decrease in operating assets:		
Accounts receivable	(157,099)	19,254
Inventory	(4,556)	181
Prepaid expenses	(35,244)	29,477
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued expenses	9,401	203,772
Accrued payroll	(73,835)	4,470
Accrued vacation and sick pay	53,559	(24,267)
Accrued payroll taxes and other withholdings	(38,316)	(52,301)
Accrued provider tax	(11,645)	7,504
Accrued pension liability	161,050	839,063
Net cash provided by operating activities	<u>3,397,944</u>	<u>4,622,408</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(8,722,796)	(10,894,848)
Purchases of investments	(77,627)	(88,644)
Sales of investments	37,058	384,633
Payment of deferred costs	(77,407)	-
Net cash used in investing activities	<u>(8,840,772)</u>	<u>(10,598,859)</u>
<b>Cash Flows from Financing Activities</b>		
Payment of deferred financing costs	(131,633)	-
Repayment of long-term debt	(2,436,926)	(2,750,555)
Proceeds from long-term debt	8,277,588	10,174,954
Repayment of capital lease obligations	(15,840)	(4,736)
Repayment of line of credit	(45,500)	(63,500)
Net cash provided by financing activities	<u>5,647,689</u>	<u>7,356,163</u>
<b>Net Increase in Cash and Cash Equivalents</b>	204,861	1,379,712
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>3,083,136</u>	<u>1,703,424</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 3,287,997</u>	<u>\$ 3,083,136</u>

The accompanying notes are an integral part of the consolidated financial statements

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Odd Fellows Healthcare, Inc. (Healthcare) is a Connecticut nonstock corporation formed in 2007 to provide management services to Odd Fellows Home of Connecticut, Inc. Healthcare is the sole member of the Odd Fellows Home of Connecticut, Inc. (Home), a Connecticut nonstock corporation incorporated in 1973, and Odd Fellows Faith, Hope and Charity Fund, Inc. (Faith), a Connecticut nonstock corporation formed in 2007. Collectively, Healthcare, Home and Faith are referred to as the Organization. The mission of the Home is to provide residents with nursing care and rehabilitation services.

The Home operates under two trade names, Fellowship Manor and Fairview. Fellowship Manor consists of a 24-unit congregate housing project for the elderly and a continuing care retirement community (CCRC). During 2014, Fellowship Manor began construction of the CCRC, called Thames Edge, which consists of a community building and 15 residential buildings containing a total of 23 residential units (Phase 1). During 2015, Thames Edge began construction of 17 additional CCRC units (Phase 2). Phase 1 was substantially completed during 2015. Fairview is a 120-bed nursing home, which is separated into an operating fund and a nonoperating fund.

#### Basis of Accounting and Presentation

The accompanying consolidated financial statements include Healthcare, Home and Faith. All intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the accounts of the Organization are reported in the following net asset categories:

##### Unrestricted Net Assets

Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

##### Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and also include accumulated investment income and gains on donor-restricted assets that have not been appropriated for expenditure.

##### Permanently Restricted Net Assets

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Organization to expend the income earned thereon. These permanently restricted net assets include the Organization's proportionate share of a beneficial interest in perpetual trust, for which the Organization is an income beneficiary.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Change in Accounting Principle

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest*, which simplifies the presentation of debt issuance costs. The amendments change the presentation of debt issuance costs from an asset to a direct deduction of the debt on the accompanying consolidated statements of financial position. In addition, the amortization of debt issuance costs is now included in interest expense rather than amortization expense. This ASU is effective for annual periods beginning after December 15, 2015. The Organization has elected early adoption of the amendments for the year ended September 30, 2015. The amendments have been retrospectively applied. As a result, deferred financing costs of \$326,739 have been reclassified from assets to a direct deduction of long-term debt in the consolidated statement of financial position as of September 30, 2014, and \$15,695 of amortization expense has been reclassified to interest expense in the consolidated statement of activities for the year ended September 30, 2014.

### Cash and Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less exclusive of cash held by brokers. Included in cash and cash equivalents are residents' personal funds of \$29,312 and \$36,538 at September 30, 2015 and 2014, respectively. The Organization maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Organization's deposits are not subject to significant credit risk.

### Accounts Receivable

Accounts receivable are considered delinquent and written off when all attempts to collect from individuals or other payor sources have been exhausted. Accounts receivable from entrance fees are recognized upon receipt of a signed continuing care agreement by residents of Thames Edge. Management maintains an allowance for doubtful accounts that is based on a review of significant balances and past experience. Accounts receivable are net of an allowance for doubtful accounts of \$75,171 and \$77,583 at September 30, 2015 and 2014, respectively.

### Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments includes the Organization's gains and losses on investments bought and sold as well as held during the year.

### Beneficial Interest in Perpetual Trust

The Organization retains a beneficial interest in a trust established by a donor and held by a third party. Under this arrangement, the Organization receives investment income from the trust in perpetuity but does not have access to the principal. The beneficial interest is carried at the present value of estimated future receipts from the trust, which is measured by the fair market value of the assets in the trust. Changes in the carrying amount of the beneficial interest are recognized as increases or decreases in permanently restricted net assets.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Property and Equipment

Repairs and maintenance are charged to expense as incurred. Property and equipment acquisitions and improvements, or groups of improvements, thereon that exceed \$2,500 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

Building and building improvements	7-40 years
Land improvements	8-30 years
Movable equipment	3-20 years
Nonmovable equipment	5-20 years
Transportation equipment	3-5 years

### Deferred Costs

Deferred costs represent costs incurred related to the development and marketing of Thames Edge. The costs are amortized on a straight-line basis over the life of the corresponding Thames Edge property and equipment.

### Resident Revenues

Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim or final settlements are reported in operations in the year of settlement. It is management's opinion that all applicable reimbursement principles have been followed and any settlement amounts will not have a material impact on the Organization's financial position or results of operations.

### Contributions

Unconditional contributions are recognized when received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. The Home reports contributions as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

### Operating Reserve

The State of Connecticut Department of Social Services (DSS) monitors Connecticut retirement communities and their compliance with existing state regulations. Among other things, DSS requires that retirement communities maintain an operating reserve equal to approximately one month's cash operating costs. The Organization maintained an adequate operating reserve as of September 30, 2015.

### Income Taxes

Healthcare, Home and Faith are exempt from federal and state income taxes as public charities under Section 501(c)(3) of the Internal Revenue Code.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the consolidated statements of financial position and activities.

### Reclassification

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the current year's presentation.

### Subsequent Events

In preparing these consolidated financial statements, management has evaluated subsequent events through March 18, 2016, which represents the date the consolidated financial statements were available to be issued.

## NOTE 2 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

#### Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

#### Level 2

Inputs to the valuation methodology include:

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

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

#### Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a description of the valuation methodologies and investment strategies used for assets measured at fair value:

### Mutual Funds

Mutual funds are valued at the closing price reported in the active market in which the individual securities are traded.

### Beneficial Interest in Perpetual Trusts

Beneficial interests in perpetual trusts held by third parties are valued at the present value of the future distributions expected to be received over the term of the agreement, which is measured by the fair values of the underlying assets. The Organization cannot access assets in the trust.

There have been no changes in the methodologies used at September 30, 2015 and 2014.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization 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 following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2015 and 2014:

	<b>2015</b>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Money market	\$ 27,990	\$ 27,990	\$ -	\$ -
Diversified	375,283	375,283	-	-
Equities	1,785,527	1,785,527	-	-
Fixed income	591,443	591,443	-	-
Total investments	<u>2,780,243</u>	<u>2,780,243</u>	-	-
Beneficial interest in perpetual trust	<u>58,504</u>	-	-	<u>58,504</u>
Total	<u>\$ 2,838,747</u>	<u>\$ 2,780,243</u>	<u>\$ -</u>	<u>\$ 58,504</u>
	<b>2014</b>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Money market	\$ 32,310	\$ 32,310	\$ -	\$ -
Diversified	635,689	635,689	-	-
Equities	1,715,622	1,715,622	-	-
Fixed income	558,280	558,280	-	-
Total investments	<u>2,941,901</u>	<u>2,941,901</u>	-	-
Beneficial interest in perpetual trust	<u>63,636</u>	-	-	<u>63,636</u>
Total	<u>\$ 3,005,537</u>	<u>\$ 2,941,901</u>	<u>\$ -</u>	<u>\$ 63,636</u>

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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There were no transfers between levels of investments during the years ended September 30, 2015 and 2014.

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended September 30, 2015 and 2014:

	<b>Beneficial Interest in Perpetual Trust</b>
Balance - September 30, 2013	\$ 61,696
Change in value of beneficial interest in perpetual trust	1,940
Balance - September 30, 2014	<u>63,636</u>
Change in value of beneficial interest in perpetual trust	<u>(5,132)</u>
Balance - September 30, 2015	<u>\$ 58,504</u>

Gains and losses (realized and unrealized) included in changes in net assets for the years ended September 30, 2015 and 2014, are reported in net realized and unrealized gains (losses) on investments in the consolidated statements of activities.

### NOTE 3 - PROPERTY AND EQUIPMENT

Costs included in construction in progress of approximately \$2,479,000 and \$2,761,000 were included in accounts payable and other accrued expenses and retainage payable on the consolidated statements of financial position as of September 30, 2015 and 2014, respectively.

Depreciation and amortization expense was \$1,296,848 and \$607,000 for the years ended September 30, 2015 and 2014, respectively.

Interest expense capitalized related to construction was \$89,555 and \$124,192 for the years ended September 30, 2015 and 2014, respectively.

### NOTE 4 - CONTINUING CARE AGREEMENTS

A continuing care agreement is signed by all residents of Thames Edge. Some of the principal terms and conditions of the continuing care agreement are as follows:

In consideration for the resident's payment of an entrance fee, Thames Edge agrees to furnish to the resident a living unit in the residence complex for his or her personal use and occupancy for the balance of the resident's lifetime unless sooner terminated under the provisions of the agreement.

Full payment of the entrance fee is obtained from the resident prior to occupancy. The entrance fee consists of a refundable and nonrefundable portion. The refundable portion varies depending upon which of the three contract plans is selected. Under two of the continuing care agreements, amounts may be refundable after the living unit is reoccupied.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The 90% refundable contract plan calls for a guaranteed 90% refund of the entrance fee upon the living unit being reoccupied. The entrance fee is 100% refundable for the first six months of occupancy. The 10% nonrefundable portion, following the first six months of occupancy, is amortized into income over the residents' actuarially determined remaining life as calculated by Thames Edge.

The declining balance contract plan calls for a variable refund of the entrance fee upon the living unit being reoccupied. The refundable portion of the entrance fee initially declines, and is amortized into income, 5% during the first month of residency, and thereafter 1% per each month of residency.

The monthly security plan calls for a variable refund of the entrance fee upon the living unit being reoccupied. The refundable portion of the entrance fee initially declines, and is amortized into income, 5% during the first month of residency, and thereafter 1% per each month of residency. The minimum refund due under this agreement is 60%, representing 36 months of amortization.

The flex and entrance security plans allows for no refund. The entrance fees are amortized into income over the residents' actuarially determined remaining life as calculated by the Home.

The 95%, 92% and 85% advantage plans call for 95%, 92% and 85% refunds, respectively, of the future sale price of the living unit upon reoccupancy. The agreements allows the resident to have the opportunity to participate in appreciation of the sales prices (defined as the price paid by the new occupant(s)) above the original entry fee amount minus upgrades and divided by one-half. One-half of the appreciation will return to Thames Edge.

For the duration of the resident's lifetime or until termination of the agreement, the Home agrees to furnish to the resident utilities, interior and exterior maintenance, an emergency call system, property taxes and access to the community clubhouse according to the terms and conditions specified in the residence agreement. In return, the resident agrees to pay the Home a monthly residence fee. The monthly residence fee may be increased or decreased on 30 days written notice.

The continuing care agreement also provides priority admission to the nursing home. Costs incurred in providing this care are paid for by residents first through their applicable insurance provider and then by the resident at a rate equivalent to 75% of the daily private pay skilled nursing facility rate in addition to the monthly residence fee.

Fellowship Manor congregate housing unit tenants are also subject to an entrance fee, which is amortized into income over the tenants first three years of occupancy.

As of September 30, 2015 and 2014, unamortized entrance fees totaled \$9,314,882 and \$5,480,748, respectively, and were included on the consolidated statements of financial position as deferred revenue from entrance fees. As of September 30, 2015 and 2014, accounts receivable and deferred revenue from entrance fees include \$3,418,700 and \$1,956,900, respectively, related to unpaid amounts due from residents with signed continuing care agreements. For the years ended September 30, 2015 and 2014, entrance fees of \$259,613 and \$65,652, respectively, were amortized into income and included on the consolidated statements of activities as amortization of deferred revenue from entrance fees.



# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 - LONG-TERM DEBT

At September 30, 2015 and 2014, the Organization had the following outstanding indebtedness:

	2015		2014	
	Principal	Unamortized Deferred Financing Costs	Principal	Unamortized Deferred Financing Costs
<b><u>Phase 1 Notes:</u></b>				
Adjustable rate promissory note payable to Chelsea Groton Savings Bank (the Bank), in the original amount of \$5,152,000, payable in monthly installments of principal and interest of \$31,794 through December 2033, at which time all outstanding amounts are due and payable.	\$ 4,853,118	\$ 51,661	\$ 5,026,469	\$ 54,492
Mortgage note payable to the Bank, in the maximum amount of \$5,000,000. The note is payable in monthly installments of interest only through December 2014 with monthly installments of principal and interest of \$24,729 through December 2043, at which time all outstanding amounts are due and payable.	4,932,857	183,409	5,000,000	186,494
Construction to permanent commercial mortgage note payable to the Bank, periodically advanced to the Organization during the construction period through December 2014, to a maximum amount of \$1,590,000. The note is payable in monthly installments of interest only through December 2014 with monthly installments of principal and interest through December 2043, at which time all outstanding amounts are due and payable.	1,568,674	20,221	1,112,814	20,937
Revolving construction to permanent promissory note payable to the Bank, periodically advanced to the Organization during the construction period through December 2015, to a maximum amount outstanding of \$5,000,000 during construction, and a maximum amount outstanding of \$2,000,000 at the conclusion of the construction period. The Organization extended the construction period through November 2016 as was allowable under the agreement. The note is payable in monthly installments of interest only through December 2016 with monthly installments of principal and interest through December 2036, at which time all outstanding amounts are due and payable.	2,141,467	61,448	1,367,160	64,816

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Phase 2 Notes:

Variable rate commercial construction mortgage note payable to the Bank, periodically advanced to the Organization during the construction period, to a maximum amount of \$3,600,000. Monthly payments of interest on the unpaid principal of the loan, in arrears, began on February 1, 2015 and continue on the first day of each month thereafter until maturity of the loan on January 1, 2016. The loan was repaid in full on January 1, 2016.

2,560,237	12,365	-	-
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Adjustable rate commercial construction / permanent mortgage note payable to the Bank, periodically advanced to the Organization during the construction period, to a maximum amount outstanding of \$6,000,000. Monthly payments of interest on the unpaid principal of the loan, in arrears, began on February 1, 2015 and continue on the first day of each month through the conversion date of January 1, 2016. Thames Edge exercised its option to extend the conversion date and payments of interest to January 1, 2017. On the conversion date, Thames Edge shall make a principal reduction payment in order to reduce the outstanding principal balance of the loan to a sum not to exceed \$2,500,000. On the first day of the first month subsequent to the conversion date, and continuing each month thereafter, monthly payments of principal and interest in an amount sufficient to pay the unpaid principal of this loan on a 20-year direct reduction loan basis will begin. The unpaid principal balance of this loan, with all accrued and unpaid interest, shall be due and payable on January 1, 2037.

<u>2,290,752</u>	<u>79,238</u>	-	-
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18,347,105	\$ <u>408,342</u>	12,506,443	\$ <u>326,739</u>
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Less current portion

(2,911,559)		(256,329)	
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Less unamortized deferred financing costs

<u>(408,342)</u>		<u>(326,739)</u>	
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<u>\$ 15,027,204</u>	<u>\$ 11,923,375</u>
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The interest rate on Phase 1 long-term debt as of September 30, 2015 is adjustable every 5 years, based on the Federal Home Loan Bank of Boston's Five Year Classic Advance Rate plus 2.25%, with a minimum interest rate of 4.15%. The interest rate was 4.15% at September 30, 2015 and 2014.

The Phase 2 variable rate commercial construction mortgage note payable began accruing interest on December 29, 2014 at 4.25%. The interest rate was adjusted on February 1, 2015, and will be on the first day of each month thereafter, to the lender's base rate plus 1% per annum. The interest rate was 4.25% at September 30, 2015.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Phase 2 adjustable rate commercial construction / permanent mortgage note payable began accruing interest on December 29, 2014 at 4.50%. The interest rate will be adjusted on January 1, 2020, and on the same day every five years thereafter, to the Federal Home Loan Bank of Boston's Five Year Regular Classic Advance Rate plus 2.25% rounded up to the nearest one-eighth percent. The interest rate was 4.50% at September 30, 2015.

All notes are collateralized by real property and all tangible and intangible personal property of the Organization and are subject to certain financial covenants.

The aggregate annual maturities of long-term debt for fiscal years ending subsequent to September 30, 2015 are as follows:

2016	\$	2,911,559
2017		590,129
2018		487,428
2019		508,466
2020		530,505
Thereafter		<u>13,319,018</u>
	\$	<u>18,347,105</u>

### NOTE 6 - LINE OF CREDIT

Faith has an available line of credit with UBS Bank of \$1,000,000, with no set expiration date. Interest is charged at a variable rate, which was 3.0% and 2.9% at September 30, 2015 and 2014, respectively, and amounted to \$10,278 and \$11,781 for the years ended September 30, 2015 and 2014, respectively.

### NOTE 7 - CAPITAL LEASE COMMITMENTS

The Organization has entered into four capital leases for equipment, with two beginning during each of the years ended September 30, 2015 and 2014. The agreements require monthly payments of principal and interest of \$1,438 with an interest rate of approximately 8.5%.

The following is a summary of property under capital lease as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Moveable equipment	\$ 61,390	\$ 46,248
Less accumulated amortization	<u>(15,544)</u>	<u>(2,164)</u>
Net Equipment Under Capital Leases	<u>\$ 45,846</u>	<u>\$ 44,084</u>

Amortization expense of \$13,380 and \$2,164 for the years ended September 30, 2015 and 2014, respectively, relative to the above property is included in depreciation and amortization expense on the accompanying consolidated statements of activities.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following is a schedule by years of future minimum payments under capital leases, together with the present value of minimum lease payments as of September 30, 2015:

### Year Ending September 30

2016	\$	22,298
2017		19,209
2018		<u>1,479</u>
Total minimum lease payments		42,986
Less amount representing interest		<u>2,172</u>
Capital Lease Obligations	\$	<u><u>40,814</u></u>

### NOTE 8 - NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Purpose restrictions:		
Scholarships	\$ 7,871	\$ 7,487
Special services or equipment	<u>75,129</u>	<u>33,742</u>
Total Temporarily Restricted Net Assets	<u>\$ 83,000</u>	<u>\$ 41,229</u>

Temporarily restricted net assets of \$18,420 and \$37,626 were released from restrictions during the years ended September 30, 2015 and 2014, respectively, by incurring expenses satisfying the purpose restriction of special services or equipment.

Permanently restricted net assets as of September 30, 2015 and 2014, are restricted to investment in perpetuity, the income from which is expendable to support the following:

	<u>2015</u>	<u>2014</u>
Special services or equipment	\$ 100,000	\$ 100,000
Beneficial interest in perpetual trust for any activities of the Organization	<u>58,504</u>	<u>63,636</u>
Total Permanently Restricted Net Assets	<u>\$ 158,504</u>	<u>\$ 163,636</u>

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 9 - ENDOWMENT

#### Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in endowment net assets for the years ended September 30, 2014 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - September 30, 2013	\$ -	\$ 4,453	\$ 161,696	\$ 166,149
Investment return:				
Investment income, net of fees	-	3,134	-	3,134
Net realized and unrealized gains	-	4,055	-	4,055
Total investment return	-	7,189	-	7,189
Change in value of beneficial interest in perpetual trust	-	-	1,940	1,940
Appropriation of endowment assets for expenditure	-	(10,000)	-	(10,000)
Endowment net assets - September 30, 2014	-	1,642	163,636	165,278
Investment return:				
Investment income, net of fees	-	1,485	-	1,485
Net realized and unrealized losses	(3,872)	(3,127)	-	(6,999)
Total investment return	(3,872)	(1,642)	-	(5,514)
Change in value of beneficial interest in perpetual trust	-	-	(5,132)	(5,132)
Endowment Net Assets - September 30, 2015	\$ (3,872)	\$ -	\$ 158,504	\$ 154,632

### Funds with Deficiencies

From time to time, the fair value of investments associated with donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,872 as of September 30, 2015.

### Spending Policy and How the Investment Objectives Relate to Spending Policy

During the years ended September 30, 2015 and 2014, the Organization reviewed its endowment and decided to appropriate \$0- and \$10,000, respectively, of accumulated earnings for expenditure. The Organization will monitor the endowment earnings in the future to determine how much, if any, of the earnings will be spent, or alternatively kept in the fund to maintain purchasing power of the assets held in perpetuity.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 10 - BENEFIT PLANS

#### Defined Benefit Plan

The Home sponsors a defined benefit pension plan (the Pension Plan) covering substantially all of its employees hired before October 1, 2012, who were over 21 years of age and had completed 1 year of service and at least 1,000 hours of service. Effective October 1, 2012, new employees hired by the Home are not eligible to participate in the Pension Plan. Pension benefits are based on years of service and the employee's average monthly compensation during the credited service years. The Home's funding policy is to make at least the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Effective September 30, 2015, the Pension Plan implemented a benefit freeze. Future service of participants in the Pension Plan will not be included in the calculation of pension benefits due to the freeze.

The following table sets forth further information about the Home's Pension Plan as of and for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unfunded liability	\$ (4,083,741)	\$ (3,922,691)
Benefits paid	(286,940)	(357,652)
Employer contributions	425,194	291,666

Amounts recognized in the consolidated statements of financial position at September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Pension Liability	\$ <u>4,083,741</u>	\$ <u>3,922,691</u>

Amounts previously recognized in changes in unrestricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Net loss	\$ 3,941,309	\$ 4,075,570
Prior service credit	-	(498,208)
Total	\$ <u>3,941,309</u>	\$ <u>3,577,362</u>

The following table details information for the Pension Plan at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation	\$ 11,030,001	\$ 10,827,340
Accumulated benefit obligation	11,030,001	9,944,179
Fair value of plan assets	6,946,260	6,904,649

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other changes in Pension Plan assets and benefit obligations recognized in the consolidated statements of activities consisted of the following for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Net periodic benefit cost	\$ 222,297	\$ 539,972
Net loss	1,082,155	715,984
Amortization of net loss	(223,847)	(161,225)
Amortization of prior service credit	35,998	35,998
Amount recognized due to curtailment	(462,210)	-
Total pension liability changes other than net periodic cost	<u>432,096</u>	<u>590,757</u>
Total Recognized in Changes in Unrestricted Net Assets	<u>\$ 654,393</u>	<u>\$ 1,130,729</u>

The estimated net loss that will be amortized from changes in unrestricted net assets into net periodic benefit cost in 2016 is \$218,164.

The following weighted-average assumptions were used to determine benefit obligations for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate	4.45%	4.40%
Rate of compensation increase	N/A	2.50

The following weighted-average assumptions were used to determine net periodic benefit cost for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate	4.40%	5.00%
Expected return on plan assets	7.00	7.50
Rate of compensation increase	2.50	2.50

The expected rate of return on Pension Plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

The Home's overall investment strategy seeks to maximize return with limited risk, which is achieved through a balanced portfolio of equity and fixed income investments, as well as alternative investment classes. Within each asset class, a diversified mix of individual securities and bonds is selected. Equity allocations are targeted between 55-70% of the portfolio, with the remaining allocations in government debt, corporate debt and a small portion in alternative asset classes such as real estate and money market funds.

The Home's contribution to the Pension Plan in 2016 is estimated to be \$471,987.



# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following benefits are expected to be paid for the fiscal years ending September 30:

2016	330,000
2017	340,000
2018	350,000
2019	400,000
2020	430,000
2021-2025	2,730,000

The fair values of the Home's Pension Plan assets at September 30, 2015 and 2014, by asset class are as follows:

Asset Class	Fair Value Measurements at September 30, 2015		
	Total	Level 1	Level 2
Mutual funds:			
Fixed income	\$ 1,884,890	\$ 1,884,890	\$ -
Equities - domestic	1,613,880	1,613,880	-
Equities - international	633,145	633,145	-
Separate accounts:			
Fixed income	1,263,126	-	1,263,126
Equities - domestic	1,551,219	-	1,551,219
Total	<u>\$ 6,946,260</u>	<u>\$ 4,131,915</u>	<u>\$ 2,814,345</u>

Asset Class	Fair Value Measurements at September 30, 2014		
	Total	Level 1	Level 2
Mutual funds:			
Fixed income	\$ 1,004,771	\$ 1,004,771	\$ -
Equities - domestic	1,496,122	1,496,122	-
Equities - international	661,841	661,841	-
Separate accounts:			
Fixed income	2,260,661	-	2,260,661
Equities - domestic	1,481,254	-	1,481,254
Total	<u>\$ 6,904,649</u>	<u>\$ 3,162,734</u>	<u>\$ 3,741,915</u>

### Defined Contribution Plan

On October 15, 2012, the Organization began the Fairview 403(b) Plan (Fairview Plan). The Fairview Plan is open to all employees who may contribute amounts not to exceed a certain dollar limit as set by law. The Fairview Plan also allows for a discretionary employer match to employees who normally work more than 20 hours per week, are 21 years old, and have 1 year of service for the Organization. Total 403(b) plan expense was \$64,759 and \$55,096 for the years ended September 30, 2015 and 2014, respectively.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The Home grants credit without collateral to its residents, some of whom are funded under third-party payor agreements. The mix of gross receivables at September 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	26%	22%
Medicaid, including pending Medicaid patients	32	43
Private pay and other	42	35
	<u>100%</u>	<u>100%</u>

### NOTE 12 - FUNCTIONAL EXPENSES

The Organization provides healthcare and independent living services to its residents. Expenses related to providing these services for the years ended September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Healthcare services	\$ 11,052,672	\$ 11,235,362
Independent living services	1,712,303	484,881
General and administrative	<u>1,467,454</u>	<u>1,467,300</u>
	<u>\$ 14,232,429</u>	<u>\$ 13,187,543</u>

### NOTE 13 - CASH FLOWS

#### Additional Cash Flow Information

The Organization paid cash for interest of \$559,187 and \$359,970 during the years ended September 30, 2015 and 2014, respectively.

#### Noncash Investing and Financing Activities

During the years ended September 30, 2015 and 2014, the Organization purchased equipment for \$15,142 and \$46,248, respectively, by incurring capital lease obligations for the same amount. During the year ended September 30, 2014, the Organization obtained long-term debt of \$5,058,803 through the refinancing of existing long-term debt and payment of deferred financing and other closing costs. For the years ended September 30, 2015 and 2014, purchases of property and equipment were increased by \$282,141 and reduced by \$2,726,498, respectively, for changes in construction related costs included in accounts payable and other accrued expenses and retainage payable as of September 30, 2015 and 2014.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 14 - HEALTH CARE INDUSTRY

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 health care program participation requirements (which are a precondition to the receipt of reimbursement for patient services), the Medicare False Claims Act, the Stark Anti-Referral Act and the Anti-Kickback legislation and other Medicaid fraud and abuse legislation. Government activity has increased with respect to investigations that have led to allegations concerning possible violations by health care providers of those statutes and regulations. Violations of those laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as the imposition of significant obligations on the part of the provider to repay patient services previously illegally billed and received. Management believes that the Home is in compliance with the licensure, accreditation, government healthcare program participation requirements and other Medicaid fraud and abuse legislation, and with other government regulatory and statutory laws and provisions. While no material regulatory inquiries have been initiated by government agencies, compliance with such laws and regulations can be subject to future government review and can lead to other new statutory and regulatory interpretations, as well as other regulatory actions unknown or unasserted at this time.

### NOTE 15 - COMMITMENTS

At September 30, 2015, the Organization continues to be in a contract with the general contractor for Phase 1 of the Thames Edge construction project. The remaining costs on the contract total approximately \$422,000 as of September 30, 2015, included in retainage payable on the consolidated statements of financial position.

At September 30, 2015, the Organization also entered into a contract with the general contractor for Phase 2 of the Thames Edge construction project. The contract calls for costs totaling \$9,550,000 of which \$5,756,000 have been completed through September 30, 2015, included as construction in progress in property, plant and equipment on the consolidated statements of financial position.

During the year ended September 30, 2014, it was determined the Organization failed to pay required premiums to the Pension Benefit Guaranty Corporation. The Organization will be required to pay the past due premiums as well as interest and late payment penalty charges. No provision has been made in the accompanying consolidated financial statements for the anticipated charges since the ultimate liability cannot be reasonably estimated.

Subsequent to September 30, 2015, the Town of Groton, Connecticut (the Town) indicated to the Organization in written correspondence that it intends to assert a position with respect to the Organization's municipal property tax exemption status which, if asserted successfully, would result in all of the Organization's property in Groton, Connecticut, becoming subject to municipal property taxation. If the outcome should be unfavorable to the Organization, the estimated amount or range of potential losses or expense, based solely on information contained in written correspondence with the Town, is \$375,000 to \$485,000 in net property tax liability with respect to the Town's July 1, 2016 through June 30, 2017 fiscal year.

# BlumShapiro

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## Independent Auditors' Report on Supplementary Information

To the Board of Directors  
Odd Fellows Healthcare, Inc. and Subsidiaries

We have audited the consolidated financial statements of Odd Fellows Healthcare, Inc. and Subsidiaries as of and for the years ended September 30, 2015 and 2014, and our report thereon dated March 18, 2016, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities as of and for the year ended September 30, 2015 are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
March 18, 2016

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION SEPTEMBER 30, 2015

	Odd Fellows Home of Connecticut, Inc.							Eliminations	Total
	Odd Fellows Healthcare, Inc.	d/b/a Fairview		d/b/a Fellowship Manor	Total	Odd Fellows Faith, Hope and Charity Fund, Inc.	Total		
		Operating Fund	Nonoperating Fund						
<b>ASSETS</b>									
<b>Current Assets</b>									
Cash and cash equivalents	\$ 27,981	\$ 1,034,637	\$ 7,129	\$ 2,010,581	\$ 3,052,347	\$ 207,669	\$ -	\$ 3,287,997	
Accounts receivable, net	-	922,209	-	8,813	931,022	8,125	-	939,147	
Accounts receivable from entrance fees	-	-	-	3,418,700	3,418,700	-	-	3,418,700	
Prepaid expenses	-	37,872	-	27,769	65,641	-	-	65,641	
Supplies inventory	-	11,023	-	-	11,023	-	-	11,023	
Total current assets	<u>27,981</u>	<u>2,005,741</u>	<u>7,129</u>	<u>5,465,863</u>	<u>7,478,733</u>	<u>215,794</u>	<u>-</u>	<u>7,722,508</u>	
<b>Other Assets</b>									
Investments	-	-	-	-	-	2,780,243	-	2,780,243	
Due from related parties	191,171	752,908	-	-	752,908	-	(944,079)	-	
Beneficial interest in perpetual trust	-	-	-	-	-	58,504	-	58,504	
Deferred costs, net	-	-	-	77,407	77,407	-	-	77,407	
Total other assets	<u>191,171</u>	<u>752,908</u>	<u>-</u>	<u>77,407</u>	<u>830,315</u>	<u>2,838,747</u>	<u>(944,079)</u>	<u>2,916,154</u>	
<b>Property and Equipment</b>									
Land	-	180,600	2,003,400	-	2,184,000	-	-	2,184,000	
Land improvements	-	228,323	-	662,222	890,545	-	-	890,545	
Building and building improvements	-	10,532,306	-	19,835,990	30,368,296	-	-	30,368,296	
Transportation equipment	-	13,873	-	38,945	52,818	-	-	52,818	
Nonmovable equipment	-	671,401	-	-	671,401	-	-	671,401	
Movable equipment	-	2,015,317	-	309,604	2,324,921	-	-	2,324,921	
	-	13,641,820	2,003,400	20,846,761	36,491,981	-	-	36,491,981	
Less accumulated depreciation	-	(7,952,408)	-	(4,777,664)	(12,730,072)	-	-	(12,730,072)	
Construction in progress	-	90,050	-	7,465,721	7,555,771	-	-	7,555,771	
Net property and equipment	<u>-</u>	<u>5,779,462</u>	<u>2,003,400</u>	<u>23,534,818</u>	<u>31,317,680</u>	<u>-</u>	<u>-</u>	<u>31,317,680</u>	
<b>Total Assets</b>	<u>\$ 219,152</u>	<u>\$ 8,538,111</u>	<u>\$ 2,010,529</u>	<u>\$ 29,078,088</u>	<u>\$ 39,626,728</u>	<u>\$ 3,054,541</u>	<u>\$ (944,079)</u>	<u>\$ 41,956,342</u>	

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)

SEPTEMBER 30, 2015

	Odd Fellows Home of Connecticut, Inc.							Eliminations	Total
	Odd Fellows Healthcare, Inc.	d/b/a Fairview		d/b/a Fellowship Manor	Total	Odd Fellows Faith, Hope and Charity Fund, Inc.	Total		
		Operating Fund	Nonoperating Fund						
<b>Current Liabilities</b>									
Current maturities of long-term debt	\$ -	\$ 139,492	\$ -	\$ 2,772,067	\$ 2,911,559	\$ -	\$ -	\$ -	\$ 2,911,559
Current maturities of capital lease obligations	-	20,556	-	-	20,556	-	-	-	20,556
Line of credit	-	-	-	-	-	322,607	-	-	322,607
Current portion of entrance fees refunds payable	-	-	-	4,014,000	4,014,000	-	-	-	4,014,000
Accounts payable and other accrued expenses	-	636,144	1,385	1,786,395	2,423,924	-	-	-	2,423,924
Retainage payable	-	-	-	692,910	692,910	-	-	-	692,910
Accrued payroll	-	72,092	-	-	72,092	-	-	-	72,092
Accrued vacation and sick pay	-	283,983	-	-	283,983	-	-	-	283,983
Accrued payroll taxes and other withholdings	-	60,606	-	-	60,606	-	-	-	60,606
Accrued provider tax	-	193,762	-	-	193,762	-	-	-	193,762
Total current liabilities	-	1,406,635	1,385	9,265,372	10,673,392	322,607	-	-	10,995,999
<b>Long-Term Liabilities</b>									
Long-term debt, net	-	3,606,573	-	11,420,631	15,027,204	-	-	-	15,027,204
Capital lease obligations, net of current portion	-	20,258	-	-	20,258	-	-	-	20,258
Due to related parties	-	-	-	930,736	930,736	13,343	(944,079)	-	-
Entrance fees refunds payable, net of current portion	-	-	-	3,528,400	3,528,400	-	-	-	3,528,400
Nonrefundable deferred fees, net	-	-	-	1,772,482	1,772,482	-	-	-	1,772,482
Accrued pension liability	-	4,083,741	-	-	4,083,741	-	-	-	4,083,741
Total long-term liabilities	-	7,710,572	-	17,652,249	25,362,821	13,343	(944,079)	-	24,432,085
<b>Net Assets</b>									
Unrestricted	219,152	(589,996)	2,009,144	2,160,467	3,579,615	2,487,987	-	-	6,286,754
Temporarily restricted	-	10,900	-	-	10,900	72,100	-	-	83,000
Permanently restricted	-	-	-	-	-	158,504	-	-	158,504
Total net assets	219,152	(579,096)	2,009,144	2,160,467	3,590,515	2,718,591	-	-	6,528,258
<b>Total Liabilities and Net Assets</b>	\$ 219,152	\$ 8,538,111	\$ 2,010,529	\$ 29,078,088	\$ 39,626,728	\$ 3,054,541	\$ (944,079)	\$ -	\$ 41,956,342

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Odd Fellows Home of Connecticut, Inc.							
	Odd Fellows Healthcare, Inc.	d/b/a Fairview		d/b/a Fellowship Manor	Total	Odd Fellows Faith, Hope and Charity Fund, Inc.	Eliminations	Total
		Operating Fund	Nonoperating Fund					
<b>Operating Revenue</b>								
Resident revenues, net of contractual allowances and discounts	\$ -	\$ 10,455,352	\$ -	\$ -	\$ 10,455,352	\$ -	\$ -	\$ 10,455,352
Ancillary revenues	-	2,167,180	-	-	2,167,180	-	-	2,167,180
Rental income and fees	-	-	-	410,042	410,042	-	-	410,042
Resident service fees	-	-	-	523,756	523,756	-	-	523,756
Interest and investment income	4	716	3	1,307	2,026	74,572	-	76,602
Amortization of deferred revenue from entrance fees	-	-	-	259,613	259,613	-	-	259,613
Contributions	-	3,822	6,187	-	10,009	123,211	-	133,220
Miscellaneous income	-	222,411	1,459	5,020	228,890	347	-	229,237
Management fees	55,000	-	-	-	-	-	(55,000)	-
Net assets released from restriction	-	-	-	-	-	18,420	-	18,420
Total operating revenues	55,004	12,849,481	7,649	1,199,738	14,056,868	216,550	(55,000)	14,273,422
<b>Operating Expenses</b>								
Salaries	-	6,507,088	-	93,982	6,601,070	60,048	-	6,661,118
Employee benefits	-	1,598,960	-	5,406	1,604,366	4,598	-	1,608,964
Depreciation and amortization	-	453,018	-	843,830	1,296,848	-	-	1,296,848
Provider tax	-	756,553	-	-	756,553	-	-	756,553
Supplies	-	723,890	-	-	723,890	37	-	723,927
Ancillary	-	697,085	-	-	697,085	-	-	697,085
Interest	-	155,210	-	397,294	552,504	10,278	-	562,782
Food	-	396,115	-	-	396,115	-	-	396,115
Utilities	-	225,268	-	141,686	366,954	-	-	366,954
Miscellaneous	556	268,256	4,645	20,127	293,028	10,902	-	304,486
Advertising and public relations	-	16,061	-	99,619	115,680	41,186	-	156,866
Legal and accounting	-	116,516	-	4,984	121,500	-	-	121,500
Consultants	-	117,534	-	-	117,534	-	-	117,534
Repairs and maintenance	-	83,971	-	29,185	113,156	-	-	113,156
Insurance	-	81,193	-	27,541	108,734	-	-	108,734
Purchased services	-	38,793	-	48,637	87,430	-	-	87,430
Fees - officers	53,760	-	-	-	-	-	-	53,760
Data processing	-	33,952	-	-	33,952	-	-	33,952
Investment fees	-	4,158	-	12	4,170	25,840	-	30,010
Telephone	-	24,809	-	-	24,809	-	-	24,809
Auto	-	9,846	-	-	9,846	-	-	9,846
Management fees	-	55,000	-	-	55,000	-	(55,000)	-
Total operating expenses	54,316	12,363,276	4,645	1,712,303	14,080,224	152,889	(55,000)	14,232,429
<b>Operating Income</b>	688	486,205	3,004	(512,565)	(23,356)	63,661	-	40,993

## ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

### CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Odd Fellows Home of Connecticut, Inc.							
	Odd Fellows Healthcare, Inc.	d/b/a Fairview		d/b/a Fellowship Manor	Total	Odd Fellows Faith, Hope and Charity Fund, Inc.	Eliminations	Total
		Operating Fund	Nonoperating Fund					
<b>Nonoperating Income (Expense)</b>								
Net realized and unrealized losses on investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (194,464)	\$ -	\$ (194,464)
Pension liability changes other than net periodic cost	-	(315,110)	-	-	(315,110)	-	-	(315,110)
Transfers	-	(69,324)	-	100	(69,224)	69,224	-	-
Net nonoperating income (expense)	-	(384,434)	-	100	(384,334)	(125,240)	-	(509,574)
Increase (decrease) in unrestricted net assets	688	101,771	3,004	(512,465)	(407,690)	(61,579)	-	(468,581)
<b>Changes in Temporarily Restricted Net Assets</b>								
Interest and investment income	-	-	-	-	-	2,672	-	2,672
Contributions	-	10,900	-	-	10,900	55,420	-	66,320
Net realized and unrealized losses on investments	-	-	-	-	-	(7,763)	-	(7,763)
Investment fees	-	-	-	-	-	(1,038)	-	(1,038)
Net assets released from restriction	-	-	-	-	-	(18,420)	-	(18,420)
Increase in temporarily restricted net assets	-	10,900	-	-	10,900	30,871	-	41,771
<b>Permanently Restricted Net Assets</b>								
Increase in value of beneficial interest in perpetual trust	-	-	-	-	-	(5,132)	-	(5,132)
<b>Change in Net Assets</b>	688	112,671	3,004	(512,465)	(396,790)	(35,840)	-	(431,942)
<b>Net Assets - Beginning of Year</b>	218,464	(691,767)	2,006,140	2,672,932	3,987,305	2,754,431	-	6,960,200
<b>Net Assets - End of Year</b>	\$ 219,152	\$ (579,096)	\$ 2,009,144	\$ 2,160,467	\$ 3,590,515	\$ 2,718,591	\$ -	\$ 6,528,258