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ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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
May 14, 2018

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,193,161 | \$ 1,884,201 |
| Accounts receivable, net | 939,193 | 857,421 |
| Accounts receivable from entrance fees | - | 167,900 |
| Prepaid expenses | 189,979 | 132,347 |
| Supplies inventory | 26,037 | 28,547 |
| Total current assets | <u>3,348,370</u> | <u>3,070,416</u> |
| Other Assets | | |
| Investments | 3,193,322 | 2,897,393 |
| Beneficial interest in perpetual trust | 67,123 | 60,914 |
| Deferred costs, net | 99,011 | 109,525 |
| Total other assets | <u>3,359,456</u> | <u>3,067,832</u> |
| Property and Equipment | | |
| Land | 2,184,000 | 2,184,000 |
| Land improvements | 3,240,152 | 3,167,588 |
| Building and building improvements | 40,387,666 | 40,134,118 |
| Transportation equipment | 52,818 | 52,818 |
| Nonmovable equipment | 785,969 | 766,974 |
| Movable equipment | 2,762,948 | 2,574,915 |
| | <u>49,413,553</u> | <u>48,880,413</u> |
| Less accumulated depreciation | (16,375,754) | (14,429,997) |
| Construction in progress | 242,880 | 246,473 |
| Net property and equipment | <u>33,280,679</u> | <u>34,696,889</u> |
| Total Assets | <u>\$ 39,988,505</u> | <u>\$ 40,835,137</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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 280,000 | \$ 461,172 |
| Current maturities of capital lease obligations | 23,949 | 19,147 |
| Line of credit | 448,452 | 291,904 |
| Accounts payable and other accrued expenses | 824,606 | 849,363 |
| Retainage payable | 14,850 | 44,183 |
| Accrued payroll | 125,607 | 92,792 |
| Accrued vacation and sick pay | 337,201 | 320,114 |
| Accrued payroll taxes and other withholdings | 52,796 | 45,668 |
| Accrued provider tax | 194,773 | 188,234 |
| Total current liabilities | <u>2,302,234</u> | <u>2,312,577</u> |
| Long-Term Liabilities | | |
| Long-term debt, net | 18,174,738 | 16,654,344 |
| Capital lease obligations, net of current portion | 30,884 | 1,005 |
| Entrance fees refunds payable | 8,711,397 | 8,832,753 |
| Nonrefundable deferred fees, net | 2,416,543 | 2,805,958 |
| Accrued pension liability | 3,740,057 | 4,769,532 |
| Interest rate swap obligations | 597,635 | - |
| Total long-term liabilities | <u>33,671,254</u> | <u>33,063,592</u> |
| Net Assets | | |
| Unrestricted | 3,665,231 | 5,199,007 |
| Temporarily restricted | 182,663 | 99,047 |
| Permanently restricted | 167,123 | 160,914 |
| Total net assets | <u>4,015,017</u> | <u>5,458,968</u> |
| Total Liabilities and Net Assets | <u>\$ 39,988,505</u> | <u>\$ 40,835,137</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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|-------------------|
| Operating Revenue | | |
| Resident revenues, net of contractual allowances and discounts | \$ 9,968,160 | \$ 10,232,319 |
| Provision for bad debts | <u>(114,816)</u> | <u>(27,793)</u> |
| Net resident revenues less provision for bad debts | 9,853,344 | 10,204,526 |
| Ancillary revenues | 3,064,816 | 3,007,069 |
| Resident service fees | 943,126 | 975,745 |
| Rental income and fees | 406,133 | 437,800 |
| Miscellaneous income | 352,965 | 258,208 |
| Amortization of deferred revenue from entrance fees | 313,461 | 311,200 |
| Contributions | 108,019 | 88,314 |
| Interest and investment income | 83,332 | 121,827 |
| Net assets released from restriction | 1,172 | 83,050 |
| Total operating revenues | <u>15,126,368</u> | <u>15,487,739</u> |
| Operating Expenses | | |
| Salaries | 8,114,756 | 7,473,237 |
| Employee benefits | 1,800,367 | 1,774,498 |
| Depreciation and amortization | 1,945,757 | 1,699,925 |
| Provider tax | 767,964 | 747,408 |
| Interest | 738,180 | 662,612 |
| Supplies | 474,141 | 434,127 |
| Food | 442,792 | 406,642 |
| Utilities | 401,423 | 386,485 |
| Miscellaneous | 354,961 | 411,642 |
| Consultants | 352,736 | 448,611 |
| Ancillary | 352,620 | 565,453 |
| Legal, accounting and other | 336,544 | 243,930 |
| Repairs and maintenance | 144,473 | 223,298 |
| Insurance | 117,775 | 144,303 |
| Data processing | 92,881 | 57,464 |
| Purchased services | 66,846 | 113,604 |
| Fees - officers | 53,035 | 43,847 |
| Advertising and public relations | 26,501 | 23,932 |
| Telephone | 21,421 | 17,704 |
| Investment fees | 16,172 | 55,738 |
| Auto | 8,145 | 6,292 |
| Total operating expenses | <u>16,629,490</u> | <u>15,940,752</u> |
| Operating Loss | <u>(1,503,122)</u> | <u>(453,013)</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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Nonoperating Income (Expense) | | |
| Net realized and unrealized gains on investments | \$ 219,886 | \$ 37,473 |
| Loss on refinancing of debt | (613,754) | - |
| Change in interest rate swap obligations | (597,635) | - |
| Pension liability changes other than net periodic cost | 960,849 | (672,207) |
| Net nonoperating expense | <u>(30,654)</u> | <u>(634,734)</u> |
| Decrease in unrestricted net assets | <u>(1,533,776)</u> | <u>(1,087,747)</u> |
| Temporarily Restricted Net Assets | | |
| Interest and investment income | 2,938 | 4,205 |
| Contributions | 74,267 | 94,318 |
| Net realized and unrealized gains on investments | 8,475 | 1,581 |
| Investment fees | (892) | (1,007) |
| Net assets released from restriction | (1,172) | (83,050) |
| Increase in temporarily restricted net assets | <u>83,616</u> | <u>16,047</u> |
| Permanently Restricted Net Assets | | |
| Change in value of beneficial interest in perpetual trust | <u>6,209</u> | <u>2,410</u> |
| Change In Net Assets | (1,443,951) | (1,069,290) |
| Net Assets - Beginning of Year | <u>5,458,968</u> | <u>6,528,258</u> |
| Net Assets - End of Year | <u>\$ 4,015,017</u> | <u>\$ 5,458,968</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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (1,443,951) | \$ (1,069,290) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Proceeds from (refunds of) entrance fees, net | (29,410) | 5,885,829 |
| Depreciation and amortization | 1,945,757 | 1,699,925 |
| Provision for bad debts | 114,816 | 27,793 |
| Net realized and unrealized investment gains | (228,361) | (39,054) |
| Change in value of beneficial interest in perpetual trust | (6,209) | (2,410) |
| Amortization of deferred revenue from entrance fees | (313,461) | (311,200) |
| Amortization of deferred financing costs | 14,132 | 30,213 |
| Loss on refinancing of debt | 613,754 | - |
| Change in interest rate swap obligations | 597,635 | - |
| Pension liability changes other than net periodic cost | (960,849) | 672,207 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (196,588) | 53,933 |
| Prepaid expenses | (57,632) | (66,706) |
| Supplies inventory | 2,510 | (17,524) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and other accrued expenses | (24,757) | 211,834 |
| Accrued payroll | 32,815 | 20,700 |
| Accrued vacation and sick pay | 17,087 | 36,131 |
| Accrued payroll taxes and other withholdings | 7,128 | (14,938) |
| Accrued provider tax | 6,539 | (5,528) |
| Accrued pension liability | (68,626) | 13,584 |
| Net cash provided by operating activities | <u>22,329</u> | <u>7,125,499</u> |
| Cash Flows from Investing Activities | | |
| Purchases of property and equipment | (478,506) | (7,508,124) |
| Purchases of investments | (120,799) | (113,419) |
| Sales of investments | 53,231 | 35,323 |
| Payment of deferred costs | - | (38,250) |
| Net cash used in investing activities | <u>(546,074)</u> | <u>(7,624,470)</u> |
| Cash Flows from Financing Activities | | |
| Payment of deferred financing costs | (407,430) | (13,300) |
| Prepayment penalties for refinancing of debt | (229,289) | - |
| Repayment of long-term debt | (17,611,945) | (2,863,062) |
| Proceeds from long-term debt | 18,960,000 | 2,022,902 |
| Repayment of capital lease obligations | (35,179) | (20,662) |
| Proceeds from (repayment of) line of credit, net | 156,548 | (30,703) |
| Net cash provided by (used in) financing activities | <u>832,705</u> | <u>(904,825)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 308,960 | (1,403,796) |
| Cash and Cash Equivalents - Beginning of Year | <u>1,884,201</u> | <u>3,287,997</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 2,193,161</u> | <u>\$ 1,884,201</u> |

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

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, rehabilitation services and senior housing.

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). The CCRC, called Thames Edge, consists of a community building and 40 residential units. Thames Edge completed construction of the units during 2016. Fairview is a 120-bed skilled 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 \$24,809 and \$31,945 at September 30, 2017 and 2016, 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

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 \$84,575 and \$75,171 at September 30, 2017 and 2016, 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.

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 \$1,000 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 |

Depreciation and amortization expense was \$1,945,757 and \$1,699,925 for the years ended September 30, 2017 and 2016, respectively.

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

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

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, 2017.

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.

Reclassifications

Certain amounts in the 2016 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 May 14, 2018, which represents the date the consolidated financial statements were available to be issued.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest Rate Swaps

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Interest rate swap agreements have inputs that can generally be corroborated by marked data and are therefore classified as Level 2.

There have been no changes in the methodologies used at September 30, 2017 and 2016.

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, 2017 and 2016:

| | 2017 | | | |
|--|---------------------|---------------------|---------------------|------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Mutual funds: | | | | |
| Money market | \$ 121,179 | \$ 121,179 | \$ - | \$ - |
| Diversified | 21,011 | 21,011 | - | - |
| Equities | 1,137,114 | 1,137,114 | - | - |
| Fixed income | 1,085,126 | 1,085,126 | - | - |
| Exchange traded products: | | | | |
| Equity | 586,261 | 586,261 | - | - |
| Fixed income | 104,759 | 104,759 | - | - |
| Commodities | 137,872 | 137,872 | - | - |
| Total investments | <u>3,193,322</u> | <u>3,193,322</u> | - | - |
| Beneficial interest in perpetual trust | <u>67,123</u> | - | - | <u>67,123</u> |
| Total Assets Measured at Fair Value | <u>\$ 3,260,445</u> | <u>\$ 3,193,322</u> | <u>\$ -</u> | <u>\$ 67,123</u> |
| Interest rate swap obligation | <u>\$ (597,635)</u> | <u>\$ -</u> | <u>\$ 597,635</u> | <u>\$ -</u> |
| Total Liabilities Measured at Fair Value | <u>\$ (597,635)</u> | <u>\$ -</u> | <u>\$ (597,635)</u> | <u>\$ -</u> |

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | 2016 | | | |
|--|--------------|--------------|---------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| 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 | - | - |
| Exchange traded products: | | | | |
| Commodities | 142,476 | 142,476 | - | - |
| Total investments | 142,476 | 142,476 | - | - |
| Beneficial interest in perpetual trust | 60,914 | - | - | 60,914 |
| Total Assets Measured at Fair Value | \$ 2,958,307 | \$ 2,897,393 | \$ - | \$ 60,914 |

There were no transfers between levels of investments during the years ended September 30, 2017 and 2016.

Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs:

| | Beneficial Interest in Perpetual Trusts |
|---|--|
| Balance - September 30, 2015 | \$ 58,504 |
| Change in value of beneficial interest in perpetual trust | 2,410 |
| Balance - September 30, 2016 | 60,914 |
| Change in value of beneficial interest in perpetual trust | 6,209 |
| Balance - September 30, 2017 | \$ 67,123 |

Gains and losses (realized and unrealized) included in changes in net assets for the years ended September 30, 2017 and 2016, are reported in net realized and unrealized gains (losses) on investments in the consolidated statements of activities.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - 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.

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.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, accounts receivable and deferred revenue from entrance fees include \$167,900 related to unpaid amounts due from residents with signed continuing care agreements. For the years ended September 30, 2017 and 2016, entrance fees of \$313,461 and \$311,200, respectively, were amortized into income and included on the consolidated statements of activities as amortization of deferred revenue from entrance fees.

NOTE 4 - LONG-TERM DEBT

On March 9, 2017, the Organization issued Connecticut Health and Educational Facilities Authority Series 2017 Bonds (the Series A Bonds) with an original principal balance of \$18,960,000. The Series A Bonds were direct placement tax-exempt bonds and 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 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.

At September 30, 2017 and 2016, the Organization had the following outstanding indebtedness:

| | <u>2017</u> | | <u>2016</u> | |
|--|------------------|---|------------------|---|
| | <u>Principal</u> | <u>Unamortized Deferred Financing Costs</u> | <u>Principal</u> | <u>Unamortized Deferred Financing Costs</u> |

Series A Bonds

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. The interest rate as of September 30, 2017 was 2.666%. 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. As discussed in Note 5, a portion of the Series A Bonds interest rates have been fixed through interest rate swaps.

| | | | | |
|--|---------------|------------|------|------|
| | \$ 18,855,000 | \$ 400,262 | \$ - | \$ - |
|--|---------------|------------|------|------|

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | 2017 | | 2016 | |
|--|----------------------|--|----------------------|--|
| | Principal | Unamortized Deferred Financing Costs | Principal | Unamortized Deferred Financing Costs |
| Phase 1 Notes | | | | |
| Adjustable rate promissory note payable to Chelsea Groton Savings Bank (the Bank), in the original amount of \$5,152,000. The note was repaid in full on March 9, 2017 through the refinancing. | - | - | 4,672,184 | 48,830 |
| Mortgage note payable to the Bank, in the maximum amount of \$5,000,000. The note was repaid in full on March 9, 2017 through the refinancing. | | | 4,840,375 | 176,916 |
| Construction to permanent commercial mortgage note payable to the Bank, in the amount of \$1,590,000. The note was repaid in full on March 9, 2017 through the refinancing. | - | - | 1,539,265 | 19,505 |
| Revolving construction to permanent promissory note payable to the Bank, periodically advanced to the Organization during the construction period through November 2016, 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 note was repaid in full on March 9, 2017 through the refinancing. | - | - | 2,721,334 | 58,082 |
| Phase 2 Notes | | | | |
| 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. The note was repaid in full on March 9, 2017 through the refinancing. | - | - | 3,733,787 | 88,096 |
| | 18,855,000 | \$ 400,262 | 17,506,945 | \$ 391,429 |
| Less current portion | (280,000) | | (461,172) | |
| Less unamortized deferred financing costs | (400,262) | | (391,429) | |
| | <u>\$ 18,174,738</u> | | <u>\$ 16,654,344</u> | |

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The interest rate on Phase 1 long-term debt was 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.

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 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.

The Phase 2 adjustable rate commercial construction/permanent mortgage note payable began accruing interest on December 29, 2014 at 4.50%. The interest rate was 4.50% at September 30, 2016.

The aggregate annual maturities of long-term debt for fiscal years ending subsequent to September 30, 2017 are as follows:

Year Ending September 30

| | | |
|------------|----|-------------------|
| 2018 | \$ | 280,000 |
| 2019 | | 305,000 |
| 2020 | | 310,000 |
| 2021 | | 330,000 |
| 2022 | | 350,000 |
| Thereafter | | <u>17,280,000</u> |
| | \$ | <u>18,855,000</u> |

NOTE 5 - INTEREST RATE SWAP

In connection with the issuance of the Series A Bonds, the Organization entered into three swap agreements with M&T Bank with aggregate original notional amounts of \$17,064,000 to fix 90% of the variable rate discussed in Note 4. The remaining original principal amount of \$1,896,000 bears interest at the variable rate. The agreements meet the criteria necessary to qualify as an effective hedge, and the Organization has reflected the swap agreements as a liability in the accompanying consolidated statement of financial position at \$597,635, representing the current market value based on the bank's floating interest rates in effect at September 30, 2017, as compared to the fixed rate. The resulting change in the fair value of the swap agreements of \$(597,635) for the year ended September 30, 2017 is reflected in the accompanying consolidated statement of activities as change in interest swap obligations. The swap obligations are cross-collateralized with the Series A Bonds.

The following is a summary of the interest rate swaps as of September 30, 2017:

| | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Spread</u> | <u>Hedged Rate</u> | <u>Swap Maturity</u> |
|---------------------|-----------------------------|--------------------------|---------------|------------------------|----------------------|
| Fixed - 7 year | \$ 3,771,000 | 1.678% | 1.80% | 3.478% | March 1, 2024 |
| Fixed - 10 year | 5,656,500 | 1.799% | 1.80% | 3.599% | March 1, 2027 |
| Fixed - 30 year (1) | 7,542,000 | 2.298% | 1.80% | 4.098% | March 1, 2047 |

(1) 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.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LINES OF CREDIT

Faith has an available line of credit with TriState Capital of \$1,700,000, with no set expiration date. Interest is charged at one-month LIBOR plus 2%, which was 3.2% at September 30, 2017. Faith's line of credit with UBS Bank was closed in October 2016 and the outstanding balance was transferred to Tristate Capital. Interest expense on the lines of credit totaled \$11,069 and \$10,024 for the years ended September 30, 2017 and 2016, respectively.

NOTE 7 - CAPITAL LEASE COMMITMENTS

The Organization has entered into various capital leases for equipment. The agreements require monthly payments of principal and interest at an interest rate of approximately 3%.

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, 2017:

Year Ending September 30

| | | |
|-----------------------------------|----|----------------------|
| 2018 | \$ | 24,858 |
| 2019 | | 23,338 |
| 2020 | | <u>8,333</u> |
| Total minimum lease payments | | 56,529 |
| Less amount representing interest | | (1,696) |
| Less current portion | | <u>(23,949)</u> |
| Capital Lease Obligations | \$ | <u><u>30,884</u></u> |

NOTE 8 - NET ASSETS

Temporarily restricted net assets as of September 30, 2017 and 2016, are available for the following purposes or time periods:

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|-------------------------|
| Purpose restrictions: | | |
| Scholarships | \$ 8,717 | \$ 8,882 |
| Special services or equipment | <u>173,946</u> | <u>90,165</u> |
| Total Temporarily Restricted Net Assets | \$ <u><u>182,663</u></u> | \$ <u><u>99,047</u></u> |

Temporarily restricted net assets of \$1,172 and \$83,050 were released from restrictions during the years ended September 30, 2017 and 2016, respectively, by incurring expenses satisfying the purpose restriction of special services or equipment.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Permanently restricted net assets as of September 30, 2017 and 2016, are restricted to investment in perpetuity, the income from which is expendable to support the following:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Special services or equipment | \$ 100,000 | \$ 100,000 |
| Beneficial interest in perpetual trust for any activities of the Organization | <u>67,123</u> | <u>60,914</u> |
| Total Permanently Restricted Net Assets | <u>\$ 167,123</u> | <u>\$ 160,914</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
- 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, 2016 and 2017, are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| 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 | <u>3,767</u> | <u>-</u> | <u>-</u> | <u>3,767</u> |
| Change in value of beneficial interest in perpetual trust | <u>-</u> | <u>-</u> | <u>2,410</u> | <u>2,410</u> |
| Endowment net assets - September 30, 2016 | <u>(105)</u> | <u>-</u> | <u>160,914</u> | <u>160,809</u> |
| Investment return: | | | | |
| Investment income, net of fees | - | 1,722 | - | 1,722 |
| Net realized and unrealized gains | 105 | 8,859 | - | 8,964 |
| Total investment return | <u>105</u> | <u>10,581</u> | <u>-</u> | <u>10,686</u> |
| Change in value of beneficial interest in perpetual trust | <u>-</u> | <u>-</u> | <u>6,209</u> | <u>6,209</u> |
| Endowment Net Assets - September 30, 2017 | <u>\$ -</u> | <u>\$ 10,581</u> | <u>\$ 167,123</u> | <u>\$ 177,704</u> |

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 as of September 30, 2016.

Spending Policy and How the Investment Objectives Relate to Spending Policy

During the years ended September 30, 2017 and 2016, 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

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, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|------------------------|----------------|----------------|
| Unfunded liability | \$ (3,740,057) | \$ (4,769,532) |
| Benefits paid | (317,556) | (299,666) |
| Employer contributions | 291,026 | 306,108 |

Amounts recognized in the consolidated statements of financial position at September 30, 2017 and 2016, consist of the following:

| | <u>2017</u> | <u>2016</u> |
|-------------------|--------------|--------------|
| Pension Liability | \$ 3,740,057 | \$ 4,769,532 |

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

| | <u>2017</u> | <u>2016</u> |
|----------|--------------|--------------|
| Net Loss | \$ 3,652,667 | \$ 4,613,516 |

The following table details information for the Pension Plan at September 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------|---------------|
| Projected benefit obligation | \$ 12,045,630 | \$ 12,387,027 |
| Accumulated benefit obligation | 12,045,630 | 12,387,027 |
| Fair value of plan assets | 8,305,573 | 7,617,495 |

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, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|-------------------|
| Net periodic benefit cost | \$ 222,400 | \$ 319,602 |
| Net (gain) loss | (701,048) | 890,371 |
| Amortization of net loss | <u>(259,801)</u> | <u>(218,164)</u> |
| Total pension liability changes other than net periodic cost | <u>(960,849)</u> | <u>672,207</u> |
| Total Recognized in Changes in Unrestricted Net Assets | <u>\$ (738,449)</u> | <u>\$ 991,809</u> |

The estimated net loss that will be amortized from changes in unrestricted net assets into net periodic benefit cost in 2017 is \$259,801.

The following weighted-average assumptions were used to determine benefit obligations for the years ended September 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 3.90% | 3.75% |
| 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, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 3.75% | 4.45% |
| Expected return on plan assets | 7.00 | 7.00 |
| Rate of compensation increase | N/A | N/A |

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 2018 is estimated to be \$297,134. The actual contribution may differ from this amount based on market conditions in 2018 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:

| | |
|-----------|------------|
| 2018 | \$ 370,000 |
| 2019 | 400,000 |
| 2020 | 410,000 |
| 2021 | 430,000 |
| 2022 | 450,000 |
| 2023-2027 | 2,630,000 |

The fair values of the Home's Pension Plan assets at September 30, 2017 and 2016, by asset class are as follows:

| Asset Class | Fair Value Measurements at September 30, 2017 | | |
|--------------------------|---|---------------------|---------------------|
| | Total | Level 1 | Level 2 |
| Mutual funds: | | | |
| Fixed income | \$ 1,696,308 | \$ 1,696,308 | \$ - |
| Equities - domestic | 2,275,583 | 2,275,583 | - |
| Equities - international | 982,968 | 982,968 | - |
| Separate accounts: | | | |
| Fixed income | 1,087,148 | - | 1,087,148 |
| Equities - domestic | 2,263,566 | - | 2,263,566 |
| Total | <u>\$ 8,305,573</u> | <u>\$ 4,954,859</u> | <u>\$ 3,350,714</u> |

| 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 | 705,384 | 705,384 | - |
| 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> |

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 \$98,026 and \$96,895 for the years ended September 30, 2017 and 2016, respectively.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2017 and 2016, is as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Medicare | 32% | 30% |
| Medicaid, including pending Medicaid patients | 44 | 37 |
| Private pay and other | 24 | 33 |
| | <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, 2017 and 2016, are as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|----------------------|----------------------|
| Healthcare services | \$ 11,619,852 | \$ 11,684,063 |
| Independent living services | 3,025,687 | 2,534,812 |
| General and administrative | 1,866,592 | 1,627,584 |
| Fundraising | 117,359 | 94,293 |
| | <u>\$ 16,629,490</u> | <u>\$ 15,940,752</u> |

NOTE 13 - CASH FLOWS

Additional Cash Flow Information

The Organization paid cash for interest of \$737,351 and \$785,431 during the years ended September 30, 2017 and 2016, respectively.

Noncash Investing and Financing Activities

For the years ended September 30, 2017 and 2016, cash paid for purchases of property and equipment were increased by \$29,333 and \$2,435,122, respectively, for changes in construction related costs included in accounts payable and other accrued expenses and retainage payable as of September 30, 2017 and 2016. During the year ended September 30, 2017, the Organization purchased equipment for \$69,860 by incurring capital lease obligations for the same amount.

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 a portion of premiums due to the PBGC during 2016 out of Pension Plan assets. The Organization reached settlement with the PBGC on November 13, 2017 and agreed to pay \$158,495 with respect to premiums owed for the plan years 1980 - 2007. This payment was made from Pension Plan assets following settlement. In addition, the Organization agreed to pay \$28,814 of late payment penalties for plan years 2008 - 2015 and \$19,772 of interest for plan years 2008 - 2015. These amounts are to be paid by the Organization, outside of Pension Plan assets, in four equal installments beginning in November 2017 and concluding in February 2018. In connection with the settlement, no other penalties or interest will be due provided the Organization continues to make payments timely.

During the year ended September 30, 2016, the Town of Groton, Connecticut (the Town) indicated to the Organization in written correspondence that it intended to assert a position with respect to the Organization's municipal property tax exemption status which, if asserted successfully, would have resulted in the Organization's property in Groton, Connecticut (excluding the skilled nursing facility), becoming subject to municipal property taxation. The Organization settled with the Town on November 20, 2017 and agreed to a Payments-In-Lieu-Of-Taxes agreement. This agreement stipulates that the Organization will pay an amount of \$60,000 annually plus an amount attributed to assets exceeding the exemption threshold. As of the date of settlement, \$258,385 had been paid to the Town. As of September 30, 2017, approximately \$96,000 is included in prepaid expenses.

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.

BlumShapiro

Accounting | Tax | Business Consulting

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, 2017 and 2016, and our report thereon dated May 14, 2018, 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, 2017 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
May 14, 2018

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION SEPTEMBER 30, 2017

| | <u>Odd Fellows Healthcare, Inc.</u> | <u>Odd Fellows Home of Connecticut, Inc.</u> | <u>Odd Fellows Faith, Hope and Charity Fund, Inc.</u> | <u>Eliminations</u> | <u>Total</u> |
|--|---|--|---|-----------------------|----------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 14,527 | \$ 1,937,457 | \$ 241,177 | \$ - | \$ 2,193,161 |
| Accounts receivable, net | - | 939,193 | - | - | 939,193 |
| Prepaid expenses | - | 189,979 | - | - | 189,979 |
| Supplies inventory | - | 26,037 | - | - | 26,037 |
| Total current assets | <u>14,527</u> | <u>3,092,666</u> | <u>241,177</u> | <u>-</u> | <u>3,348,370</u> |
| Other Assets | | | | | |
| Investments | - | - | 3,193,322 | - | 3,193,322 |
| Due from related parties | 191,291 | 3,281,328 | 226,000 | (3,698,619) | - |
| Beneficial interest in perpetual trust | - | - | 67,123 | - | 67,123 |
| Deferred costs, net | - | 99,011 | - | - | 99,011 |
| Total other assets | <u>191,291</u> | <u>3,380,339</u> | <u>3,486,445</u> | <u>(3,698,619)</u> | <u>3,359,456</u> |
| Property and Equipment | | | | | |
| Land | - | 2,184,000 | - | - | 2,184,000 |
| Land improvements | - | 3,240,152 | - | - | 3,240,152 |
| Building and building improvements | - | 40,387,666 | - | - | 40,387,666 |
| Transportation equipment | - | 52,818 | - | - | 52,818 |
| Nonmovable equipment | - | 785,969 | - | - | 785,969 |
| Movable equipment | - | 2,762,948 | - | - | 2,762,948 |
| | - | 49,413,553 | - | - | 49,413,553 |
| Less accumulated depreciation | - | (16,375,754) | - | - | (16,375,754) |
| Construction in progress | - | 242,880 | - | - | 242,880 |
| Net property and equipment | <u>-</u> | <u>33,280,679</u> | <u>-</u> | <u>-</u> | <u>33,280,679</u> |
| Total Assets | <u>\$ 205,818</u> | <u>\$ 39,753,684</u> | <u>\$ 3,727,622</u> | <u>\$ (3,698,619)</u> | <u>\$ 39,988,505</u> |

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)

SEPTEMBER 30, 2017

| | <u>Odd Fellows Healthcare, Inc.</u> | <u>Odd Fellows Home of Connecticut, Inc.</u> | <u>Odd Fellows Faith, Hope and Charity Fund, Inc.</u> | <u>Eliminations</u> | <u>Total</u> |
|---|---|--|---|-----------------------|----------------------|
| Current Liabilities | | | | | |
| Current maturities of long-term debt | \$ - | \$ 280,000 | \$ - | \$ - | \$ 280,000 |
| Current maturities of capital lease obligations | - | 23,949 | - | - | 23,949 |
| Line of credit | - | - | 448,452 | - | 448,452 |
| Accounts payable and other accrued expenses | - | 823,032 | 1,574 | - | 824,606 |
| Retainage payable | - | 14,850 | - | - | 14,850 |
| Accrued payroll | - | 124,681 | 926 | - | 125,607 |
| Accrued vacation and sick pay | - | 336,641 | 560 | - | 337,201 |
| Accrued payroll taxes and other withholdings | - | 52,327 | 469 | - | 52,796 |
| Accrued provider tax | - | 194,773 | - | - | 194,773 |
| Total current liabilities | <u>-</u> | <u>1,850,253</u> | <u>451,981</u> | <u>-</u> | <u>2,302,234</u> |
| Long-Term Liabilities | | | | | |
| Long-term debt, net | - | 18,174,738 | - | - | 18,174,738 |
| Capital lease obligations, net of current portion | - | 30,884 | - | - | 30,884 |
| Due to related parties | - | 3,636,009 | 62,610 | (3,698,619) | - |
| Entrance fees refunds payable, net of current portion | - | 8,711,397 | - | - | 8,711,397 |
| Nonrefundable deferred fees, net | - | 2,416,543 | - | - | 2,416,543 |
| Accrued pension liability | - | 3,740,057 | - | - | 3,740,057 |
| Interest rate swap obligations | - | 597,635 | - | - | 597,635 |
| Total long-term liabilities | <u>-</u> | <u>37,307,263</u> | <u>62,610</u> | <u>(3,698,619)</u> | <u>33,671,254</u> |
| Net Assets | | | | | |
| Unrestricted | 205,818 | 585,268 | 2,874,145 | - | 3,665,231 |
| Temporarily restricted | - | 10,900 | 171,763 | - | 182,663 |
| Permanently restricted | - | - | 167,123 | - | 167,123 |
| Total net assets | <u>205,818</u> | <u>596,168</u> | <u>3,213,031</u> | <u>-</u> | <u>4,015,017</u> |
| Total Liabilities and Net Assets | <u>\$ 205,818</u> | <u>\$ 39,753,684</u> | <u>\$ 3,727,622</u> | <u>\$ (3,698,619)</u> | <u>\$ 39,988,505</u> |

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Odd Fellows Healthcare, Inc. | Odd Fellows Home of Connecticut, Inc. | Odd Fellows Faith, Hope and Charity Fund, Inc. | Eliminations | Total |
|--|---------------------------------|---|--|--------------|--------------|
| Operating Revenue | | | | | |
| Resident revenues, net of contractual allowances and discounts | \$ - | \$ 9,968,160 | \$ - | \$ - | \$ 9,968,160 |
| Provision for bad debts | - | (114,816) | - | - | (114,816) |
| Net resident revenues less provision for bad debts | - | 9,853,344 | - | - | 9,853,344 |
| Ancillary revenues | - | 3,064,816 | - | - | 3,064,816 |
| Resident service fees | - | 943,126 | - | - | 943,126 |
| Rental income and fees | - | 406,133 | - | - | 406,133 |
| Miscellaneous income (expense) | 120 | 364,488 | (11,643) | - | 352,965 |
| Amortization of deferred revenue from entrance fees | - | 313,461 | - | - | 313,461 |
| Contributions | 1,000 | 2,629 | 104,390 | - | 108,019 |
| Interest and investment income | 4 | 1,547 | 81,781 | - | 83,332 |
| Net assets released from restriction | - | - | 1,172 | - | 1,172 |
| Management fees | 45,000 | - | - | (45,000) | - |
| Total operating revenues | 46,124 | 14,949,544 | 175,700 | (45,000) | 15,126,368 |
| Operating Expenses | | | | | |
| Salaries | - | 8,048,025 | 66,731 | - | 8,114,756 |
| Employee benefits | - | 1,789,686 | 10,681 | - | 1,800,367 |
| Depreciation and amortization | - | 1,945,757 | - | - | 1,945,757 |
| Interest | - | 767,619 | 345 | - | 767,964 |
| Provider tax | - | 738,180 | - | - | 738,180 |
| Supplies | - | 473,863 | 278 | - | 474,141 |
| Food | - | 442,792 | - | - | 442,792 |
| Utilities | - | 401,423 | - | - | 401,423 |
| Miscellaneous | - | 350,231 | 4,730 | - | 354,961 |
| Consultants | - | 352,736 | - | - | 352,736 |
| Ancillary | - | 352,620 | - | - | 352,620 |
| Legal, accounting and other | - | 336,544 | - | - | 336,544 |
| Repairs and maintenance | - | 144,473 | - | - | 144,473 |
| Insurance | - | 117,775 | - | - | 117,775 |
| Data processing | - | 92,881 | - | - | 92,881 |
| Purchased services | - | 47,396 | 19,450 | - | 66,846 |
| Fees - officers | 51,540 | 1,495 | - | - | 53,035 |
| Advertising and public relations | - | 11,012 | 15,489 | - | 26,501 |
| Telephone | - | 21,421 | - | - | 21,421 |
| Investment fees | - | 889 | 15,283 | - | 16,172 |
| Auto | - | 8,145 | - | - | 8,145 |
| Management fees | - | 45,000 | - | (45,000) | - |
| Total operating expenses | 51,540 | 16,489,963 | 132,987 | (45,000) | 16,629,490 |
| Operating Income (Loss) | (5,416) | (1,540,419) | 42,713 | - | (1,503,122) |

ODD FELLOWS HEALTHCARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Odd Fellows Healthcare, Inc. | Odd Fellows Home of Connecticut, Inc. | Odd Fellows Faith, Hope and Charity Fund, Inc. | Eliminations | Total |
|---|---------------------------------|---|--|--------------|---------------------|
| Nonoperating Income (Expense) | | | | | |
| Net realized and unrealized gains (loss) on investments | \$ - | \$ (20) | \$ 219,906 | \$ - | \$ 219,886 |
| Loss on refinancing of debt | - | (613,754) | - | - | (613,754) |
| Change in interest rate swap obligations | - | (597,635) | - | - | (597,635) |
| Pension liability changes other than net periodic cost | - | 960,849 | - | - | 960,849 |
| Net nonoperating income (expense) | <u>-</u> | <u>(250,560)</u> | <u>219,906</u> | <u>-</u> | <u>(30,654)</u> |
| Increase (decrease) in unrestricted net assets | <u>(5,416)</u> | <u>(1,790,979)</u> | <u>262,619</u> | <u>-</u> | <u>(1,533,776)</u> |
| Changes in Temporarily Restricted Net Assets | | | | | |
| Interest and investment income | - | - | 2,938 | - | 2,938 |
| Contributions | - | - | 74,267 | - | 74,267 |
| Net realized and unrealized gains on investments | - | - | 8,475 | - | 8,475 |
| Investment fees | - | - | (892) | - | (892) |
| Net assets released from restriction | - | - | (1,172) | - | (1,172) |
| Increase in temporarily restricted net assets | <u>-</u> | <u>-</u> | <u>83,616</u> | <u>-</u> | <u>83,616</u> |
| Permanently Restricted Net Assets | | | | | |
| Change in value of beneficial interest in perpetual trust | <u>-</u> | <u>-</u> | <u>6,209</u> | <u>-</u> | <u>6,209</u> |
| Change in Net Assets | (5,416) | (1,790,979) | 352,444 | - | (1,443,951) |
| Net Assets - Beginning of Year | <u>211,234</u> | <u>2,387,147</u> | <u>2,860,587</u> | <u>-</u> | <u>5,458,968</u> |
| Net Assets - End of Year | <u>\$ 205,818</u> | <u>\$ 596,168</u> | <u>\$ 3,213,031</u> | <u>\$ -</u> | <u>\$ 4,015,017</u> |