

STATE OF CONNECTICUT
DEPARTMENT OF SOCIAL SERVICES
ANNUAL FILING
PURSUANT TO PUBLIC ACT 86-252
AN ACT CONCERNING MANAGEMENT OF CONTINUING CARE FACILITIES
(C.G.S. 17-535 et seq.)
May 31, 2015

Duncaster, Inc.
40 Loeffler Road
Bloomfield, CT 06002
(860) 726-2000
Michael A. O'Brien
President and CEO

Duncaster, Inc.

Table of Contents

1. Current Rate Schedule.....	Appendix E
2. Residential Turnover Rates.....	1
3. Average Age of Residents.....	1
4. Health Care Utilization Rates.....	1 and 2
5. Occupancy Rates.....	2
6. Health Care Admissions.....	2
7. Days of Care.....	3
8. Permanent Transfers.....	3
9. Statement of Source and Application of Funds....	3, Appendix D
10. Financial Statements.....	3, Appendices B and C
11. Basis for Amortization Assumptions.....	3
12. Actuarial Statement.....	Appendix A

1. Facility's Current Rate Schedule:

See Appendix E.

2. Residential turnover rates for the most recently completed fiscal year, and anticipated for the next five years:

Fiscal Year 2014	.....	17.0%
Fiscal Year 2015	.....	15.0%
Fiscal Year 2016	.....	15.0%
Fiscal Year 2017	.....	15.0%
Fiscal Year 2018	.....	15.0%
Fiscal Year 2019	.....	15.0%

3. Projected average age of the residents for the next five years:

Fiscal Year 2014	.....	86.0
Fiscal Year 2015	.....	85.0
Fiscal Year 2016	.....	86.0
Fiscal Year 2017	.....	86.0
Fiscal Year 2018	.....	86.0
Fiscal Year 2019	.....	86.0

4. Health care utilization rates, including admission rates and days per one hundred residents for the most recently completed fiscal year, and anticipated for the next five years, for Duncaster residents only:

A. HEALTH CARE UTILIZATION RATE

<u>YEAR</u>	<u>CHHC</u>	
	<u>#</u>	<u>%</u>
2014	96	37.2
2015	93	32.5
2016	93	32.5
2017	93	32.5
2018	93	32.5
2019	93	32.5

Rationale: On January 1, 2014 there were 26 transitioned lifecare residents. There were 80 Duncaster lifecare residents admitted over the past year for a total of 106. At year end there were 26 transitioned lifecare residents.

B. ADMISSION RATE

<u>YEAR</u>		<u>CHHC</u>
	<u>#</u>	<u>%</u>
2014	80	31.0
2015	90	31.7
2016	90	31.7
2017	90	31.7
2018	90	31.7
2019	90	31.7

C. DAYS OF CARE

<u>YEAR</u>	<u>CHHC</u>
2014	4300
2015	4400
2016	4400
2017	4400
2018	4400
2019	4400

5. Occupancy rates for the most recently completed fiscal year, and anticipated for the next five years, facility wide:

<u>YEAR</u>	<u>APARTMENTS</u>
2014	94.0%
2015	93.0%
2016	94.0%
2017	94.0%
2018	94.0%
2019	94.0%

6. Number of health care admissions pursuant to continuing care contracts for the most recently completed fiscal year, and anticipated for the next five years:

2014	.....	80
2015	.....	78
2016	.....	78
2017	.....	78
2018	.....	78
2019	.....	78

7. The days of care per year for the most recent fiscal year, and anticipated for the next five years:

<u>YEAR</u>	<u>CHHC</u>
2014	10,203
2015	10,000
2016	9,900
2017	9,900
2018	9,900
2019	9,900

8. Number of permanent transfers to a facility that provides medical or nursing services or other health-related benefits for the most recently completed fiscal year: 9

9. Statement of source and application of funds for the five-year period beginning the year of initial filing pursuant to C.G.S. section 17-536 or subsequent filing pursuant to C.G.S. section 17-543.

See Appendix D - Projected Statement of Cash Flow

10. Financial statements including current balance sheets and certified income statements, changes in financial position, and pro forma statements for the next five years as provided in C.G.S. section 17-537, and either such information as is necessary to assess the actuarial soundness thereof or an actuarial certificate as provided below in subsection (i) (2) of this section.

See Appendix A - Actuarial Statement

See Appendix B - Projected Statement of Revenues and Expenses

See Appendix C - 2013 and 2014 Audited Financial Statements

11. The basis for amortization assumptions for the provider's capital cost:

Straight line depreciation for the period of useful life.



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March 26, 2015

Betty Anderson
Vice President-Finance
Duncaster Retirement Community
40 Loeffler Road
Bloomfield, CT 06002

Re: **Duncaster Retirement Community - Prepaid Healthcare Obligation
As of December 31, 2014**

Dear Betty:

At the request of Duncaster Retirement Community ("Duncaster"), CCRC Actuaries, LLC performed a calculation of the Prepaid Healthcare Obligation for inclusion with the Duncaster Annual Financial Filing to the State of Connecticut.

Based on our calculations, the Prepaid Healthcare Obligation as of December 31, 2014 was determined to be approximately \$34,055,000 in aggregate and approximately \$136,220 per resident, as shown in the Exhibit E.

The results of our study are based on estimates of the demographic and economic assumptions of the most likely outcome. Considerable uncertainty and variability are inherent in such estimates. Accordingly, the subsequent emergence of actual resident movements and of actual revenues and expenses may not conform to the assumptions used in our analysis. Consequently, the subsequent development of these items may vary considerably from expected.

Management should scrutinize future developments that may cause the Obligation to increase. These developments include higher apartment vacancy rates, higher expense inflation, and higher nursing care utilization and longer life expectancies at all levels of care than assumed in the current projection.

Should you have any questions or concerns regarding this information, please feel free to contact me at (410) 833-4220.

Sincerely,

A handwritten signature in black ink that reads "Dave Bond". The signature is written in a cursive, slightly slanted style.

Dave Bond, F.S.A., F.C.A., M.A.A.A.
Managing Partner

EXHIBIT E

Duncaster, Inc.

Calculation of Prepaid Healthcare Obligation
As of December 31, 2014

Present Value of Healthcare Operating Expenses	\$48,786,000
<u>Present Value of Healthcare Capital Expenses</u>	<u>7,691,000</u>
Total Healthcare Expenses	\$56,477,000
Present Value of Healthcare Revenue	\$22,422,000
Healthcare Expenses	\$56,477,000
<u>Healthcare Revenue</u>	<u>22,422,000</u>
Total Prepaid Healthcare Obligation	\$34,055,000
<u>Total Number of Residents</u>	<u>250</u>
Total Prepaid Healthcare Obligation per Resident	\$136,220

Duncaster, Inc.
Projected Statement of Revenue and Expense
(dollars in thousands)

	2015	2016	2017	2018	2019
REVENUES AND OTHER SUPPORT:					
Non-Healthcare Resident Revenue	10,734	11,251	11,678	12,060	12,422
Health center/AL patient revenues	7,841	9,712	9,874	9,982	10,032
Amortization of entrance fees	2,840	2,982	3,114	3,254	3,303
Other income	751	746	766	787	807
Gifts/Duncaster Foundation Dist	496	475	450	425	425
Investment income/Gain Loss	203	240	276	307	310
Net assets released from Restrictions					
Total revenues and other support	22,865	25,406	26,158	26,815	27,299
EXPENSES:					
Medical and other resident care	5,979	6,754	6,990	7,235	7,380
General and administration	6,478	6,733	6,988	7,211	7,391
Depreciation and amortization	4,371	4,476	4,611	4,751	4,801
Dietary	2,541	2,547	2,633	2,723	2,777
Buildings and grounds	3,175	3,041	3,148	3,258	3,339
Housekeeping	871	969	1,003	1,038	1,048
Contributions To Duncaster, Inc.					
Interest	871	1,262	1,203	1,144	1,004
Total expenses	24,286	25,782	26,576	27,360	27,741
INCOME FROM OPERATIONS	(1,421)	(376)	(418)	(545)	(442)
CHANGE IN UNREALIZED GAIN (LOSS)	-	-	-	-	-
Change in Interest Rate Swap Obligation+					
Change in Future Services Obligation	+				
CHANGE IN NET ASSETS	(1,421)	(376)	(418)	(545)	(442)
NET ASSETS, beginning of year	(3,180)	(4,601)	(4,977)	(5,395)	(5,940)
NET ASSETS, end of the period	(4,601)	(4,977)	(5,395)	(5,940)	(6,382)

**Reflects retroactive change in Net Assets with adoption of Accounting Standards Update
No: 2012-01 December 31, 2012

+No budget or projected values are possible for FSO or change in SWAP value

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

DUNCASTER, INC. AND SUBSIDIARY

CONTENTS

Independent Auditors' Report	1-2
Consolidating Statement of Financial Position - December 31, 2014 with Consolidated Totals as of December 31, 2013	3
Consolidating Statement of Activities and Change in Net Assets for the Year Ended December 31, 2014 with Consolidated Totals for the Year Ended December 31, 2013	4
Consolidating Statement of Cash Flows for the Year Ended December 31, 2014 with Consolidated Totals for the Year Ended December 31, 2013	5
Notes to Consolidating Financial Statements	6-20

BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Board of Directors
Duncaster, Inc. and The Duncaster Foundation, Inc.

We have audited the accompanying consolidating financial statements of Duncaster, Inc. and Subsidiary, which comprise the consolidating statement of financial position as of December 31, 2014 and the related consolidating statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidating financial statements. The prior year summarized comparative financial information has been derived from the Organization's 2013 audited financial statements, and, in our report dated May 7, 2014, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of Duncaster, Inc. and Subsidiary as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 31, 2015

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014
WITH CONSOLIDATED TOTALS AS OF DECEMBER 31, 2013

	The Duncaster Foundation, Inc.			Total 2013
	Duncaster, Inc.	Eliminations	Total 2014	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 307,231	\$ -	\$ 307,231	\$ 381,984
Accounts receivable, net	1,050,685	(106,902)	943,783	1,003,801
Assets whose use is limited	12,613,062	-	12,613,062	2,670,674
Pledges receivable	-	-	-	20,000
Due from Foundation	342,082	(342,082)	-	-
Prepaid expenses and inventories	124,502	-	124,502	125,846
Total current assets	<u>14,437,562</u>	<u>(448,984)</u>	<u>13,988,578</u>	<u>4,202,305</u>
Investments	9,229,785	-	9,229,785	21,591,988
Property and Equipment, Net	46,045,422	-	46,045,422	42,683,196
Other Assets	-	-	-	-
Deferred costs, net of accumulated amortization	1,258,463	-	1,258,463	394,262
Pledges receivable, net	-	-	-	138,265
Annuity-related investments	50,081	-	50,081	94,588
Total other assets	<u>206,427</u>	<u>-</u>	<u>206,427</u>	<u>627,115</u>
Total Assets	<u>\$ 70,971,232</u>	<u>\$ (1,155,625)</u>	<u>\$ 83,068,929</u>	<u>\$ 69,104,604</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of long-term debt	\$ 1,345,000	\$ -	\$ 1,345,000	\$ 1,528,000
Accounts payable and accrued expenses	1,514,759	(106,902)	1,407,857	682,692
Accrued salaries and wages	985,103	-	985,103	822,482
Due to Duncaster	-	-	-	-
Entrance fee refunds payable	2,943,071	(342,082)	2,600,989	2,130,546
Accrued interest payable	224,143	-	224,143	90,238
Entrants' deposits	181,421	-	181,421	104,027
Total current liabilities	<u>7,193,497</u>	<u>(448,984)</u>	<u>6,744,513</u>	<u>5,357,985</u>
Annuities Payable	-	-	-	46,131
Long-Term Debt, Net of Current Portion and Original Issue Discount	29,115,478	-	29,115,478	17,769,755
Interest Rate Swap Obligation	1,023,923	-	1,023,923	975,925
Deferred Gain on Sale of Asset	706,641	(706,641)	-	-
Refundable and Nonrefundable Entrance Fees	-	-	-	-
Entrance fees refunds payable, net of current portion	14,349,256	-	14,349,256	14,704,156
Nonrefundable fees, net	18,881,149	-	18,881,149	17,875,845
Total refundable and nonrefundable entrance fees	<u>33,230,405</u>	<u>-</u>	<u>33,230,405</u>	<u>32,580,001</u>
Future Service Obligation	2,881,000	-	2,881,000	3,966,000
Total liabilities	<u>74,150,944</u>	<u>(1,155,625)</u>	<u>73,488,055</u>	<u>60,695,797</u>
Net Assets	-	-	-	-
Unrestricted	(3,179,712)	-	(3,179,712)	(4,449,773)
Temporarily restricted	6,550,228	-	6,550,228	6,692,447
Permanently restricted	-	-	-	6,166,133
Total net assets	<u>(3,179,712)</u>	<u>-</u>	<u>9,580,874</u>	<u>8,408,807</u>
Total Liabilities and Net Assets	<u>\$ 70,971,232</u>	<u>\$ (1,155,625)</u>	<u>\$ 83,068,929</u>	<u>\$ 69,104,604</u>

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

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH CONSOLIDATED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013

	Dun- caster, Inc. (Unrestricted)	The Dun- caster Foundation, Inc. (Unrestricted)	The Dun- caster Foundation, Inc. (Temporarily Restricted)	The Dun- caster Foundation, Inc. (Permanently Restricted)	Eliminations	Total 2014	Total 2013
Revenues and Other Support							
Net resident service fee revenue	\$ 9,548,059	\$ -	\$ -	\$ -	\$ -	\$ 9,548,059	\$ 8,695,233
Assisted living revenue	1,943,775	-	-	-	-	1,943,775	1,818,570
Health center patient revenue	6,352,234	-	-	-	-	6,352,234	6,259,921
Amortization of entrance fees	3,124,383	-	-	-	-	3,124,383	2,511,170
Other income	876,476	-	-	-	-	876,476	842,191
Gift and grant income	160,457	-	239,205	44,225	-	443,887	298,832
Investment income	174,677	-	594,270	-	-	768,947	958,212
Contributions from The Dun- caster Foundation, Inc.	332,188	-	-	-	(332,188)	-	-
Net assets released from restrictions	-	825,117	(825,117)	-	-	-	-
Net revenues and other support	<u>22,512,249</u>	<u>825,117</u>	<u>8,358</u>	<u>44,225</u>	<u>(332,188)</u>	<u>23,057,761</u>	<u>21,384,129</u>
Expenses							
Medical and other resident care	6,265,370	-	-	-	-	6,265,370	5,836,293
General and administrative	5,523,997	492,929	-	-	-	6,016,926	5,612,241
Depreciation and amortization	3,764,051	-	-	-	-	3,764,051	3,580,247
Dietary	2,468,878	-	-	-	-	2,468,878	2,386,819
Buildings and grounds	2,917,982	-	-	-	-	2,917,982	2,833,152
Housekeeping	740,011	-	-	-	-	740,011	747,904
Contributions to Dun- caster, Inc.	770,313	-	-	-	(332,188)	-	-
Interest	22,450,602	825,117	-	-	(332,188)	22,943,531	21,849,807
Total expenses	61,647	-	8,358	44,225	-	114,230	(465,678)
Income (Loss) from Operations	171,412	-	(150,577)	-	-	20,835	1,495,145
Change in Net Unrealized Gain on Investments	(47,998)	-	-	-	-	(47,998)	858,674
Change in Interest Rate Swap Obligation	1,085,000	-	-	-	-	1,085,000	7,149,000
Change in Net Assets	1,270,061	-	(142,219)	44,225	-	1,172,067	9,037,141
Net Assets - Beginning of Year	(4,449,773)	-	6,692,447	6,166,133	-	8,408,807	(628,334)
Net Assets - End of Year	<u>\$ (3,179,712)</u>	<u>\$ -</u>	<u>\$ 6,550,228</u>	<u>\$ 6,210,358</u>	<u>\$ -</u>	<u>\$ 9,580,874</u>	<u>\$ 8,408,807</u>

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

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH CONSOLIDATED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Duncaster, Inc.</u>	<u>The Duncaster Foundation, Inc.</u>	<u>Eliminations</u>	<u>Total 2014</u>	<u>Total 2013</u>
Cash Flows from Operating Activities					
Change in net assets	\$ 1,270,061	\$ (97,994)	\$ -	\$ 1,172,067	\$ 9,037,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Proceeds from entrance fees	6,444,691	-	-	6,444,691	7,020,775
Refunds of entrance fees and entrance fee payable	(1,857,379)	-	-	(1,857,379)	(3,683,795)
Change in future service obligation	(1,085,000)	-	-	(1,085,000)	(7,149,000)
Amortization of entrance fees	(3,124,383)	-	-	(3,124,383)	(2,511,170)
Depreciation and amortization	3,764,051	-	-	3,764,051	3,580,247
Gain on disposal of equipment	(15,000)	-	-	(15,000)	-
Change in interest rate swap obligation	47,998	-	-	47,998	(858,674)
Change in net unrealized gain on investments	(171,412)	150,577	-	(20,835)	(1,495,145)
(Increase) decrease in operating assets:					
Accounts receivables, net	78,413	-	(18,395)	60,018	(173,672)
Pledges receivable	-	1,919	-	1,919	30,000
Due from Foundation	34,435	-	(34,435)	-	-
Prepaid expenses and inventories	1,344	-	-	1,344	(8,944)
Annuity-related investments	-	44,507	-	44,507	17,548
Increase (decrease) in operating liabilities:					
Accounts payable and accrued expenses	339,239	(18,395)	18,395	339,239	(61,353)
Due to Duncaster	-	(34,435)	34,435	-	-
Accrued interest payable	(27,191)	-	-	(27,191)	(21,434)
Entrants' deposits	77,394	-	-	77,394	15,316
Annuities payable	-	(2,379)	-	(2,379)	(25,671)
Net cash provided by operating activities	<u>5,777,261</u>	<u>43,800</u>	<u>-</u>	<u>5,821,061</u>	<u>3,712,169</u>
Cash Flows from Investing Activities					
Purchases of property and equipment, net	(6,952,951)	-	-	(6,952,951)	(2,879,084)
Proceeds from sale of property and equipment	15,000	-	-	15,000	-
Net sale (purchase) of investments	778,691	-	-	778,691	(1,302,855)
Net sale (purchase) of assets whose use is limited	(9,942,388)	(43,800)	-	(9,986,188)	274,702
Net cash used in investing activities	<u>(16,101,648)</u>	<u>(43,800)</u>	<u>-</u>	<u>(16,145,448)</u>	<u>(3,907,237)</u>
Cash Flows from Financing Activities					
Proceeds of long-term debt	12,678,478	-	-	12,678,478	-
Payments for bond issuance costs	(900,844)	-	-	(900,844)	-
Repayment of long-term debt	(1,528,000)	-	-	(1,528,000)	(1,163,000)
Net cash provided by (used in) financing activities	<u>10,249,634</u>	<u>-</u>	<u>-</u>	<u>10,249,634</u>	<u>(1,163,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(74,753)	-	-	(74,753)	(1,358,068)
Cash and Cash Equivalents - Beginning of Year	<u>381,984</u>	<u>-</u>	<u>-</u>	<u>381,984</u>	<u>1,740,052</u>
Cash and Cash Equivalents - End of Year	<u>\$ 307,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,231</u>	<u>\$ 381,984</u>
Cash Paid During the Year for Interest	\$ 636,408	\$ -	\$ -	\$ 636,408	\$ 874,585

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Duncaster, Inc. (Duncaster) is a not-for-profit, tax-exempt organization located in Bloomfield, Connecticut, which was formed under the Non-Stock Corporation Act of the State of Connecticut in December 1980 for the purpose of owning and operating a life-care community that opened in 1984. In 1994, Duncaster formed The Duncaster Foundation, Inc. (the Foundation), a separate legal entity. The purpose of the Foundation is to benefit, assist and further the corporate purposes of Duncaster. As Duncaster is the sole member of the Foundation, the activities of the Foundation are being consolidated with those of Duncaster (collectively referred to as the Organization) in the accompanying consolidating financial statements. All intercompany activity has been eliminated in the accompanying consolidating financial statements.

Duncaster consisted of 183 independent living units, 18 social assisted living units, 60 skilled nursing beds and 12 nonskilled dementia units as of December 31, 2014 and 2013. Occupancy levels were as follows:

	Average for the Years		As of	
	Ended			
	12/31/14	12/31/13	12/31/14	12/31/13
Independent living	94%	86%	97%	91%
Skilled nursing care	88	89	87	92
Assisted living	93	95	80	97

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Organization, the accounts are maintained on the accrual basis of accounting and, accordingly, the accounts of the Organization are reported in the following net asset categories.

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

Temporarily Restricted - Temporarily restricted net assets represent contributions that are restricted by donor as to purpose or time of expenditure and accumulated investment earnings on donor restricted endowment assets that have not been appropriated for expenditure. Temporarily restricted funds consist of capital project, resident assistance, employee or other initiative, and operations. Details of temporarily restricted net assets are included in Note 10.

Permanently Restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the investment return thereon be available for operations. See Note 9 for additional details of permanently restricted net assets.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Financial statement areas where management applies the use of estimates consist primarily of the future service obligation, allowance for doubtful accounts, amortization of entrance fees and annuities payable. It is management's opinion that the estimates applied in the accompanying consolidating financial statements are reasonable. However, actual results could differ from those estimates.

Cash and Cash Equivalents - The Organization considers all short-term, highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable - Accounts receivable are considered delinquent and written off when all attempts to collect from individuals or other payor sources have been exhausted. Management maintains an allowance for doubtful accounts that is based on a review of significant balances and past experience. The Organization extends credit to residents without requiring collateral. Accounts receivable are net of allowance for doubtful accounts of \$183,087 and \$171,397 as of December 31, 2014 and 2013, respectively.

Assets Whose Use is Limited - Assets whose use is limited include assets held by trustees under bond agreements of \$9,718,662 and assets restricted as to use by the State of Connecticut of \$2,894,400.

Property and Equipment - Property and equipment are recorded at cost. The Organization provides for depreciation using the straight-line method over the estimated useful lives of the various assets as follows:

Land improvements	5-25 years
Buildings and improvements	5-35 years
Furniture, fixtures and equipment	3-25 years
Carports	15 years
Vehicles	3-5 years

Maintenance, repairs and renewals are charged to expense as incurred. Expenditures in excess of \$500 for major renewals and betterments are capitalized.

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 4 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.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Rate Swap Agreements - In connection with the 2010 Series Revenue Refunding Bonds, the Organization entered into a swap agreement with Citizens Bank with a notional amount of \$20,770,000 to fix the variable rate debt at a rate of 3.96%. The agreement meets the criteria necessary to qualify as an effective hedge, and the Organization has reflected the swap agreement in the accompanying financial statements at the current market value based on the bank's floating interest rate in effect at December 31, 2014 and 2013, as compared to the fixed rate. The resulting change in the fair value of the swap agreement of \$(47,998) and \$858,674 for the years ended December 31, 2014 and 2013, respectively, is reflected in the accompanying statements of activities and change in net assets as change in interest rate swap obligation. See Note 7 for further information.

Contributions - Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a 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 accompanying consolidating statement of activities and change in net assets as net assets released from restrictions due to satisfaction of restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets.

Deferred Costs - Deferred costs represent costs incurred in connection with the issuance of the bonds and are being amortized over the term of the bonds. See Note 6 for additional discussion of deferred costs and the amortization thereof.

Life Annuity Gifts - Life annuity gifts (investments) are carried at fair value. The related liability is recorded at the present value of the aggregate liability for annuities payable based on an actuarial method. Life annuity gift income is recognized at the date of receipt and represents the difference between the fair value of the asset received and the present value of the related annuity payable.

Revenue from Residents - Upon occupancy of an independent living unit at Duncaster, residents pay an entrance fee, a portion of which is refundable and a portion of which is nonrefundable (see Note 3). The nonrefundable portion of the entrance fee is deferred and amortized into income over the estimated remaining lives of the individual residents as determined by Duncaster's actuaries.

The accumulated amortization of nonrefundable fees was \$56,073,634 and \$52,949,251 as of December 31, 2014 and 2013, respectively.

Additionally, the residents of the independent living units pay a monthly fee to cover the services they receive. These resident service fees are recorded as revenue when earned.

Residents of the assisted living units are charged a monthly fee for room and board and are charged on a fee schedule for any additional ancillary services.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Health Center Patient Revenues - Revenue from patients is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Rates charged for services rendered, other than private pay patients and third-party payors, are regulated by Medicare. Duncaster does not participate in the Medicaid program.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Management believes that the government reimbursement principles have been properly applied and that no material adjustments will occur as a result of an audit.

Other Income - Other income consists of charges for additional resident meals, guest meals, carport rentals, beauty salon services and other miscellaneous charges to residents.

Required 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. Duncaster maintained an adequate operating reserve at estimated amounts as of December 31, 2014 and 2013, which are recorded as assets whose use is limited.

Income Taxes - Duncaster and the Foundation are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes pursuant to Section 501(a) of the Code. The tax returns for the years ended December 31, 2011 through 2014 are subject to examination by the Internal Revenue Service and the State of Connecticut.

2013 Financial Information - The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidating financial statements as of and for the year ended December 31, 2013, from which the summarized information was derived.

Reclassifications - Certain amounts reported in prior periods have been reclassified in order to conform to the current year presentation.

Subsequent Events - In preparing these consolidating financial statements, management has evaluated subsequent events through March 31, 2015, which represents the date the consolidating financial statements were available to be issued.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 3 - RESIDENCY AGREEMENT

In consideration for the resident's payment of an entrance fee upon occupancy, Duncaster agrees to furnish to the resident an independent living unit in the community for his or her personal occupancy for the remainder of the resident's life, unless sooner terminated under the provisions of the residency agreement.

Duncaster offers two plan types, a declining refund plan and a termination refund plan. Within each plan type, various options exist related to the period of refund decline, the percentage of termination refund and the level of services provided.

All plans require an entrance fee. These entrance fees are allocated to a refundable and nonrefundable portion depending on the type of contract option that was selected.

In a declining refund plan, the resident's refund of the initial entrance fee declines over a set period of months based upon contractual agreements. In a termination refund plan, a percentage of the initial entrance fee is refunded to the resident's estate upon death based on the contractual agreement.

As of December 31, 2014 and 2013, the numbers of each residency agreement in place are summarized as follows (includes agreements for residents in both independent living and skilled care):

	<u>Declining Refund Plan</u>		<u>Termination Refund Plan</u>			
	<u>1%</u>	<u>2%</u>	<u>67%</u>	<u>80%</u>	<u>90%</u>	<u>100%</u>
2014	8	128	5	59	3	1
2013	12	124	6	57	3	1

For the duration of the resident's lifetime or until termination of the residency agreement, Duncaster agrees to furnish to the resident one meal per day in the dining room, utility services, medical facilities, use of the common areas and facilities and other personal services according to the terms and conditions of the applicable agreement. In return, the resident agrees to pay Duncaster a monthly service fee. This fee may be increased at the sole discretion of Duncaster with 30 days written notice.

Duncaster provides medical facilities and skilled nursing care in the on-site health center. Costs incurred in providing this care are paid for by the residents through the continuing payment of the monthly service fee per the applicable agreement. Non-life care agreement holders pay for skilled nursing services based upon established per diem rates.

Annually, Duncaster's actuaries estimate the net cost of future services and use of facilities to be provided to current residents and compare that amount with the estimated future net cash inflows. Should the net cost of future services and use of facilities exceed the estimated future net cash inflows, a liability will be recorded with a corresponding charge to income. As of December 31, 2014, an obligation of \$2,881,000 has been recorded for Duncaster. As of December 31, 2013, an obligation of \$3,966,000 has been recorded for Duncaster.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 - Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and the Organization has the ability to redeem the asset or liability in the near term subsequent to the measurement date.

Level 3 - Unobservable inputs are used to measure the fair value to the extent that observable inputs are not available, and the Organization does not have the ability to redeem the asset or liability in the near term subsequent to the measurement date.

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.

Financial Instruments Measured at Fair Value - The following is a description of the valuation methodologies and investment strategies used for financial instruments measured at fair value:

Cash and Cash Equivalents - Cash, money market funds and certificates of deposit with maturities of greater than 90 days are valued at the closing price reported in the active market in which the securities are traded.

Fixed Income - Fixed income investments may have fixed or variable current income components. These investments are valued using quoted market prices in an active market in which the securities are traded.

Equity - Equity funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded.

Alternative Investments - Interests in investment partnerships are valued using net asset values as determined by the investment manager of the fund in conjunction with the fund's third-party administrator. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

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.

There have been no changes in the methodologies used at December 31, 2014 and 2013.

The following is a summary of the source of fair value measurements for assets and liabilities that are measured at fair value as of December 31, 2014 and 2013:

<u>Description</u>	<u>2014</u>			<u>Total</u>
	<u>Fair Value Measurements Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments:				
Cash and cash equivalents	\$ 3,756,018	\$ -	\$ -	\$ 3,756,018
Fixed income investments	9,322,734	-	-	9,322,734
Equity investments	7,761,680	-	-	7,761,680
Alternative investments	-	-	37,500	37,500
Total investments	<u>20,840,432</u>	<u>-</u>	<u>37,500</u>	<u>20,877,932</u>
Assets whose use is limited:				
Cash and cash equivalents	4,016,873	-	-	4,016,873
Fixed income investments	8,596,189	-	-	8,596,189
Total assets whose use is limited	<u>12,613,062</u>	<u>-</u>	<u>-</u>	<u>12,613,062</u>
Annuity related investments:				
Cash and cash equivalents	10,210	-	-	10,210
Fixed income investments	39,871	-	-	39,871
Total annuity related investments	<u>50,081</u>	<u>-</u>	<u>-</u>	<u>50,081</u>
Subtotal	33,503,575	-	37,500	33,541,075
Less cash and cash equivalents	<u>7,783,101</u>	<u>-</u>	<u>-</u>	<u>7,783,101</u>
Total Assets Measured at Fair Value	<u>\$ 25,720,474</u>	<u>\$ -</u>	<u>\$ 37,500</u>	<u>\$ 25,757,974</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 1,023,923	\$ -	\$ 1,023,923
Total Liabilities Measured at Fair Value	<u>\$ -</u>	<u>\$ 1,023,923</u>	<u>\$ -</u>	<u>\$ 1,023,923</u>

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Description	2013			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Cash and cash equivalents	\$ 3,374,285	\$ -	\$ -	\$ 3,374,285
Fixed income investments	10,388,126	-	-	10,388,126
Equity investments	7,829,577	-	-	7,829,577
Total investments	<u>21,591,988</u>	<u>-</u>	<u>-</u>	<u>21,591,988</u>
Assets whose use is limited:				
Cash and cash equivalents	2,670,674	-	-	2,670,674
Annuity related investments:				
Cash and cash equivalents	3,834	-	-	3,834
Fixed income investments	90,754	-	-	90,754
Total annuity related investments	<u>94,588</u>	<u>-</u>	<u>-</u>	<u>94,588</u>
Subtotal	24,357,250	-	-	24,357,250
Less cash and cash equivalents	<u>6,048,793</u>	<u>-</u>	<u>-</u>	<u>6,048,793</u>
Total Assets Measured at Fair Value	<u>\$ 18,308,457</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,308,457</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 975,925	\$ -	\$ 975,925
Total Liabilities Measured at Fair Value	<u>\$ -</u>	<u>\$ 975,925</u>	<u>\$ -</u>	<u>\$ 975,925</u>

Unfunded commitments for Level 3 investments total \$87,500 at December 31, 2014.

The carrying amounts reflected in the accompanying consolidating statement of financial position for cash and cash equivalents and accounts receivables approximate fair value due to short maturities of those instruments. The 2010 Series Bonds are variable rate bonds, and, therefore, the carrying amount as of December 31, 2014 equals fair value. The 2014 Series Bonds have a fair value at December 31, 2014 of \$12,202,216.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the accompanying consolidating statement of financial position with realized and unrealized gains and losses on these investments included in the accompanying consolidating statement of activities and change in net assets as increases or decreases in unrestricted net assets unless the gains and losses apply to endowment assets. The Organization recognized an increase in net unrealized gain on investments of \$20,835 and \$1,495,145 in 2014 and 2013, respectively.

The Organization has adopted a policy of reviewing all specific investments that have been below cost by at least 25% for at least nine months. Unless specific evidence exists to the contrary, the cost of these investments is reduced to the fair value at year end. There were no reductions to the cost of investments in 2014 or 2013.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at cost consists of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 3,425,979	\$ 2,092,134
Buildings and improvements	95,604,669	92,995,974
Furniture, fixtures and equipment	5,291,396	4,906,630
Carports	460,391	458,191
Vehicles	559,236	515,164
	<u>105,341,671</u>	<u>100,968,093</u>
Less accumulated depreciation	<u>62,000,061</u>	<u>58,284,897</u>
	43,341,610	42,683,196
Construction in progress	<u>3,395,919</u>	<u>-</u>
Net Property and Equipment	<u>\$ 46,737,529</u>	<u>\$ 42,683,196</u>

Depreciation expense totaled \$3,715,163 and \$3,525,935 for the years ended December 31, 2014 and 2013, respectively.

NOTE 6 - DEFERRED COSTS

Bond issuance costs related to the Series 2014, Series 2010 and Series 1999B Bonds have been capitalized. Deferred costs consist of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred bond issuance costs:		
Series 1999B	\$ -	\$ 226,771
Series 2010	414,925	414,925
Series 2014	900,844	-
	<u>1,315,769</u>	<u>641,696</u>
Less accumulated amortization	<u>57,306</u>	<u>247,434</u>
Net Deferred Costs	<u>\$ 1,258,463</u>	<u>\$ 394,262</u>

Amortization expense totaled \$48,888 and \$54,312 for the years ended December 31, 2014 and 2013, respectively.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 6 - DEFERRED COSTS (Continued)

The deferred costs are amortized over the term of the bonds. Amortization expense for the next five years and thereafter is as follows:

2015	\$ 56,897
2016	57,716
2017	58,715
2018	59,694
2019	60,493
Thereafter	<u>964,948</u>
	<u>\$ 1,258,463</u>

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
1999 Revenue Refunding Bonds:		
Series 1999 B - 8% term bonds due 2000 to 2014	\$ -	\$ 815,000
2010 Revenue Refunding Bonds:		
Series 2010 - variable rate debt due 8/1/2032 fixed via a swap agreement at 3.96% through 12/1/2020	17,782,000	18,495,000
2014 Revenue Refunding Bonds:		
Series 2014 - 5% term bonds due 2025 to 2044	12,000,000	-
2014 Construction Line of Credit, maximum aggregate principal amount of up to \$4,500,000 dated September 24, 2014 with final maturity date of September 24, 2017 bearing interest at adjusted LIBOR of 2.17%	<u>678,478</u>	<u>-</u>
Total long-term debt	30,460,478	19,310,000
Less unamortized original issue discount	-	(12,245)
Less current portion	<u>(1,345,000)</u>	<u>(1,528,000)</u>
Long-Term Debt, Net of Current Portion and Original Issue Discount	<u>\$ 29,115,478</u>	<u>\$ 17,769,755</u>

The Series 2010 Bonds have a variable interest rate that is fixed at 3.96% through the use of an interest rate swap instrument with Citizens Bank.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT (Continued)

During 2014, the Series 1999B Bonds were defeased.

Principal payments on the Series 2010 Bonds, Series 2014 Bonds and Construction Line of Credit for the next five years and thereafter are as follows:

	<u>Series 2010</u>	<u>Series 2014</u>	<u>Construction</u>	<u>Total</u>
2015	\$ 1,345,000	\$ -	\$ -	\$ 1,345,000
2016	1,386,000	-	678,478	2,064,478
2017	1,436,000	-	-	1,436,000
2018	1,485,000	-	-	1,485,000
2019	1,525,000	-	-	1,525,000
Thereafter	<u>10,605,000</u>	<u>12,000,000</u>	<u>-</u>	<u>22,605,000</u>
	<u>\$ 17,782,000</u>	<u>\$ 12,000,000</u>	<u>\$ 678,478</u>	<u>\$ 30,460,478</u>

Under the Series 2014 Bond Agreements, the Organization is required to maintain certain reserve funds as follows:

Independent Living Project Fund - Duncaster is required to maintain certain funds for construction of the Independent Living Project. As of December 31, 2014, there was \$2,923,681 within this fund.

Assisted Living Project Fund - Duncaster is required to maintain certain funds for construction of the Assisted Living Project. As of December 31, 2014, there was \$3,921,908 within this fund.

Construction Fund - Duncaster is required to maintain capitalized construction interest within this fund. As of December 31, 2014, there was \$530,740 within this fund.

Miscellaneous Fund - Duncaster is required to maintain funds for other miscellaneous capital expenditures to include a contingency for the independent living and assisted living building projects and the costs associated with the purchase of 120 Mountain Ave in Bloomfield. As of December 31, 2014, there was \$1,219,860 within this fund.

Debt Service Fund - Duncaster is required to maintain a debt service fund into which monthly deposits must be made in order to fund principal and interest payments on the portion of the bonds as they come due. As of December 31, 2014, there was \$1,122,473 within this fund.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT (Continued)

Under state law, the Organization is required to maintain certain reserve funds as follows:

Operation and Maintenance Account - Duncaster is required to maintain one month's budgeted operating expenses in this account as described in Note 2.

Entry Fee Proceeds Account - Duncaster is required to deposit all entrance fees into the entry fee proceeds account as received. Upon the later of the expiration of the applicable statutory rights of the purchaser to rescind (30 days) or the date of occupancy, the balance in the account is available for operations.

The reserve funds are all included within assets whose use is limited on the consolidating statement of financial position.

The 2010 and 2014 Bond Agreements require the Organization to comply with certain financial and nonfinancial covenants.

NOTE 8 - DEFERRED GAIN ON SALE OF ASSET

Deferred gain on sale of asset represents the gain from land that Duncaster sold to the Foundation for \$1,000,000. The gain of \$706,641 is the difference between the sale price and the net book value of the land when it was sold. As the Foundation is a related party, recognition of the gain is not permitted. This gain is eliminated in consolidation.

NOTE 9 - ENDOWMENT

The Organization's endowment is held by the Foundation and consists of numerous funds established for a variety of purposes, mainly designated by donor restrictions. As required by GAAP, net assets associated with endowment funds are classified and reported as permanently restricted net assets, temporarily restricted net assets or unrestricted net assets based on the existence or absence of donor-imposed restrictions.

The Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. 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 Foundation in a manner consistent with the standard of prudence prescribed by Connecticut Prudent Management of Institutional Funds Act (CTPMIFA). In accordance with CTPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Foundation and the donor-restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation or deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Foundation, and (vii) the Foundation's investment policies.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 9 - ENDOWMENT (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2014 and 2013.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide an expected stream of funding to programs supported by its endowment.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation program to achieve its long-term return objectives within prudent risk constraints.

Annual spending from Foundation funds, including distributions to support operations, is limited to an amount up to but not in excess of 5% of the average market value of the prior four years, measured as a percentage of the total of the endowment fund and designated reserve fund of the Foundation. Funds that are restricted to certain uses pursuant to donor stipulation are subject to appropriation and expenditure for the relevant specified uses. Upon appropriation of net assets, the funds appropriated are classified as unrestricted pending their expenditure.

Changes in endowment investments for the years ended December 31, 2014 and 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment - 12/31/2012	\$ -	1,679,387	6,150,655	7,830,042
Investment gains	-	2,004,118	-	2,004,118
Contributions	-	-	15,478	15,478
Expenditures	(653,773)	-	-	(653,773)
Appropriation of endowment assets for expenditure	<u>694,061</u>	<u>(694,061)</u>	<u>-</u>	<u>-</u>
Endowment - 12/31/2013	40,288	2,989,444	6,166,133	9,195,865
Investment gains	-	443,693	-	443,693
Contributions	-	-	44,225	44,225
Expenditures	(659,208)	-	-	(659,208)
Appropriation of endowment assets for expenditure	<u>659,208</u>	<u>(659,208)</u>	<u>-</u>	<u>-</u>
Endowment - 12/31/2014	<u>\$ 40,288</u>	<u>\$ 2,773,929</u>	<u>\$ 6,210,358</u>	<u>\$ 9,024,575</u>

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the years ended December 31, 2014 and 2013, are as follows:

	<u>Resident Assistance Fund</u>	<u>Employees</u>	<u>Other Initiatives</u>	<u>Capital Projects</u>	<u>Endowment Investment Returns</u>	<u>Total</u>
Temporarily restricted net assets - 12/31/2012	\$ 941,874	\$ 715,903	\$ 1,852,604	\$ 1,793	\$ 1,679,387	\$ 5,191,561
Contributions	13,093	-	217,649	(1,500)	-	229,242
Appropriated for expenditure and released from restriction	-	(41,859)	-	3,446	(694,061)	(732,474)
Investment return	-	-	-	-	2,004,118	2,004,118
Temporarily restricted net assets - 12/31/2013	954,967	674,044	2,070,253	3,739	2,989,444	6,692,447
Contributions	16,925	-	201,699	20,581	-	239,205
Appropriated for expenditure and released from restriction	(106,902)	(38,424)	-	(20,583)	(659,208)	(825,117)
Investment return	-	-	-	-	443,693	443,693
Temporarily Restricted Net Assets - 12/31/2014	<u>\$ 864,990</u>	<u>\$ 635,620</u>	<u>\$ 2,271,952</u>	<u>\$ 3,737</u>	<u>\$ 2,773,929</u>	<u>\$ 6,550,228</u>

NOTE 11 - PENSION PLAN

The Organization adopted a 401(k) plan on April 1, 2010. The 401(k) plan covers all employees who meet the plan's eligibility requirements. Eligibility requirements are defined as attainment of age 21, 1 year of service and 1,000 hours worked during that year. Terminated employees will not receive a profit sharing contribution. Under the plan, employees who meet the age requirements can make contributions pursuant to a salary reduction program. The Organization will make a discretionary matching contribution equal to a uniform percentage of the salary deferral to employees who meet the length of service and age requirements. For the years ended December 31, 2014 and 2013, the Organization matched \$.50 of every dollar up to 4% of employee's gross earnings. The Organization may also elect to make a discretionary profit-sharing contribution. Employees are 100% vested in their own contributions to the Plan. Employees will become vested in any contribution Duncaster makes over a five-year vesting period.

Pension expense for the plans for the years ended December 31, 2014 and 2013, was \$287,362 and \$288,849 respectively.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 12 - HEALTHCARE INDUSTRY

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Duncaster had commitments of \$4,500,000 relating to ongoing construction projects as of December 31, 2014. The construction is expected to be completed by the end of September 2015.

In September 2014, Duncaster completed the financing for a \$12 million dollar expansion project and a purchase of land. The expansion project consists of building 12 additional independent apartment homes designed to address changing consumer preferences and design. The apartment homes will be connected to the north side of the existing building. All 12 of the new apartment homes have been pre-sold.

Twelve additional assisted living accommodations for people with cognitive impairment will be built off the west side of the health center, attached to the existing 12-room neighborhood (Dogwood) currently providing that same level of services. Through innovative design, Dogwood will be repositioned and the new 12 rooms melded into a single neighborhood to create a state of the art community providing the space and amenities conducive to providing resident centered care. The land purchase consists of 7.56 acres that are adjacent to other property owned by Duncaster across the street from the main campus at 120 Mountain Ave.

Duncaster, Inc.
Projected Statement of Cash Flows
(dollars in thousands)

	2015	2016	2017	2018	2019
CASH FLOWS FROM OPERATING ACTIVITIES:					
Change in net assets	(1,421)	(376)	(418)	(545)	(442)
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Net proceeds from entrance fees and EF payable	4,269	4,213	4,433	4,715	4,930
Change in net unrealized (gain) loss on investments					
Change in future services obligation					
Amortization of entrance fees	(2,840)	(2,982)	(3,114)	(3,254)	(3,303)
Depreciation and amortization	4,265	4,476	4,611	4,751	4,801
Gain on sale of equipment					
Change in Interest Rate Swap Obligation					
Change in Unrelaized gain on investments					
(Increase) decrease in operating assets:					
Accounts and other receivables	98	(123)	(29)	(75)	(50)
Prepaid expenses and other current assets	75	100	125	100	100
Due from Foundation					
Annuity related investments					
Other Long-term assets					
Increase (decrease) in operating liabilities:					
Accounts payable and accrued expenses	51	(40)	30	28	50
Accrued interest payable	(9)	(8)	(5)	(5)	(5)
Refundable EF Liability					
Amortization of long term debt					
Annuities payable					
Net cash provided by operating activities	<u>4,488</u>	<u>5,260</u>	<u>5,633</u>	<u>5,715</u>	<u>6,081</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment, net	(9,927)	(3,000)	(2,500)	(3,000)	(3,500)
(Purchase) sale of investments, net	(519)	(1,697)	(1,573)	(1,185)	(1,025)
Interest cost capitalized during construcion period	(286)				
Proceeds from sale of PP&E					
Net (increase) decrease in Assets with Limited Use	3,130	2052	-	-	-
Net cash used in investing activities	<u>(7,602)</u>	<u>(2,645)</u>	<u>(4,073)</u>	<u>(4,185)</u>	<u>(4,525)</u>
CASH FLOWS FROM FINANCING ACTIVITES:					
Repayments of long term debt	(4,615)	(2,476)	(1,436)	(1,485)	(1,500)
Equity Contribution to Expansion Project					
Proceeds from Bank Loan	2,908				
Proceeds of long term debt net of prmts of issuance costs					
Initial Entrance fees	5,921				
Decrease in entrant's deposits	(489)				
Net cash provided by financing activities	<u>3,725</u>	<u>(2,476)</u>	<u>(1,436)</u>	<u>(1,485)</u>	<u>(1,500)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	611	139	124	45	56
CASH AND CASH EQUIVALENTS, beginning of year	308	919	1,058	1,182	1,227
CASH AND CASH EQUIVALENTS, end of year	919	1,058	1,182	1,227	1,283

DUNCASTER INC.
RATE SCHEDULE

LifeCare Plans:

2% Declining Entrance Fee Life Care Plan*

Apartment Home	Square Footage	Single Occupancy Entrance Fee	Single Occupancy Monthly Fee	Double Occupancy Entrance Fee	Double Occupancy Monthly Fee
Avon/Studio	514	\$102,000	\$2,547	N/A	N/A
Bloomfield/One Bedroom	657	\$133,000	\$3,082	\$191,000	\$4,430
Canton/One Bedroom	822	\$185,000	\$3,625	\$247,000	\$5,003
Cheshire/One Bedroom	867	\$189,000	\$3,707	\$250,000	\$5,100
Cornwall/Two Bedroom	986	\$200,000	\$3,920	\$260,000	\$5,326
Farmington/Two Bedroom	1,126	\$229,000	\$4,393	\$289,000	\$5,795
Granby/Two Bedroom	1,171	\$271,000	\$4,740	\$327,000	\$6,145
Haddam/One Bedroom, Den	1,171	\$271,000	\$4,740	\$327,000	\$6,145
Haddam II (Granby II)	1,241	\$275,000	\$4,793	\$332,000	\$6,199
Hartford/Two Bedroom	1,260	\$280,000	\$4,930	\$337,000	\$6,312
Litchfield/Two Bedroom	1,336	\$281,000	\$5,097	\$340,000	\$6,449
Litchfield Plus/Two Bedroom	1,356	\$282,000	\$5,201	\$344,000	\$6,553
Millford/Two Bedroom	1,400	\$332,000	\$5,600	\$377,000	\$7,180
Simsbury/Two Bedroom	1,500	\$338,000	\$6,075	\$381,000	\$7,859
Suffield/Two Bedroom	1,560	\$357,000	\$6,320	\$398,000	\$8,102
Tolland/Two Bedroom w/Den	1,600	\$358,000	\$6,350	\$410,000	\$8,125
Weatogue/Three Bedroom	1,643	\$359,000	\$6,367	\$411,000	\$8,150
Woodstock	1,993	\$445,000	\$7,622	\$492,000	\$9,270
Woodstock II	2,157	\$460,000	\$7,828	\$511,000	\$9,579

*Entrance fee is refundable in an amount that diminishes 2% per month of occupancy as per Residency Agreement

80% Refundable Entrance Fee LifeCare Plan**

Apartment Home	Square Footage	Single Occupancy Entrance Fee	Single Occupancy Monthly Fee	Double Occupancy Entrance Fee	Double Occupancy Monthly Fee
Avon/Studio	514	\$146,000	\$3,029	N/A	N/A
Bloomfield/One Bedroom	657	\$193,000	\$3,467	\$241,000	\$5,249
Canton/One Bedroom	822	\$277,000	\$3,784	\$327,000	\$5,677
Cheshire/One Bedroom	867	\$287,000	\$3,994	\$337,000	\$5,856
Cornwall/Two Bedroom	986	\$314,000	\$4,551	\$365,000	\$6,332
Farmington/Two Bedroom	1,126	\$356,000	\$5,206	\$406,000	\$6,986
Granby/Two Bedroom	1,171	\$376,000	\$5,401	\$424,000	\$7,184
Haddam/One Bedroom, Den	1,171	\$376,000	\$5,401	\$424,000	\$7,184
Haddam II (Granby II)	1,241	\$380,000	\$5,455	\$428,000	\$7,237
Hartford/Two Bedroom	1,260	\$425,000	\$5,811	\$456,000	\$7,592
Litchfield/Two Bedroom	1,336	\$430,000	\$6,163	\$478,000	\$7,943
Litchfield Plus/Two Bedroom (T204)	1,356	\$431,000	\$6,268	\$478,000	\$8,047
Millford/Two Bedroom	1,400	\$479,000	\$6,490	\$519,000	\$8,440
Simsbury/Two Bedroom	1,500	\$484,000	\$6,919	\$532,000	\$8,700
Suffield/Two Bedroom	1,560	\$508,000	\$7,198	\$555,000	\$8,978
Tolland/Two Bedroom w/Den	1,600	\$530,000	\$7,410	\$577,000	\$9,350
Weatogue/Three Bedroom	1,643	\$536,000	\$7,579	\$582,000	\$9,362
Woodstock	1,993	\$650,000	\$8,549	\$696,000	\$9,950
Woodstock II	2,157	\$659,000	\$8,961	\$699,000	\$10,609

Entrance fee is 80% refundable as per Residency Agreement**

TAX DEDUCTIONS: Revenue Ruling 76-481; A portion of the Entrance and Monthly Fee may be considered deductible

	100% Refundable Entrance	Monthly Fee
Garage	\$33,000	\$75

Effective through December 31, 2015
Pricing subject to change

