

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

### **CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 AND 2015**

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

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## Independent Auditors' Report

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

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, 2016 and 2015, 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, 2016 and 2015, 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.

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

West Hartford, Connecticut  
March 30, 2017

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2016 AND 2015

### ASSETS

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,884,201	\$ 3,287,997
Accounts receivable, net	857,421	939,147
Accounts receivable from entrance fees	167,900	3,418,700
Prepaid expenses	132,347	65,641
Supplies inventory	28,547	11,023
Total current assets	<u>3,070,416</u>	<u>7,722,508</u>
<b>Other Assets</b>		
Investments	2,897,393	2,780,243
Beneficial interest in perpetual trust	60,914	58,504
Deferred costs, net	109,525	77,407
Total other assets	<u>3,067,832</u>	<u>2,916,154</u>
<b>Property and Equipment</b>		
Land	2,184,000	2,184,000
Land improvements	3,167,588	890,545
Building and building improvements	40,134,118	30,368,296
Transportation equipment	52,818	52,818
Nonmovable equipment	766,974	671,401
Movable equipment	2,574,915	2,324,921
	<u>48,880,413</u>	<u>36,491,981</u>
Less accumulated depreciation	(14,429,997)	(12,730,072)
Construction in progress	246,473	7,555,771
Net property and equipment	<u>34,696,889</u>	<u>31,317,680</u>
<b>Total Assets</b>	<u>\$ 40,835,137</u>	<u>\$ 41,956,342</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, 2016 AND 2015

### LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 461,172	\$ 2,911,559
Current maturities of capital lease obligations	19,147	20,556
Line of credit	291,904	322,607
Current portion of entrance fees refunds payable	-	4,014,000
Accounts payable and other accrued expenses	849,363	2,423,924
Retainage payable	44,183	692,910
Accrued payroll	92,792	72,092
Accrued vacation and sick pay	320,114	283,983
Accrued payroll taxes and other withholdings	45,668	60,606
Accrued provider tax	188,234	193,762
Total current liabilities	<u>2,312,577</u>	<u>10,995,999</u>
<b>Long-Term Liabilities</b>		
Long-term debt, net	16,654,344	15,027,204
Capital lease obligations, net of current portion	1,005	20,258
Entrance fees refunds payable, net of current portion	8,832,753	3,528,400
Nonrefundable deferred fees, net	2,805,958	1,772,482
Accrued pension liability	4,769,532	4,083,741
Total long-term liabilities	<u>33,063,592</u>	<u>24,432,085</u>
<b>Net Assets</b>		
Unrestricted	5,199,007	6,286,754
Temporarily restricted	99,047	83,000
Permanently restricted	160,914	158,504
Total net assets	<u>5,458,968</u>	<u>6,528,258</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 40,835,137</u>	<u>\$ 41,956,342</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Operating Revenue</b>		
Resident revenues, net of contractual allowances and discounts	\$ 10,232,319	\$ 10,455,352
Provision for bad debts	<u>(27,793)</u>	<u>-</u>
Net resident revenues less provision for bad debts	10,204,526	10,455,352
Ancillary revenues	3,007,069	2,167,180
Rental income and fees	437,800	410,042
Resident service fees	975,745	523,756
Interest and investment income	121,827	76,602
Amortization of deferred revenue from entrance fees	311,200	259,613
Contributions	88,314	133,220
Miscellaneous income	258,208	229,237
Net assets released from restriction	<u>83,050</u>	<u>18,420</u>
Total operating revenues	<u>15,487,739</u>	<u>14,273,422</u>
<b>Operating Expenses</b>		
Salaries	7,473,237	6,661,118
Employee benefits	1,774,498	1,608,964
Depreciation and amortization	1,699,925	1,296,848
Provider tax	747,408	756,553
Supplies	715,880	723,927
Interest	662,612	562,782
Legal, accounting and other	536,249	121,500
Miscellaneous	431,278	304,486
Utilities	388,847	366,954
Food	406,642	396,115
Ancillary	283,700	697,085
Repairs and maintenance	198,162	113,156
Consultants	156,292	117,534
Insurance	144,303	108,734
Purchased services	113,604	87,430
Data processing	57,464	33,952
Investment fees	55,738	30,010
Fees - officers	49,347	53,760
Advertising and public relations	23,932	156,866
Telephone	15,342	24,809
Auto	<u>6,292</u>	<u>9,846</u>
Total operating expenses	<u>15,940,752</u>	<u>14,232,429</u>
<b>Operating Income (Loss)</b>	<u>(453,013)</u>	<u>40,993</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Nonoperating Income (Expense)</b>		
Net realized and unrealized gains (losses) on investments	\$ 37,473	\$ (194,464)
Pension liability changes other than net periodic cost	<u>(672,207)</u>	<u>(315,110)</u>
Net nonoperating expense	<u>(634,734)</u>	<u>(509,574)</u>
Decrease in unrestricted net assets	<u>(1,087,747)</u>	<u>(468,581)</u>
<b>Temporarily Restricted Net Assets</b>		
Interest and investment income	4,205	2,672
Contributions	94,318	66,320
Net realized and unrealized gains (losses) on investments	1,581	(7,763)
Investment fees	(1,007)	(1,038)
Net assets released from restriction	<u>(83,050)</u>	<u>(18,420)</u>
Increase in temporarily restricted net assets	<u>16,047</u>	<u>41,771</u>
<b>Permanently Restricted Net Assets</b>		
Change in value of beneficial interest in perpetual trust	<u>2,410</u>	<u>(5,132)</u>
<b>Change In Net Assets</b>	(1,069,290)	(431,942)
<b>Net Assets - Beginning of Year</b>	<u>6,528,258</u>	<u>6,960,200</u>
<b>Net Assets - End of Year</b>	<u>\$ 5,458,968</u>	<u>\$ 6,528,258</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (1,069,290)	\$ (431,942)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from entrance fees, net of refunds	5,885,829	2,631,947
Depreciation and amortization	1,699,925	1,296,848
Provision for bad debts	27,793	-
Net realized and unrealized investment (gains) losses	(39,054)	202,227
Change in value of beneficial interest in perpetual trust	(2,410)	5,132
Amortization of deferred revenue from entrance fees	(311,200)	(259,613)
Amortization of deferred financing costs	30,213	50,030
(Increase) decrease in operating assets:		
Accounts receivable	53,933	(157,099)
Prepaid expenses	(66,706)	(35,244)
Supplies inventory	(17,524)	(4,556)
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued expenses	211,834	9,401
Accrued payroll	20,700	(73,835)
Accrued vacation and sick pay	36,131	53,559
Accrued payroll taxes and other withholdings	(14,938)	(38,316)
Accrued provider tax	(5,528)	(11,645)
Accrued pension liability	685,791	161,050
Net cash provided by operating activities	<u>7,125,499</u>	<u>3,397,944</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(7,508,124)	(8,722,796)
Purchases of investments	(113,419)	(77,627)
Sales of investments	35,323	37,058
Payment of deferred costs	(38,250)	(77,407)
Net cash used in investing activities	<u>(7,624,470)</u>	<u>(8,840,772)</u>
<b>Cash Flows from Financing Activities</b>		
Payment of deferred financing costs	(13,300)	(131,633)
Repayment of long-term debt	(2,863,062)	(2,436,926)
Proceeds from long-term debt	2,022,902	8,277,588
Repayment of capital lease obligations	(20,662)	(15,840)
Repayment of line of credit	(30,703)	(45,500)
Net cash provided by (used in) financing activities	<u>(904,825)</u>	<u>5,647,689</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,403,796)	204,861
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>3,287,997</u>	<u>3,083,136</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 1,884,201</u>	<u>\$ 3,287,997</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 2015, Fellowship Manor completed construction of the first phase 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 2016, Thames Edge completed construction of 17 additional CCRC units (Phase 2). Fairview is a 120-bed nursing home.

#### 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.

#### 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 \$31,945 and \$29,312 at September 30, 2016 and 2015, 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.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 at September 30, 2016 and 2015.

### 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.

### 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 average expected remaining lives of the residents under the related CCRC contracts.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **Resident Revenues and Resident Service Fees**

Patient service revenue and resident service fees are 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, 2016.

### **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.

### **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.

### **Subsequent Events**

In preparing these consolidated financial statements, management has evaluated subsequent events through March 30, 2017, which represents the date the consolidated financial statements were available to be issued. See Note 16 for discussion of subsequent events.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

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, 2016 and 2015.

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.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2016 and 2015:

	<b>2016</b>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Money market	\$ 97,916	\$ 97,916	\$ -	\$ -
Diversified	101,251	101,251	-	-
Equities	1,517,317	1,517,317	-	-
Fixed income	1,038,433	1,038,433	-	-
Commodities	<u>142,476</u>	<u>142,476</u>	-	-
Total investments	2,897,393	2,897,393	-	-
Beneficial interest in perpetual trust	<u>60,914</u>	<u>-</u>	<u>-</u>	<u>60,914</u>
Total	<u>\$ 2,958,307</u>	<u>\$ 2,897,393</u>	<u>\$ -</u>	<u>\$ 60,914</u>

	<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	<u>591,443</u>	<u>591,443</u>	-	-
Total investments	2,780,243	2,780,243	-	-
Beneficial interest in perpetual trust	<u>58,504</u>	<u>-</u>	<u>-</u>	<u>58,504</u>
Total	<u>\$ 2,838,747</u>	<u>\$ 2,780,243</u>	<u>\$ -</u>	<u>\$ 58,504</u>

There were no transfers between levels of investments during the years ended September 30, 2016 and 2015.

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, 2016 and 2015:

	<b>Beneficial Interest in Perpetual Trust</b>
Balance - September 30, 2014	\$ 63,636
Change in value of beneficial interest in perpetual trust	<u>(5,132)</u>
Balance - September 30, 2015	58,504
Change in value of beneficial interest in perpetual trust	<u>2,410</u>
Balance - September 30, 2016	<u>\$ 60,914</u>

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Gains and losses (realized and unrealized) included in changes in net assets for the years ended September 30, 2016 and 2015, 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 property and equipment of approximately \$44,000 were included in retainage payable on the consolidated statements of financial position as of September 30, 2016. Costs included in property and equipment of approximately \$693,000 and \$1,786,000 were included in retainage payable and accounts payable and other accrued expenses, respectively, on the consolidated statements of financial position as of September 30, 2015.

Depreciation and amortization expense was \$1,699,925 and \$1,296,848 for the years ended September 30, 2016 and 2015, respectively.

Interest expense capitalized related to property and equipment was \$136,628 and \$89,555 for the years ended September 30, 2016 and 2015, 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.

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 portions, following the first six months of occupancy, are 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 5% during the first month of residency, and thereafter 1% per each month of residency. The entrance fees are amortized into income over the residents' actuarially determined remaining life as calculated by Thames Edge.

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 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 entrance fees are amortized into income over the residents' actuarially determined remaining life as calculated by Thames Edge.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 Thames Edge.

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 allow 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. The nonrefundable portion of the entrance fees are amortized into income over the residents' actuarially determined remaining life as calculated by 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 and access to the community clubhouse according to the terms and conditions specified in the residence agreement. In return, the resident agrees to pay Thames Edge 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 tenant's first three years of occupancy.

As of September 30, 2016 and 2015, accounts receivable and deferred revenue from entrance fees include \$167,900 and \$3,418,700, respectively, related to unpaid amounts due from residents with signed continuing care agreements. For the years ended September 30, 2016 and 2015, entrance fees of \$311,200 and \$259,613, 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, 2016 and 2015, the Organization had the following outstanding indebtedness:

	2016		2015	
	Principal	Unamortized Deferred Financing Costs	Principal	Unamortized Deferred Financing Costs
<b>Phase 1 Notes:</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. The note was repaid in full on March 9, 2017 through the refinancing discussed in Note 16.	\$ 4,672,184	\$ 48,830	\$ 4,853,118	\$ 51,661
Mortgage note payable to the Bank, in the maximum amount of \$5,000,000. The note is payable in monthly installments of principal and interest of \$24,729 through December 2043, at which time all outstanding amounts are due and payable. The note was repaid in full on March 9, 2017 through the refinancing discussed in Note 16.	4,840,375	176,916	4,932,857	183,409
Construction to permanent commercial mortgage note payable to the Bank, in the amount of \$1,590,000. The note is payable in monthly installments of principal and interest through December 2043, at which time all outstanding amounts are due and payable. The note was repaid in full on March 9, 2017 through the refinancing discussed in Note 16.	1,539,265	19,505	1,568,674	20,221
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 \$2,500,000 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. The note was repaid in full on March 9, 2017 through the refinancing discussed in Note 16.	2,721,334	58,082	2,141,467	61,448

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2016		2015	
	Principal	Unamortized Deferred Financing Costs	Principal	Unamortized Deferred Financing Costs
<b>Phase 2 Notes:</b>				
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 continued on the first day of each month thereafter until maturity of the loan on January 1, 2016. The note was repaid in full on January 1, 2016.	\$ -	\$ -	\$ 2,560,237	\$ 12,365
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. Thames Edge exercised its option to extend the conversion date and payments of interest to April 1, 2017. The note was repaid in full on March 9, 2017 through the refinancing discussed in Note 16.	<u>3,733,787</u>	<u>88,096</u>	<u>2,290,752</u>	<u>79,238</u>
	17,506,945	\$ <u>391,429</u>	18,347,105	\$ <u>408,342</u>
Less current portion	(461,172)		(2,911,559)	
Less unamortized deferred financing costs	<u>(391,429)</u>		<u>(408,342)</u>	
	<u>\$ 16,654,344</u>		<u>\$ 15,027,204</u>	

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, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 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.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The aggregate annual maturities of long-term debt for fiscal years ending subsequent to September 30, 2016 are as follows:

### Year Ending September 30

2017	\$ 461,172
2018	280,000
2019	305,000
2020	310,000
2021	330,000
Thereafter	<u>15,820,773</u>
	<u>\$ 17,506,945</u>

As discussed in Note 16, the Organization's long-term debt obligations were refinanced during 2017. The annual maturities above reflect the expected repayments of long-term debt under the terms of the new debt agreements.

### 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 3.3% and 3.0% at September 30, 2016 and 2015, respectively, and amounted to \$10,024 and \$10,278 for the years ended September 30, 2016 and 2015, respectively. The line of credit was closed in October 2016 and outstanding balance was transferred to a new line of credit which was opened with a different financial institution. The new line of credit has a limit of \$1,700,000 and interest is charged at a variable rate of one-month LIBOR plus 2%.

### NOTE 7 - CAPITAL LEASE COMMITMENTS

The Organization has entered into four capital leases for equipment. The agreements require monthly payments of principal and interest of \$1,438 with an interest rate of approximately 8.5%.

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, 2016:

### Year Ending September 30

2017	\$ 19,602
2018	<u>1,479</u>
Total minimum lease payments	21,081
Less amount representing interest	<u>929</u>
Capital Lease Obligations	<u>\$ 20,152</u>

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 8 - NET ASSETS

Temporarily restricted net assets as of September 30, 2016 and 2015, are available for the following purposes or time periods:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Scholarships	\$ 8,882	\$ 7,871
Special services or equipment	<u>90,165</u>	<u>75,129</u>
Total Temporarily Restricted Net Assets	<u>\$ 99,047</u>	<u>\$ 83,000</u>

Temporarily restricted net assets of \$83,050 and \$18,420 were released from restrictions during the years ended September 30, 2016 and 2015, respectively, by incurring expenses satisfying the purpose restriction of special services or equipment.

Permanently restricted net assets as of September 30, 2016 and 2015, are restricted to investment in perpetuity, the income from which is expendable to support the following:

	<u>2016</u>	<u>2015</u>
Special services or equipment	\$ 100,000	\$ 100,000
Beneficial interest in perpetual trust for any activities of the Organization	<u>60,914</u>	<u>58,504</u>
Total Permanently Restricted Net Assets	<u>\$ 160,914</u>	<u>\$ 158,504</u>

### 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

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Changes in endowment net assets for the years ended September 30, 2015 and 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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
Investment return:				
Investment income, net of fees	-	1,413	-	1,413
Net realized and unrealized gains (losses)	3,767	(1,413)	-	2,354
Total investment return	3,767	-	-	3,767
Change in value of beneficial interest in perpetual trust	-	-	2,410	2,410
Endowment Net Assets - September 30, 2016	\$ (105)	\$ -	\$ 160,914	\$ 160,809

### 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 \$105 and \$3,872 as of September 30, 2016 and 2015, respectively.

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

During the years ended September 30, 2016 and 2015, the Organization reviewed its endowment and decided not to appropriate any 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.

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unfunded liability	\$ (4,769,532)	\$ (4,083,741)
Benefits paid	(299,666)	(286,940)
Employer contributions	306,108	425,194

Amounts recognized in the consolidated statements of financial position at September 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Pension Liability	\$ 4,769,532	\$ 4,083,741

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

	<u>2016</u>	<u>2015</u>
Net Loss	\$ 4,613,516	\$ 3,941,309

The following table details information for the Pension Plan at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Projected benefit obligation	\$ 12,387,027	\$ 11,030,001
Accumulated benefit obligation	12,387,027	11,030,001
Fair value of plan assets	7,617,495	6,946,260

# 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Net periodic benefit cost	\$ 319,602	\$ 222,297
Net loss	890,371	1,082,155
Amortization of net loss	(218,164)	(223,847)
Amortization of prior service credit	-	35,998
Amount recognized due to curtailment	-	(462,210)
Total pension liability changes other than net periodic cost	<u>672,207</u>	<u>432,096</u>
Total Recognized in Changes in Unrestricted Net Assets	<u>\$ 991,809</u>	<u>\$ 654,393</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Discount rate	3.75%	4.45%
Rate of compensation increase	N/A	N/A

The following weighted-average assumptions were used to determine net periodic benefit cost for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Discount rate	4.45%	4.40%
Expected return on plan assets	7.00	7.00
Rate of compensation increase	N/A	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 2017 is estimated to be \$2,781,748. The actual contribution may differ from this amount based on market conditions in 2017 and the Home's ability to obtain financing for partial funding of the Pension Plan.

# 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:

2017	\$ 360,000
2018	370,000
2019	400,000
2020	420,000
2021	440,000
2022-2026	2,530,000

The fair values of the Home's Pension Plan assets at September 30, 2016 and 2015, by asset class are as follows:

Asset Class	Fair Value Measurements at September 30, 2016		
	Total	Level 1	Level 2
Mutual funds:			
Fixed income	\$ 1,827,255	\$ 1,827,255	\$ -
Equities - domestic	1,883,195	1,883,195	-
Equities - international	705,385	705,385	-
Separate accounts:			
Fixed income	1,374,316	-	1,374,316
Equities - domestic	1,827,345	-	1,827,345
Total	<u>\$ 7,617,495</u>	<u>\$ 4,415,834</u>	<u>\$ 3,201,661</u>

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>

### 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 \$96,895 and \$64,759 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	30%	26%
Medicaid, including pending Medicaid patients	37	32
Private pay and other	33	42
	<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, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Healthcare services	\$ 11,684,063	\$ 11,052,669
Independent living services	2,534,812	1,712,303
General and administrative	1,627,584	1,350,686
Fundraising	94,293	116,771
	<u>\$ 15,940,752</u>	<u>\$ 14,232,429</u>

### NOTE 13 - CASH FLOWS

#### Additional Cash Flow Information

The Organization paid cash for interest of \$785,431 and \$559,187 during the years ended September 30, 2016 and 2015, respectively.

#### Noncash Investing and Financing Activities

For the years ended September 30, 2016 and 2015, cash paid for purchases of property and equipment were increased by \$2,435,122 and reduced by \$282,141, respectively, for changes in construction related costs included in accounts payable and other accrued expenses and retainage payable as of September 30, 2016 and 2015. During the year ended September 30, 2015, the Organization purchased equipment for \$15,142 by incurring capital lease obligations for the same amount.

# 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 AND CONTINGENCIES

During the year ended September 30, 2014, it was determined the Organization failed to pay required premiums to the Pension Benefit Guaranty Corporation (PBGC). The Organization paid all premiums due to the PBGC during 2016 out of Pension Plan assets. The Organization may be required to pay additional interest and late payment penalty charges related to the past due premiums, which would need to be funded by the Organization's assets. No provision has been made in the accompanying consolidated financial statements for the anticipated charges since the ultimate liability cannot be reasonably estimated.

During the year ended September 30, 2016, 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 the Organization's property in Groton, Connecticut (excluding the skilled nursing facility), 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 cannot be accurately determined at this time. The Organization paid \$165,271 for property taxes during the year ended September 30, 2016 for current tax bills levied by the Town. Of this amount, \$85,294 is included in legal, accounting and other on the consolidated statement of activities for the year ended September 30, 2016, and the remaining balance is included within prepaid expenses on the consolidated statement of financial position at September 30, 2016. The Organization continues to contest this issue and expects to recoup the portion of the taxes recorded to prepaid expenses at September 30, 2016.

The Organization is occasionally party to asserted and unasserted claims arising from the course of operations. Management is of the opinion that the outcome of any such claims will not have a material impact on the Organization's financial position or results of operations or cash flows.

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 16 - SUBSEQUENT EVENTS

On March 9, 2017, the Organization closed on a new \$18,960,000 direct placement tax-exempt bond issue. The Connecticut Health and Educational Facilities Authority (Odd Fellows Healthcare, Inc. and Subsidiaries) Series 2017 Bonds (the Series A Bonds) were purchased by M&T Bank. The purpose of the financing was to (i) refinance the Organization's existing debt, which had been held by Chelsea Groton Bank, and (ii) reimburse the Organization for certain capital expenditures and increase its unrestricted cash and investment reserves. Closing and funding took place on March 9, 2017.

The Series A Bonds will bear interest at 70% of 30-Day LIBOR plus 1.80% and have a final maturity of March 1, 2047. Payments on the Series A Bonds are based on a 30-year amortization schedule. Principal and interest payments are due on the first day of each calendar month beginning on May 1, 2017. Payment amounts will be variable based on a set principal amount defined in the amortization schedule, with variable interest calculated on each payment date.

The Series A Bonds are subject to an initial Mandatory Tender on March 1, 2027. The Mandatory Tender Date can be amended between M&T Bank and the Organization. The Series A Bonds are secured by a first mortgage on the property of the Organization and pledge of gross receipts and are subject to certain financial and nonfinancial covenants.

On March 9, 2017, the Obligated Group entered into a series of interest rate swap agreements with M&T Bank. The Obligated Group engaged KPM Financial, an independent swap advisor, to assist with the swap analysis and closing process. The final debt structure and rates are outlined below:

	<u>Allocation</u>	<u>Notional Amount</u>	<u>Rate (1)</u>	<u>Spread</u>	<u>All-in-Rate</u>	<u>Swap Maturity</u>
Variable	10%	\$ 1,896,000	0.598%	1.80%	2.398%	March 1, 2027
7 year	20%	3,792,000	1.678%	1.80%	3.478%	March 1, 2024
10 year	30%	5,688,000	1.799%	1.80%	3.599%	March 1, 2027
30 year (2)	40%	7,584,000	2.298%	1.80%	4.098%	March 1, 2047

(1) Rate for variable equals the 1-Month LIBOR Rate as of March 9, 2017, the date of closing.

(2) 30-Year Fixed Rate Swap is not callable for 10 years; however, the swap includes a cancellable option by the Organization beginning March 1, 2027.

The swap obligations are cross-collateralized with the bonds.

# BlumShapiro

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## Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of Odd Fellows Healthcare, Inc. and Subsidiaries as of and for the years ended September 30, 2016 and 2015, and our report thereon dated March 30, 2017, 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, 2016 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 30, 2017

# ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2016

	Odd Fellows Home of Connecticut, Inc.				Odd Fellows Faith, Hope and Charity Fund, Inc.	Eliminations	Total
	Odd Fellows Healthcare, Inc.	d/b/a Fairview	d/b/a Fellowship Manor	Total			
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 20,063	\$ 999,525	\$ 667,574	\$ 1,667,099	\$ 197,039	\$ -	\$ 1,884,201
Accounts receivable, net	-	850,225	(929)	849,296	8,125	-	857,421
Accounts receivable from entrance fees	-	-	167,900	167,900	-	-	167,900
Prepaid expenses	-	34,941	97,406	132,347	-	-	132,347
Supplies inventory	-	28,547	-	28,547	-	-	28,547
Total current assets	<u>20,063</u>	<u>1,913,238</u>	<u>931,951</u>	<u>2,845,189</u>	<u>205,164</u>	<u>-</u>	<u>3,070,416</u>
<b>Other Assets</b>							
Investments	-	-	-	-	2,897,393	-	2,897,393
Due from related parties	191,670	1,168,927	-	1,168,927	-	(1,360,597)	-
Beneficial interest in perpetual trust	-	-	-	-	60,914	-	60,914
Deferred costs, net	-	-	109,525	109,525	-	-	109,525
Total other assets	<u>191,670</u>	<u>1,168,927</u>	<u>109,525</u>	<u>1,278,452</u>	<u>2,958,307</u>	<u>(1,360,597)</u>	<u>3,067,832</u>
<b>Property and Equipment</b>							
Land	-	2,184,000	-	2,184,000	-	-	2,184,000
Land improvements	-	228,323	2,939,265	3,167,588	-	-	3,167,588
Building and building improvements	-	10,658,955	29,475,163	40,134,118	-	-	40,134,118
Transportation equipment	-	13,873	38,945	52,818	-	-	52,818
Nonmovable equipment	-	766,974	-	766,974	-	-	766,974
Movable equipment	-	2,224,820	350,095	2,574,915	-	-	2,574,915
	-	16,076,945	32,803,468	48,880,413	-	-	48,880,413
Less accumulated depreciation	-	(8,428,555)	(6,001,442)	(14,429,997)	-	-	(14,429,997)
Construction in progress	-	122,907	123,566	246,473	-	-	246,473
Net property and equipment	<u>-</u>	<u>7,771,297</u>	<u>26,925,592</u>	<u>34,696,889</u>	<u>-</u>	<u>-</u>	<u>34,696,889</u>
<b>Total Assets</b>	<u>\$ 211,733</u>	<u>\$ 10,853,462</u>	<u>\$ 27,967,068</u>	<u>\$ 38,820,530</u>	<u>\$ 3,163,471</u>	<u>\$ (1,360,597)</u>	<u>\$ 40,835,137</u>

## ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)

SEPTEMBER 30, 2016

	Odd Fellows Home of Connecticut, Inc.				Odd Fellows Faith, Hope and Charity Fund, Inc.	Eliminations	Total
	Odd Fellows Healthcare, Inc.	d/b/a Fairview	d/b/a Fellowship Manor	Total			
<b>Current Liabilities</b>							
Current maturities of long-term debt	\$ -	\$ 95,265	\$ 365,907	\$ 461,172	\$ -	\$ -	\$ 461,172
Current maturities of capital lease obligations	-	19,147	-	19,147	-	-	19,147
Line of credit	-	-	-	-	291,904	-	291,904
Accounts payable and other accrued expenses	499	778,606	70,258	848,864	-	-	849,363
Retainage payable	-	-	44,183	44,183	-	-	44,183
Accrued payroll	-	92,792	-	92,792	-	-	92,792
Accrued vacation and sick pay	-	320,114	-	320,114	-	-	320,114
Accrued payroll taxes and other withholdings	-	45,668	-	45,668	-	-	45,668
Accrued provider tax	-	188,234	-	188,234	-	-	188,234
Total current liabilities	<u>499</u>	<u>1,539,826</u>	<u>480,348</u>	<u>2,020,174</u>	<u>291,904</u>	<u>-</u>	<u>2,312,577</u>
<b>Long-Term Liabilities</b>							
Long-term debt, net	-	3,511,497	13,142,847	16,654,344	-	-	16,654,344
Capital lease obligations, net of current portion	-	1,005	-	1,005	-	-	1,005
Due to related parties	-	-	1,349,617	1,349,617	10,980	(1,360,597)	-
Entrance fees refunds payable, net of current portion	-	-	8,832,753	8,832,753	-	-	8,832,753
Nonrefundable deferred fees, net	-	-	2,805,958	2,805,958	-	-	2,805,958
Accrued pension liability	-	4,769,532	-	4,769,532	-	-	4,769,532
Total long-term liabilities	<u>-</u>	<u>8,282,034</u>	<u>26,131,175</u>	<u>34,413,209</u>	<u>10,980</u>	<u>(1,360,597)</u>	<u>33,063,592</u>
<b>Net Assets</b>							
Unrestricted	211,234	1,020,702	1,355,545	2,376,247	2,611,526	-	5,199,007
Temporarily restricted	-	10,900	-	10,900	88,147	-	99,047
Permanently restricted	-	-	-	-	160,914	-	160,914
Total net assets	<u>211,234</u>	<u>1,031,602</u>	<u>1,355,545</u>	<u>2,387,147</u>	<u>2,860,587</u>	<u>-</u>	<u>5,458,968</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 211,733</u>	<u>\$ 10,853,462</u>	<u>\$ 27,967,068</u>	<u>\$ 38,820,530</u>	<u>\$ 3,163,471</u>	<u>\$ (1,360,597)</u>	<u>\$ 40,835,137</u>

## ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

### CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Odd Fellows Home of Connecticut, Inc.				Odd Fellows Faith, Hope and Charity Fund, Inc.	Eliminations	Total
	Odd Fellows Healthcare, Inc.	d/b/a Fairview	d/b/a Fellowship Manor	Total			
<b>Operating Revenue</b>							
Resident revenues, net of contractual allowances and discounts	\$ -	\$ 10,232,319	\$ -	\$ 10,232,319	\$ -	\$ -	\$ 10,232,319
Provision for bad debts	-	(27,793)	-	(27,793)	-	-	(27,793)
Net resident revenues less provision for bad debts	-	10,204,526	-	10,204,526	-	-	10,204,526
Ancillary revenues	-	3,007,069	-	3,007,069	-	-	3,007,069
Resident service fees	-	-	975,745	975,745	-	-	975,745
Rental income and fees	-	-	436,710	436,710	-	-	436,710
Amortization of deferred revenue from entrance fees	-	-	311,200	311,200	-	-	311,200
Miscellaneous income	-	243,410	14,650	258,060	148	-	258,208
Interest and investment income	4	12,060	1,589	13,649	108,174	-	121,827
Contributions	-	4,445	-	4,445	84,959	-	89,404
Net assets released from restriction	-	-	-	-	83,050	-	83,050
Management fees	40,000	-	-	-	-	(40,000)	-
Total operating revenues	40,004	13,471,510	1,739,894	15,211,404	276,331	(40,000)	15,487,739
<b>Operating Expenses</b>							
Salaries	-	7,298,805	124,434	7,423,239	49,998	-	7,473,237
Employee benefits	-	1,763,308	7,013	1,770,321	4,177	-	1,774,498
Depreciation and amortization	-	476,147	1,223,778	1,699,925	-	-	1,699,925
Provider tax	-	747,408	-	747,408	-	-	747,408
Supplies	-	692,526	17,673	710,199	5,681	-	715,880
Interest	-	169,353	483,235	652,588	10,024	-	662,612
Legal, accounting and other	-	409,780	126,469	536,249	-	-	536,249
Miscellaneous	402	344,205	76,562	420,767	10,109	-	431,278
Utilities	-	179,321	209,526	388,847	-	-	388,847
Food	-	382,614	24,028	406,642	-	-	406,642
Ancillary	-	283,700	-	283,700	-	-	283,700
Repairs and maintenance	-	85,929	112,233	198,162	-	-	198,162
Consultants	-	156,292	-	156,292	-	-	156,292
Insurance	-	107,694	36,609	144,303	-	-	144,303
Purchased services	-	41,930	60,398	102,328	11,276	-	113,604
Data processing	-	57,464	-	57,464	-	-	57,464
Investment fees	-	-	31,446	31,446	24,292	-	55,738
Fees - officers	47,520	1,827	-	1,827	-	-	49,347
Advertising and public relations	-	9,472	1,408	10,880	13,052	-	23,932
Telephone	-	15,342	-	15,342	-	-	15,342
Auto	-	6,292	-	6,292	-	-	6,292
Management fees	-	40,000	-	40,000	-	(40,000)	-
Total operating expenses	47,922	13,269,409	2,534,812	15,804,221	128,609	(40,000)	15,940,752
<b>Operating Income (Loss)</b>	(7,918)	202,101	(794,918)	(592,817)	147,722	-	(453,013)

## ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

### CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Odd Fellows Home of Connecticut, Inc.				Odd Fellows Faith, Hope and Charity Fund, Inc.		
	Odd Fellows Healthcare, Inc.	d/b/a Fairview	d/b/a Fellowship Manor	Total		Eliminations	Total
<b>Nonoperating Income (Expense)</b>							
Net realized and unrealized gains on investments	\$ -	\$ -	\$ -	\$ -	\$ 37,473	\$ -	\$ 37,473
Pension liability changes other than net periodic cost	-	(672,207)	-	(672,207)	-	-	(672,207)
Transfers	-	71,660	(10,004)	61,656	(61,656)	-	-
Net nonoperating expense	-	(600,547)	(10,004)	(610,551)	(24,183)	-	(634,734)
Increase (decrease) in unrestricted net assets	(7,918)	(398,446)	(804,922)	(1,203,368)	123,539	-	(1,087,747)
<b>Changes in Temporarily Restricted Net Assets</b>							
Interest and investment income	-	-	-	-	4,205	-	4,205
Contributions	-	-	-	-	94,318	-	94,318
Net realized and unrealized gains on investments	-	-	-	-	1,581	-	1,581
Investment fees	-	-	-	-	(1,007)	-	(1,007)
Net assets released from restriction	-	-	-	-	(83,050)	-	(83,050)
Increase in temporarily restricted net assets	-	-	-	-	16,047	-	16,047
<b>Permanently Restricted Net Assets</b>							
Change in value of beneficial interest in perpetual trust	-	-	-	-	2,410	-	2,410
<b>Change in Net Assets</b>	(7,918)	(398,446)	(804,922)	(1,203,368)	141,996	-	(1,069,290)
<b>Net Assets - Beginning of Year</b>	219,152	1,430,048	2,160,467	3,590,515	2,718,591	-	6,528,258
<b>Net Assets - End of Year</b>	\$ 211,234	\$ 1,031,602	\$ 1,355,545	\$ 2,387,147	\$ 2,860,587	\$ -	\$ 5,458,968