

# Masonicare

Independent Auditors' Report,  
Consolidated Financial Statements, and  
Supplemental Information

As of and for the Years Ended  
September 30, 2014 and 2013

The logo consists of the letters 'SIB' in a large, white, serif font, positioned on the left side of a dark, textured background.

Saslow Lufkin & Buggy, LLP  
*Accounting · Tax · Advisory*

**Masonicare**  
**Independent Auditors' Report, Consolidated Financial Statements,**  
**and Supplemental Information**  
**As of and for the Years Ended September 30, 2014 and 2013**

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Independent Auditors' Report

To the Board of Trustees of Masonicare:

We have audited the accompanying consolidated financial statements of Masonicare and its subsidiaries (Masonicare), a Connecticut not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended.

**Management's Responsibility for the Consolidated 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 audits 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 auditor considers internal control relevant to Masonicare'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 Masonicare'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 consolidated financial position of Masonicare as of September 30, 2014 and 2013, and the results of its consolidated operations and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.





Saslow Lufkin & Buggy, LLP  
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### **Report on Consolidating Information**

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. 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 consolidating information has been subjected to the auditing procedures applied in the audit 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Saslow Lufkin & Buggy, LLP*

December 4, 2014

**Masonicare**  
**Consolidated Balance Sheets**  
**September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,558,843	\$ 2,387,893
Restricted cash	766,014	683,053
Patient accounts receivable, net of allowance for doubtful accounts of \$6,108,886 and \$4,175,524, respectively	22,037,942	26,987,996
Other receivables	6,834,301	5,569,581
Inventories	243,713	284,966
Prepaid expenses and other current assets	1,899,475	1,534,569
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,626,542	3,684,434
 Total current assets	 41,966,830	 41,132,492
Assets whose use is limited or restricted:		
By Board of Trustees	106,124,610	106,917,661
Under patient asset management, trust agreements and patient escrow accounts	533,819	579,600
Under indenture agreement - held by Trustees	582,936	485,367
Under trust for estimated self-insurance liabilities	13,886,648	12,490,378
By donors for specific purposes	3,686,279	3,778,017
By donors for permanent endowment funds	55,384,352	67,257,390
 Total assets whose use is limited or restricted	 180,198,644	 191,508,413
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	(3,626,542)	(3,684,434)
 Non-current assets whose use is limited or restricted	 176,572,102	 187,823,979
Property and equipment, net	149,857,080	137,710,399
Unamortized financing costs	1,831,549	1,898,526
Recoveries of estimated insurance liabilities insured through commercial policies	231,398	582,506
 Total assets	 \$ 370,458,959	 \$ 369,147,902

The accompanying notes are an integral part of these consolidated financial statements.

**Masonicare**  
**Consolidated Balance Sheets (continued)**  
**September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 2,673,000	\$ 2,563,000
Accounts payable and accrued expenses	11,372,967	9,971,962
Accrued salaries and related expenses	7,868,838	7,124,800
Accrued pension and postretirement benefits, current portion	1,942,154	2,441,919
Estimated self-insurance liabilities, current portion	1,172,901	1,172,901
Estimated settlements due to third-party payers	1,255,036	1,400,286
Annuities payable, current portion	320,109	381,546
Refundable entry fees, current portion	1,422,514	1,474,558
Deferred patient service and other revenues	2,934,167	2,897,745
Deposits	1,817,870	1,636,108
Other liabilities	169,537	127,653
	<b>32,949,093</b>	<b>31,192,478</b>
Accrued pension and postretirement benefits, net of current portion	13,896,096	12,489,294
Interest rate swap liability	16,394,771	15,407,032
Annuities payable, net of current portion	1,750,495	1,982,962
Refundable entry fees, net of current portion	22,330,999	23,606,552
Deferred entry fee revenues	15,266,399	14,375,901
Assets held for patient asset management, trust agreements and patient escrow accounts	526,649	604,777
Asset retirement obligation	852,151	780,326
Estimated insurance liabilities insured through commercial policies	231,398	582,506
Estimated self-insurance liabilities, net of current portion	10,699,265	11,628,710
Long-term debt, net of current maturities	98,869,224	101,556,000
	<b>213,766,540</b>	<b>214,206,538</b>
Net assets:		
Unrestricted net assets of Masonicare	70,882,308	73,558,432
Non-controlling interest in consolidated subsidiary	3,266,489	(239,088)
Total unrestricted net assets	74,148,797	73,319,344
Temporarily restricted	2,757,344	2,900,403
Permanently restricted	79,786,278	78,721,617
	<b>156,692,419</b>	<b>154,941,364</b>
Total liabilities and net assets	<b>\$ 370,458,959</b>	<b>\$ 369,147,902</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Masonicare**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**For the Years Ended September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Operating revenues:		
Net patient service revenues	\$ 137,303,438	\$ 143,750,276
Resident fees	18,761,463	18,399,402
Other revenues	16,913,104	16,416,149
Provision for bad debts	(4,501,160)	(2,532,981)
Total operating revenues net of provision for bad debts	168,476,845	176,032,846
Operating expenses:		
Salaries and wages	96,781,185	95,921,946
Employee benefits	28,581,531	29,494,567
Supplies and other services	23,753,679	25,066,925
Professional fees	18,764,910	18,118,332
Depreciation and amortization	9,367,588	9,649,429
Interest and other fees	4,846,369	4,520,671
Total operating expenses	182,095,262	182,771,870
Loss from operations	(13,618,417)	(6,739,024)
Non-operating income:		
Contributions	2,871,125	3,468,014
Investment income	17,908,473	16,932,626
Change in fair value of interest rate swap agreement	(987,739)	5,477,235
Total non-operating income	19,791,859	25,877,875
Excess of revenues over expenses	6,173,442	19,138,851
Gain (loss) attributable to non-controlling interest in consolidated subsidiaries	85,704	(163,780)
Excess of revenues over expenses of Masonicare	6,259,146	18,975,071
Other changes in unrestricted net assets:		
Change in unrealized depreciation on investments	(6,707,165)	(2,030,905)
Pension changes other than net periodic benefit costs	(2,406,733)	5,955,461
Gain attributable to non-controlling interest in consolidated subsidiaries	3,684,205	163,780
Change in unrestricted net assets	\$ 829,453	\$ 23,063,407

The accompanying notes are an integral part of these consolidated financial statements.

**Masonicare**  
**Consolidated Statements of Operations and Changes in Net Assets (continued)**  
**For the Years Ended September 30, 2014 and 2013**

	2014	2013
Unrestricted net assets:		
Excess of revenues over expenses of Masonicare	\$ 6,259,146	\$ 18,975,071
Change in unrealized depreciation on investments	(6,707,165)	(2,030,905)
Pension changes other than net periodic benefit costs	(2,406,733)	5,955,461
Gain attributable to non-controlling interest in consolidated subsidiaries	3,684,205	163,780
Change in unrestricted net assets	829,453	23,063,407
Temporarily restricted net assets:		
Bequests, contributions, pledges and changes in value of residual trusts	59,681	60,211
Investment income	118,361	95,856
Realized gains on sales of investments	272,971	128,394
Change in unrealized appreciation on investments	33,852	122,816
Change in annuity obligations	(293,904)	(11,459)
Net assets released from restrictions	(334,020)	(118,722)
Change in temporarily restricted net assets	(143,059)	277,096
Permanently restricted net assets:		
Bequests, contributions and pledges	116,616	723,876
Investment income	95,947	112,053
Realized gains on sales of investments	119,882	48,838
Change in annuity obligations	237,034	(174,825)
Change in fair value of perpetual trusts	408,037	440,293
Change in unrealized appreciation on investments	87,145	111,948
Change in permanently restricted net assets	1,064,661	1,262,183
Change in net assets	1,751,055	24,602,686
Net assets, beginning of year	154,941,364	130,338,678
Net assets, end of year	\$ 156,692,419	\$ 154,941,364

The accompanying notes are an integral part of these consolidated financial statements.



**Masonicare**  
**Consolidated Statements of Cash Flows**  
**As of and for the Years Ended September 30, 2014 and 2013**

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 1,751,055	\$ 24,602,686
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and financing cost amortization	9,367,588	9,649,429
Pension changes other than net periodic benefit costs	2,406,733	(5,955,461)
Disposal of construction in progress	183,374	992,128
Provision for bad debts	4,501,160	2,532,981
Restricted contributions, investment income and other	(368,692)	(1,578,629)
Realized and unrealized losses on investments	(7,585,399)	(10,890,075)
Amortization of deferred entry fee revenues	(5,571,922)	(5,576,174)
(Gain) attributable to non-controlling interest in consolidated subsidiary	(3,684,205)	(163,780)
Changes in fair value of interest rate swap agreement	987,739	(5,477,235)
Changes in operating assets and liabilities:		
Patient accounts receivable	9,451,214	197,914
Other receivables	(1,264,720)	(713,540)
Inventories	41,253	9,004
Prepaid expenses and other current assets	(364,906)	(561,944)
Accounts payable and accrued expenses	1,401,005	1,433,438
Accrued salaries and related expenses	744,038	501,952
Accrued pension and postretirement benefits	(1,499,696)	(648,738)
Estimated self-insurance liabilities	(929,445)	1,082,556
Estimated settlements due to third-party payers	(145,250)	(1,123,501)
Deferred patient service and other revenues	36,422	147,027
Deposits	181,762	38,582
Other liabilities	41,884	(1,555,424)
Assets held for patient asset management, trust agreements and patient escrow accounts	(78,128)	(54,088)
Asset retirement obligation	71,825	46,350
	9,674,689	6,935,458
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	122,544,413	106,860,965
Purchases of investments	(113,087,518)	(110,922,972)
Change in restricted cash	(82,961)	(1,274)
Purchases of property and equipment, net	(17,897,865)	(4,485,471)
	(8,523,931)	(8,548,752)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from entrance fees	6,534,350	5,251,555
Refunds of entrance fees	(1,319,850)	(3,252,480)
Payments on long-term debt	(2,563,000)	(2,561,000)
Restricted contributions, investment income and other	368,692	1,578,629
	3,020,192	1,016,704
Net cash provided by financing activities		
Net change in cash and cash equivalents	4,170,950	(596,590)
Cash and cash equivalents, beginning of year	2,387,893	2,984,483
Cash and cash equivalents, end of year	\$ 6,558,843	\$ 2,387,893

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 1 - General**

**Organization** - Masonicare is a not-for-profit Connecticut corporation and a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code. Masonicare is a parent holding company and support organization for its affiliate corporations (collectively referred to as Masonicare or the System). Masonicare was organized in 1995 for the benefit of providing long-range strategic and financial planning, policy development and support services for its affiliates, which provide continuing care retirement services and other housing, health care and related services to older adults. Tracing itself to its predecessor, The Masonic Charity Foundation of Connecticut, the principal purposes of the corporate system are to aid, assist or support the aged, sick or infirm Connecticut A.F.&A.M., Connecticut members of Order of Eastern Star, Prince Hall Affiliates and Connecticut members of Order of Amaranth and their families; and otherwise provide for the needs of an aging population. In furtherance of its traditional values, the mission of Masonicare is to enhance the quality of life by providing health, social and spiritual care throughout an individual's lifetime with emphasis on the needs of older persons. The affiliate corporations in the System are Masonicare Health Center (MHC), Keystone Indemnity Company (Keystone), The Masonic Charity Foundation of Connecticut, Inc. (MCF), Masonicare at Ashlar Village (MAV), Masonicare at Newtown (MAN), Masonic Management Services, Inc. (MMS), Masonicare Home Health and Hospice (MHH&H) and Masonicare at Home (MAH). In fiscal year 2014, MAH was organized as a separate legal entity under Masonicare corporate for the purpose of managing the Company's homecare and companion services as well as expand into other service lines.

Effective December 1, 2007, MHH&H formed a strategic partnership with the two homecare branches operated by Saint Francis Hospital and Medical Center. The partnership, Masonicare Partners Home Health & Hospice, includes the Greater Hartford Branch of MHH&H and Suffield branches of Saint Francis Homecare. MHH&H owns a 65% share of Masonicare Partners Home Health & Hospice with the remaining 35% owned by Saint Francis Hospital and Medical Center. MHH&H records a 65% interest in this company with the remaining 35% recorded as a non-controlling interest in consolidated subsidiaries. Masonicare recorded the non-controlling interest in MHH&H of \$169,744 and \$239,088 on the consolidated balance sheets at September 30, 2014 and 2013, respectively.

Effective January 30, 2014, MAV formed a strategic partnership with Mystic Senior Living Associates, LLC (MSLA), an unaffiliated for-profit entity. The partnership, Senior Living by Masonicare, LLC (SLM) was formed as a Connecticut Limited Liability Company for the purpose of acquiring property in order to provide assisted living (including memory care assisted living) and independent care to the elderly. In May 2014, SLM began construction on a 179 unit assisted living facility in order to accomplish this mission. MAV owns 78.125% of SLM through its 100% owned subsidiary, Masonicare at Mystic, Inc. (MAM), with the remaining 21.875% owned by MSLA. MAM was formed on January 8, 2014 as a Connecticut non-stock 501(c)(3) corporation for the purposes of serving as manager of SLM. MAM records a 78.125% interest in SLM with the remaining 21.875% recorded as a non-controlling interest in consolidated subsidiaries. Masonicare recorded the non-controlling interest in SLM of \$3,436,233 on the consolidated balance sheet at September 30, 2014.

**Note 2 - Summary of Significant Accounting Policies**

**Principles of Consolidation** - The consolidated financial statements include the accounts of Masonicare, Keystone, MHC, MCF, MAN, MAV (including MAM and SLM), MMS (including Masonicare Primary Care Physicians and Masonicare Behavioral Health), MHH&H (including Masonicare Partners Home Health & Hospice) and MAH. Intercompany accounts and transactions have been eliminated in consolidation.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Basis of Reporting** - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

**Net Patient Service Revenues** - Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue from Medicare and Medicaid accounted for approximately 61% and 59% of total net patient service revenue for each of the years ended September 30, 2014 and 2013, respectively.

**Cash and Cash Equivalents** - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less from the date of acquisition, excluding amounts whose use is limited or restricted. The Federal Depository Insurance Corporation (FDIC) insures cash balances up to \$250,000 per customer, per bank. Amounts in excess of the FDIC limits are uninsured. Most of Masonicare's banking activity is maintained with several regional banks and, from time-to-time, exceeds FDIC limits. It is Masonicare's policy to monitor these banks' financial strength on an ongoing basis.

**Restricted Cash** - Restricted cash consists of advanced resident deposits at MAV.

**Investments** - Investments in equity securities with readily determinable fair values and all investments in debt securities and mutual funds are measured at fair value in the consolidated balance sheets. Assets received as donations or bequests are recorded as contributions on the date received at the estimated fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses. The average cost method is used to determine realized gains or losses on sales of marketable equity securities.

Masonicare invests in several limited partnerships (the Investment Companies). Some of these investments are in the form of both a master and feeder fund structure. The Investment Companies invest primarily in securities of publicly traded companies, securities of privately held distressed companies, real estate ventures and other financial instruments including a variety of derivative products such as call and put options, warrants and convertible securities. These Investment Companies are not traded on an exchange and do not provide Masonicare with the ability to redeem shares on a daily basis. There is generally no secondary market for trading interests in the Investment Companies. Instead, the net asset value serves as the basis for the investor's periodic (i.e. monthly or quarterly) subscription and redemption activity pursuant to the terms of each Investment Companies' governing documents. In accordance with FASB ASC 958-10 "Consolidation" and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations", Masonicare reports the carrying values of the Investment Companies at cost, which amounted to \$19,209,858 and \$20,745,605 as of September 30, 2014 and 2013, respectively. The fair values of these securities amounted to \$33,480,250 and \$32,885,060 as of September 30, 2014 and 2013, respectively. Because of the inherent uncertainty of the fair value of securities measured in good faith by the general partner, the estimated fair values of those securities may be materially higher or lower than the values that would have been used had a ready market for these securities existed. As of September 30, 2014 and 2013, Masonicare had \$1,746,407 and \$1,038,223, respectively, of unfunded commitments owed to the Investment Companies.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

***Other-Than-Temporary Impairments on Investments*** - When a decline in fair market value is deemed to be other-than-temporary, a provision for impairment is charged to non-operating income, included in other-than-temporary impairments on investments, and the cost basis of that investment is reduced.

For equity securities, Masonicare's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and Masonicare's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no impairment losses recorded for the years ended September 30, 2014 and 2013.

For debt securities, Masonicare evaluates whether it intends to sell an impaired debt security or whether it is more likely than not that it will be required to sell an impaired debt security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the debt security's amortized cost and its fair value is recognized in earnings.

For impaired debt securities that do not meet these criteria, Masonicare determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment (i.e., the difference between the amortized cost of a security and the projected net present value of the future cash flows from the security) is recognized in earnings and the remaining portion of the impairment is recognized as a component of changes in net assets within unrealized depreciation on investments.

***Restricted Assets*** - Assets whose use is limited or restricted include assets set aside by the Board of Trustees (the Board) for future capital purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets temporarily restricted by donors; assets permanently restricted by donors; patient assets and patient escrow accounts; assets held in trust for estimated self-insurance liabilities; and assets held by trustees under a State of Connecticut Health and Educational Facilities Authority (CHEFA) Indenture Agreement.

Temporarily restricted net assets include specific purpose annuities and unrestricted residual interest trusts. Specific purpose funds may be utilized only in accordance with the purposes established by the donor. Unrestricted residual interest trusts may not be used by Masonicare until the passage of time.

Permanently restricted funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. Annuity funds are included in permanently restricted funds. Annuity funds are held conditional upon Masonicare paying stipulated amounts or the income earned on contributed amounts to designated individuals. A liability has been determined based on the present value of future payments for the expected lives of each annuitant. Such payments terminate upon death of the beneficiary. Upon termination, the remaining principal becomes part of the permanent endowment funds of Masonicare.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

The income earned on restricted funds is generally available for operations of Masonicare and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations at which time the income is added to the appropriate restricted net asset balance. Administration of Masonicare's restricted funds is subject to the general provisions of the Uniform Management of Institutional Funds Act (UMIFA) as updated by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under the provisions of this law, a governing board may appropriate for expenditure, for the uses and purposes for which an endowment fund is established, so much of the net appreciation as is deemed prudent based on standards established by UMIFA and UPMIFA. While a governing board must exercise ordinary business care in the appropriation of such appreciation, the general provisions of UMIFA and UPMIFA do not mandate that institutions retain endowment gains permanently. Accordingly, institutions that are subject to general UMIFA and UPMIFA provisions report gains on endowment assets as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees. However, if a specific gift instrument explicitly requires the reinvestment of appreciation, or a portion thereof, such reinvested amounts shall be classified within permanently restricted net assets.

Patient assets and escrow accounts are managed by Masonicare through asset management agreements and are utilized to pay for care and other services rendered by Masonicare. Patient assets are pooled together and each patient is credited with income earned monthly based on a percentage of patient assets to total assets in the pool.

Assets whose use is limited or restricted, with the exception of patient assets, are pooled for investment purposes. Each participating fund's equity in the pool is represented by pool units based on fair value. Investment income and gains and losses from sales of pooled investments are apportioned among the invested funds based on earnings per pool unit.

**Inventories** - Inventories are stated at the lower of cost or fair market value, using the first-in, first-out method.

**Property and Equipment, Net** - Property and equipment are stated at cost or, in the case of donated property, at the fair value at the date of the gift, less accumulated depreciation. Major improvements and betterments to existing plant and equipment are capitalized. Expenditures for maintenance and repairs, which do not extend the lives of the applicable assets, are charged to expense as incurred. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and resulting gains and losses are included in the results of operations.

Depreciation expense is computed on a straight-line basis over the asset's estimated useful life, using a full month convention beginning in the month the asset is placed in service. Useful lives assigned to assets range from 5 to 40 years.

**Unamortized Financing Costs** - Deferred financing costs have been recorded as an asset and are being amortized using the effective interest method over the term of the related financing agreement.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Excess of Revenues Over Expenses** - The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized depreciation on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and certain adjustments to the pension liability.

Non-operating income included in excess of revenues over expenses consists of unrestricted contributions, investment income, including realized gains and losses and investment management fees and the change in fair value of the interest rate swap agreement.

**Deferred Patient Service and Other Revenue** - Deferred patient service revenue represents the amount of unamortized Medicare billings for home care services under the prospective payment methodology. Deferred patient service revenue is amortized to income on a straight-line basis over an expected 60-day treatment period. Deferred other revenue represents pre-billing of certain fees associated with MHC and MAV that are not earned until the subsequent month.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the estimated net realizable value of receivables from patients and third-party payers, settlement of third-party reimbursement cost reports with Medicare and Medicaid, valuation of investments, useful lives of buildings and equipment and other estimates included in actuarial calculations for deferred entry fee revenue, pension expense, postretirement healthcare costs and estimated self-insurance liabilities. Actual results could differ from those estimates.

**Bad Debts** - Masonicare uses the indirect method to record bad debts. Masonicare records an allowance for doubtful accounts, which is based on its estimation of bad debts, against its outstanding patient accounts receivable. This estimate is based on Masonicare's past experience with collecting its receivables and an analysis of current accounts receivable. Bad debt expense was \$4,501,160 and \$2,532,981 for the years ended September 30, 2014 and 2013, respectively.

**Charity Care** - In 2014, Masonicare expanded its charity care policy to include certain self pay balances that are not deemed to be collectible from the patient and therefore considered charity care. During 2014, Masonicare's charity care determined on the basis of cost, was \$2,405,062.

**New Accounting Pronouncements** - In October 2012, the FASB issued ASU No. 2012-05, "Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows". This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance is effective for Masonicare beginning October 1, 2013, with early adoption permitted. This guidance did not have a material impact on Masonicare's consolidated statements of cash flows.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 3 - Assets Whose Use is Limited or Restricted**

Assets whose use is limited or restricted and classified as current assets consist of funds required for interest payable on bonds, annuities payable recorded as current liabilities and amounts approved by the Board of Trustees for operating purposes in the following year.

Assets whose use is limited or restricted are comprised as follows at September 30, 2014 and 2013:

	2014		2013	
	Cost	Fair Value (**)	Cost	Fair Value (**)
<b>By Board of Trustees:</b>				
Cash and cash equivalents	\$ 4,294,275	\$ 4,294,275	\$ 3,515,168	\$ 3,515,168
Marketable equity securities	81,141,509	81,446,602	76,345,534	83,194,883
Fixed income securities	19,767,196	19,616,966	19,591,327	19,412,242
Other investments	766,767	766,767	785,367	785,368
Other assets	-	-	10,000	10,000
	<u>105,969,747</u>	<u>106,124,610</u>	<u>100,247,396</u>	<u>106,917,661</u>
<b>Under patient asset management, trust agreements and patient escrow accounts:</b>				
Cash and cash equivalents	175,022	175,022	242,484	242,484
Other investments	357,350	357,350	330,444	330,444
Other assets	1,447	1,447	6,672	6,672
	<u>533,819</u>	<u>533,819</u>	<u>579,600</u>	<u>579,600</u>
<b>Under indenture agreement - held by Trustees:</b>				
Cash and cash equivalents	116,866	116,866	8,802	8,802
Fixed income securities	466,290	466,070	476,696	476,565
	<u>583,156</u>	<u>582,936</u>	<u>485,498</u>	<u>485,367</u>
<b>Under trust for estimated self-insurance liabilities:</b>				
Marketable equity securities	5,939,044	6,678,213	4,914,177	5,933,238
Fixed income securities	4,538,952	4,500,945	4,114,131	4,073,927
Other investments	2,515,723	2,707,490	2,377,376	2,483,213
	<u>12,993,719</u>	<u>13,886,648</u>	<u>11,405,684</u>	<u>12,490,378</u>
<b>By donors for specific purposes:</b>				
Cash, cash equivalents and interest receivable	332,658	332,658	335,980	335,980
Marketable equity securities	1,442,890	1,442,890	869,027	1,376,149
Fixed income securities	935,188	935,188	877,943	865,900
Residual interest trusts	840,892	974,443	1,076,986	1,198,888
Other investments	1,100	1,100	1,100	1,100
	<u>3,552,728</u>	<u>3,686,279</u>	<u>3,161,036</u>	<u>3,778,017</u>
<b>By donors for permanent endowment funds (***):</b>				
Cash, cash equivalents and interest receivable	233,465	233,465	41,844	41,845
Marketable equity securities	10,675,209	11,335,803	27,002,048	27,582,663
Fixed income securities	4,294,199	4,320,665	7,059,551	7,085,662
Perpetual interest trusts	8,530,137	12,243,802	8,530,137	11,835,765
Residual interest trusts	440,159	576,322	440,159	569,173
Real estate	8,118,791	8,118,791	838,139	838,139
Other investments	18,691,677	18,555,504	19,304,143	19,304,143
	<u>50,983,637</u>	<u>55,384,352</u>	<u>63,216,021</u>	<u>67,257,390</u>
	<u>\$ 174,616,806</u>	<u>\$ 180,198,644</u>	<u>\$ 179,095,235</u>	<u>\$ 191,508,413</u>

\*\* Included in the above fair value are alternative investments that are carried at cost. The total cost of these investments amounted to \$19,209,858 and \$20,745,605 as of September 30, 2014 and 2013, respectively. The total fair value amounted to \$33,480,250 and \$32,885,060 as of September 30, 2014 and 2013, respectively.

\*\*\* As of September 30, 2014, MCF held a note receivable due from MAV in the amount of \$12,593,500 as more fully described in Note 14. This note receivable is included in the donors for permanent endowment funds on MCF's stand-alone financial statements but is eliminated in the Company's consolidated financial statements.

**Masonicare**  
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**Note 3 - Assets Whose Use is Limited or Restricted (continued)**

Investment income is comprised of the following for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 4,766,976	\$ 4,643,822
Realized gains on sales of investments	13,778,714	12,920,980
Less: investment management fees	<u>(637,217)</u>	<u>(632,176)</u>
	<u>\$ 17,908,473</u>	<u>\$ 16,932,626</u>

**Note 4 - Property and Equipment**

Property and equipment, consists of the following at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 6,134,227	\$ 419,334
Land improvements	14,517,519	14,150,160
Buildings	229,041,843	225,039,486
Furniture and equipment	<u>57,051,530</u>	<u>53,850,795</u>
	<u>306,745,119</u>	<u>293,459,775</u>
Less: accumulated depreciation	<u>(167,556,680)</u>	<u>(158,414,486)</u>
	<u>139,188,439</u>	<u>135,045,289</u>
Construction in progress (estimated cost to complete - \$54,336,267)	<u>10,668,641</u>	<u>2,665,110</u>
	<u>\$ 149,857,080</u>	<u>\$ 137,710,399</u>

Depreciation expense was \$9,227,434 and \$9,533,727 for the years ended September 30, 2014 and 2013, respectively. Included in property and equipment as of September 30, 2014 and 2013, are capitalized leased assets for computer equipment with a cost of \$377,822 and related accumulated depreciation of \$376,666 for both 2014 and 2013.

For the years ended September 30, 2014 and 2013, \$2,646,632 and \$3,281,706, respectively, of capitalized interest has been included within property and equipment.

During 2014 and 2013, Masonicare disposed of \$183,374 and \$2,343,091, respectively, in construction in progress costs related to older projects.

The Company is currently in process of acquiring financing for its estimated cost of \$54,336,267 to complete construction projects. As of September 30, 2014, the Company has received a commitment letter from a bank for a secured credit facility in the amount of \$38,280,000.



**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 5 - Unamortized Financing Costs**

Unamortized financing costs consist of the following at September 30, 2014 and 2013:

	2014	2013
Deferred financing costs	\$ 2,273,035	\$ 2,273,035
Less: accumulated amortization	(441,486)	(374,509)
	\$ 1,831,549	\$ 1,898,526

Amortization expense related to deferred financing costs was \$66,977 and \$69,349, for the years ended September 30, 2014 and 2013, respectively.

**Note 6 - Long-Term Debt**

On October 23, 2007 and pursuant to a loan agreement dated as of October 1, 2007, Masonicare issued to CHEFA bonds in the amount of \$116,065,000 for the purpose of financing the expansion of and renovations to the facilities at MAV and MHC. This bond issuance also constitutes a refinancing of the CHEFA 1998 Revenue Bonds (Series A and Series B) issued debt. The bond issuance is in the form of Masonicare Issue, Series C and Masonicare Issue, Series D financing. Masonicare Issue, Series C and Series D are variable rate demand revenue bonds in the amounts of \$81,065,000 and \$35,000,000, respectively, with both series bonds maturing on July 1, 2037. The variable interest rates on the bonds are based upon the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. The bonds were originally secured by an irrevocable letter of credit expiring on, October 31, 2012, issued by Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association). On September 5, 2012, Masonicare entered into a three year agreement with Manufacturers and Traders Trust Company (M&T Bank) to provide a substitute letter of credit in connection with the issuance of the bonds. On October 16, 2007, Masonicare entered into an interest rate swap agreement relating to the aggregate principal amount of the Series C bonds as more fully described in Note 20.

On September 5, 2012 and pursuant to a loan agreement dated September 1, 2012, Masonicare issued to CHEFA bonds in the amount of \$33,000,000 (Series E bonds) for the purpose of refinancing the previously issued Series D bonds. Masonicare Issue, Series E bonds are variable rate demand revenue bonds that mature on July 31, 2037. The variable interest rates on the bonds are based upon 78% of the 30 day LIBOR rate plus 150 basis points. Masonicare has entered into a Direct Purchase agreement with Webster Bank for Webster Bank to purchase 100% of the bonds issued.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 6 - Long-Term Debt (continued)**

Long-term debt consists of the following at September 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
CHEFA Revenue Bonds:		
Series C - 3.06% to 7.96% term bonds due 2037 (inclusive of swap)	<b>\$ 70,175,000</b>	\$ 71,965,000
Series E - 4.50% term bonds due 2037	<b>31,367,224</b>	32,154,000
	<b>101,542,224</b>	104,119,000
Less: current maturities	<b>(2,673,000)</b>	(2,563,000)
	<b>\$ 98,869,224</b>	\$ 101,556,000

Under the indenture agreements, the Obligated Group (i.e.: Masonicare, MHC, MAN, MAV (excluding MAM and SLM) MCF, MHH&H and MAN) is required to make monthly deposits with the Trustees (U.S. Bank for Series C and Webster Bank for Series E) to fund future principal and interest payments. The agreements also place limits on additional borrowings and further require the Obligated Group to maintain a specified debt service coverage ratio. The Obligated Group was in compliance with these covenants for the years ended September 30, 2014 and 2013.

The annual maturities of long-term debt in each of the succeeding five years and thereafter are as follows:

2015	\$ 2,673,000
2016	2,787,000
2017	2,907,000
2018	3,033,000
2019	3,123,000
Thereafter	87,019,224
	<b>\$ 101,542,224</b>

Funds held by Trustees under the indenture agreement are as follows at September 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Principal and interest funds, held by Fidelity	<b>\$ -</b>	\$ 28,777
Principal and interest funds, held by Webster Bank	<b>111,503</b>	8,240
Principal and interest funds, held by U.S. Bank	<b>471,433</b>	448,350
	<b>\$ 582,936</b>	\$ 485,367

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 7 - Line of Credit**

Masonicare has entered into a revolving line of credit agreement with M&T Bank for \$10,000,000. Advances under the line of credit bear interest at the higher of a 4% interest rate or the Eurodollar rate plus 175 basis points. The agreement expires upon mutual consent of both parties. As of September 30, 2014 and 2013, Masonicare did not have any outstanding amounts drawn against this line of credit.

**Note 8 - Self-Insurance Liabilities**

Masonicare is self-insured for its long-term care professional and general liability exposure through Keystone, a wholly-owned subsidiary domiciled in Vermont. Keystone provides claims-made coverage of \$13,000,000 per claim with an annual aggregate of \$16,000,000 for professional and general liability insurance subject to reinsurance. Masonicare has employed independent actuaries to estimate the ultimate costs of the settlement of claims under the program, which approximate \$5,865,466 and \$7,018,340 at September 30, 2014 and 2013, respectively. Accrued professional and general liability reserves are discounted at a rate of 3% as of September 30, 2014 and 2013 and in management's opinion provide an adequate reserve for loss contingencies.

Masonicare also self-insures the deductible portion of workers compensation claims. The self-insured deductible amount is \$250,000 from January 1, 2001 through January 1, 2005 and \$350,000 from January 1, 2005 to February 28, 2009. Effective March 1, 2009, Masonicare has purchased a pre-funded large deductible policy from a commercial carrier with a deductible limit of \$350,000 per claim and a \$4,300,000 aggregate limit (\$4,200,000 through March 1, 2010). Masonicare has established an irrevocable trust to hold assets, accumulate income and pay settled claims and expenses related to the workers' compensation program for the self-insured deductibles. Masonicare has employed independent actuaries to estimate the ultimate costs of the deductible portion of workers compensation claims, which approximate \$4,833,799 and \$4,610,370 at September 30, 2014 and 2013, respectively. Accrued workers compensation reserves have been discounted at a rate of 3% at September 30, 2014 and 2013 and in management's opinion provide an adequate reserve for loss contingencies. Effective February 24, 2009, Masonicare obtained a surety bond to secure its future obligations of the self-insured deductible program. To effectuate the surety bond agreement Masonicare has provided \$300,000 in collateral, which is held in trust at J.P Morgan Chase Bank N.A. and is included within assets under trust for self-insurance liabilities within the consolidated balance sheets as of September 30, 2014 and 2013, respectively. In addition, Masonicare is required to pre-fund a loss escrow account with the commercial carrier for the large deductible policy. Amounts held in escrow by the commercial carrier total \$3,450,357 and \$3,618,968 as of September 30, 2014 and 2013, respectively, and are carried within other receivables on the consolidated balance sheets.

Effective January 1, 2007, Masonicare self-insured liabilities related to medical coverage on its employees and dependents (covered members) up to \$100,000 per covered member. Masonicare procured a stop loss policy with AETNA for coverage in excess of \$100,000 per covered member. Masonicare recorded liabilities in accordance with the program of \$1,173,000 as of September 30, 2014 and 2013. Masonicare paid claims and administrative fees related to this program of \$14,776,969 and \$16,121,916 for the years ended September 30, 2014 and 2013, respectively.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 9 - Lease Commitments**

Masonicare leases certain real estate and equipment under several non-cancelable operating leases. Future minimum rental payments under non-cancelable operating leases with initial terms in excess of one year are as follows at September 30, 2014:

2015	\$	762,795
2016	\$	842,528
2017	\$	805,388
2018	\$	386,959
2019	\$	126,160

Total rent expense under all operating leases was approximately \$764,176 and \$694,902 for the years ended September 30, 2014 and 2013, respectively.

**Note 10 - Pension and Other Postretirement Benefits**

Masonicare has a defined benefit pension plan that provides retirement benefits for all eligible employees. To be eligible for the plan, the employee must work for a participating affiliate as defined in the plan agreement, be at least 21 years of age, and have completed a full year of service with at least 1,000 hours worked in that year. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

In July 2002, the Board of Trustees voted to freeze the defined benefit pension plan effective December 31, 2002. Upon freezing of the plan, all participants became 100% vested in their account balances. Benefits will be fully payable upon retirement or termination.

Masonicare also provides other postretirement health care benefits for retired employees. Employees may become eligible for health care benefits if they retire after attaining specified age and service requirements while they worked for Masonicare. The cost of such benefits is accrued during an employee's years of service. Generally, Masonicare pays a portion (or all) of the plan costs and the retirees pay premiums based on age and services at retirement. Employees hired after December 31, 1999 are not eligible for postretirement health benefits. During September 2009, the Board of Trustees voted to amend the medical plan. As part of the amendment to the medical plan, certain retiree contributions increased and the medical plan was no longer available to future retirees hired prior to January 1, 2000.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 10 - Pension and Other Postretirement Benefits (continued)**

The valuation dates are September 30, 2014 and 2013 and pertinent information relating to these plans is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	2014	2013	2014	2013
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 32,452,603	\$ 37,667,477	\$ 3,607,344	\$ 4,271,634
Participant contributions	-	-	27,965	41,770
Service cost	180,222	268,090	5,750	12,162
Interest cost	1,423,716	1,333,688	166,851	156,913
Actuarial loss (gain)	2,554,524	(4,337,082)	155,050	(622,283)
Benefits paid	(2,655,899)	(2,479,570)	(265,426)	(252,852)
	<u>\$ 33,955,166</u>	<u>\$ 32,452,603</u>	<u>\$ 3,697,534</u>	<u>\$ 3,607,344</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 21,128,734	\$ 20,403,699	\$ -	\$ -
Actual return on plan assets	1,205,381	1,390,272	-	-
Employer contributions	2,136,234	1,814,333	237,461	211,082
Participant contributions	-	-	27,965	41,770
Benefits paid	(2,655,899)	(2,479,570)	(265,426)	(252,852)
	<u>\$ 21,814,450</u>	<u>\$ 21,128,734</u>	<u>\$ -</u>	<u>\$ -</u>
Fair value of plan assets at end of year	<u>\$ 21,814,450</u>	<u>\$ 21,128,734</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued liability	<u>\$ (12,140,716)</u>	<u>\$ (11,323,869)</u>	<u>\$ (3,697,534)</u>	<u>\$ (3,607,344)</u>

Significant assumptions are as follows as of September 30, 2014 and 2013:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	2014	2013	2014	2013
<b>Weighted average assumptions:</b>				
Discount rate on Qualified Plan	4.25%	4.80%	4.25%	4.80%
Discount rate on Supplemental Executive Retirement Plan	1.85%	1.60%	N/A	N/A
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	5.00%*	5.00%*	N/A	N/A
<b>Health care cost trend rate:</b>				
Initial health care cost trend rate	N/A	N/A	7.00%	7.50%
Ultimate health care cost trend rate	N/A	N/A	5.00%	5.00%
Number of years to ultimate rate	N/A	N/A	4 years	4 years

\* Relates to Supplemental Executive Retirement Plan only.

The discount rate is the rate at which obligations could be effectively settled and is based on high-grade bond yields after allowing for call and default risk. The expected rate of return on assets for the defined benefit pension plan is determined by adding expected inflation to expected long-term returns. The salary increase rate is a long-term rate based on current expectations of future pay increases.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 10 - Pension and Other Postretirement Benefits (continued)**

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage Point Increase</u>	<u>1-Percentage Point Decrease</u>
Effect on total of service and interest cost components	\$ 11,100	\$ 9,800
Effect on postretirement benefit obligation	\$ 259,000	\$ 230,000

Components of net periodic benefit costs are as follows for the years ended September 30, 2014 and 2013:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Service cost	\$ 180,221	\$ 268,090	\$ 5,750	\$ 12,162
Interest cost	1,423,716	1,333,688	166,851	156,913
Expected return on plan assets	(1,406,282)	(1,365,924)	-	-
Amortization of prior service cost	-	-	(436,572)	(436,572)
Actuarial loss recognized	<u>861,168</u>	<u>1,275,779</u>	<u>78,824</u>	<u>132,542</u>
	<u>\$ 1,058,823</u>	<u>\$ 1,511,633</u>	<u>\$ (185,147)</u>	<u>\$ (134,955)</u>

Amounts recorded in unrestricted net assets as of September 30, 2014, not yet amortized as components of net periodic benefit costs are as follows:

Unamortized prior service credit	\$ (2,354,438)
Unamortized actuarial loss	<u>15,548,401</u>
Amount recognized as a reduction in unrestricted net assets	<u>\$ 13,193,963</u>

The amortization of the above items expected to be recognized in net periodic costs for the year ended September 30, 2015 is \$740,594.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 10 - Pension and Other Postretirement Benefits (continued)**

The fair values of Masonicare's pension plan assets as of September 30, by asset category classified as Level 1, 2 and 3, as defined in Note 19, are as follows:

<b>2014</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Cash, cash equivalents and interest receivable	\$ 439,287	\$ -	\$ -	\$ 439,287
Equity securities:				
Consumer discretionary	543,360	-	-	543,360
Consumer staples	332,335	-	-	332,335
Energy	361,207	-	-	361,207
Financials	665,368	-	-	665,368
Health care	512,295	-	-	512,295
Industrials	565,568	-	-	565,568
REITS	63,579	-	-	63,579
Information technology	709,473	-	-	709,473
Communication services	22,703	-	-	22,703
Utilities	36,655	-	-	36,655
Materials	-	-	-	-
Other	153,828	-	-	153,828
Corporate bond:				
Industrial	-	16,104	-	16,104
Mutual and other equity funds:				
Fixed income taxable bond	7,026,690	-	-	7,026,690
U.S. equity	4,278,319	-	-	4,278,319
International	3,267,247	-	-	3,267,247
Global real estate	690,823	-	-	690,823
Absolute return	1,699,472	-	-	1,699,472
Commodities	430,137	-	-	430,137
	<u>\$ 21,798,346</u>	<u>\$ 16,104</u>	<u>\$ -</u>	<u>\$ 21,814,450</u>

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 10 - Pension and Other Postretirement Benefits (continued)**

<u>2013</u>	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash, cash equivalents and interest receivable	\$ 750,032	\$ -	\$ -	\$ 750,032
Equity securities:				
Consumer discretionary	476,456	-	-	476,456
Consumer staples	255,621	-	-	255,621
Energy	241,878	-	-	241,878
Financials	648,765	-	-	648,765
Health care	376,929	-	-	376,929
Industrials	357,109	-	-	357,109
Information technology	530,557	-	-	530,557
Materials	-	-	-	-
Other	18,623	-	-	18,623
Corporate bond:				
Industrial	-	16,764	-	16,764
Mutual and other equity funds:				
Fixed income taxable bond	7,177,192	-	-	7,177,192
U.S. equity	4,714,127	-	-	4,714,127
International	2,585,930	-	-	2,585,930
Global real estate	672,412	-	-	672,412
Absolute return	1,828,818	-	-	1,828,818
Commodities	477,521	-	-	477,521
	<u>\$ 21,111,970</u>	<u>\$ 16,764</u>	<u>\$ -</u>	<u>\$ 21,128,734</u>

The investment objectives for the defined benefit pension plan is to obtain a favorable relative return for the entire fund, consistent with preservation of capital emphasizing some income generation and long-term growth. While some risk is warranted pursuing long-term growth of capital, consistent annual returns with low volatility in investment performance are desirable.

Masonicare expects to contribute approximately \$1,489,154 to its pension plan, \$334,000 to its postretirement plan and \$119,000 to its supplemental executive retirement plan in fiscal year 2015. The costs and related obligations of the supplemental executive retirement plan are included within the pension benefit tables set forth above.



**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 10 - Pension and Other Postretirement Benefits (continued)**

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
2015	\$ 4,365,986	\$ 287,000
2016	\$ 3,013,000	\$ 299,000
2017	\$ 2,088,000	\$ 313,000
2018	\$ 2,670,000	\$ 322,000
2019	\$ 2,846,000	\$ 331,000
Thereafter	\$ 13,017,000	\$ 1,444,000

Masonicare offers to substantially all of its employees a defined contribution plan with various investment options. To be eligible, an employee must have completed 90 days of service and be at least 21 years old. Total defined contribution pension expense was \$1,811,919 and \$1,464,560 for the years ended September 30, 2014 and 2013, respectively.

**Note 11 - Entrance Fees**

MAV residents are provided living accommodations, other facilities and services and certain medical care in exchange for payment of entrance fees and monthly service charges. Deferred entry fee revenue represents the amount of unamortized initial entry fees paid by residents of MAV. Deferred entry fee revenue amounts are amortized to income on a straight-line basis over the shorter of the estimated remaining residential life expectancies of the individual residents or the maximum refund period.

Refundable entry fees are refundable in the event of termination of the Residency Agreement or upon the resident's death (up to 96 months) at a declining rate based on length of stay as provided by the Residency Agreements. Residential life expectancies are determined annually by reference to appropriate actuarial tables.

Based upon MAV's existing fee structure and management's expectation that future monthly service charges will be reflective of related operating costs, MAV is not required to record a liability for its obligation to provide future services and facilities to current residents.

**Note 12 - Third-Party Payer Reimbursement**

Masonicare has agreements with third-party payers that provide for payments to MHC, MAN, MHH&H and Masonicare Partners Home Health and Hospice at amounts different from their established rates.

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**Note 12 - Third-Party Payer Reimbursement (continued)**

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

*Medicare* - Services rendered to Medicare program beneficiaries are reimbursed under a variety of reimbursement methodologies. The acute care beds of MHC are reimbursed on a Diagnostic Related Group (DRG) Prospective Payment System (PPS) methodology. Reimbursement amounts differ based on diagnosis and acuity level. The geriatric medical psychiatric beds of MHC began being paid on the Inpatient Psychiatric Facility Prospective Payment System effective October 1, 2005. Services are reimbursed based on patient diagnosis along with clinical and functional factors. The long-term care beds in MHC and MAN are reimbursed using the Resource Utilization Groups (RUGS) PPS methodology. This PPS method reimburses services rendered to Medicare program beneficiaries based on a diagnosis and clinical and rehab care given is determined through the minimum data set (MDS) evaluation.

Medicare reimburses for outpatient services (non-home health) on either a cost basis or a blend of cost and fee schedules, and to a much larger extent, on a rate per case outpatient prospective payment Ambulatory Payment Classification (APC) system.

Medicare reimburses home health services on a home health PPS methodology. Under home health PPS, an agency receives a fixed amount of reimbursement which covers all services (with a limited number of exceptions) provided to a patient for a specific treatment episode of 60 days. The reimbursement rate is developed based on the clinical, functional and service needs specific to the individual patient. The prospective rate is wage-adjusted based on where the service is provided as opposed to where the agency is located, and is subject to a variety of final claim adjustments, which modify the payment based on actual utilization and level of clinical and functional severity reported at the end of the episode. Medicare reimburses hospice services on a per diem basis based on level of care.

*Medicaid* - The Department of Social Services of the State of Connecticut (DSS), the State agency responsible for the administration of the State Medicaid program, is currently applying a prospective rate system in establishing Medicaid rates for its state-aided patients in long-term care facilities. The system categorizes costs into five major groupings and the facilities' actual costs are compared to state maximums and the lower amounts determine reimbursement. The base period used to compute the rates is to be updated every two to four years. The Connecticut legislature has overridden this rebasing and rates continue to be based on 1996 costs, updated by a defined percentage as established by the legislature. This update has consistently been less than the level of inflation. The State of Connecticut is currently reimbursing home health providers for services rendered to Medicaid home health beneficiaries based on fixed fee for service rates. For fiscal year 2010, the State of Connecticut implemented a hospice benefit that is reimbursed on a per diem basis.

DSS had instituted a user fee, which requires all long term care facilities to pay an amount per non-Medicare patient day back to the State. Rates paid to these facilities were adjusted through a formula that was compared to the costs for fiscal year 2011 but capped with a maximum amount of increase. MAN received this maximum amount.

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**Note 12 - Third-Party Payer Reimbursement (continued)**

**Filing Requirements** - MHC, MAN, MHH&H and Masonicare Partners Home Health and Hospice must file annual Medicare cost reports and MHC and MAN must file annual Medicaid cost reports. Masonicare as the corporate parent, files a home office cost report with Medicare in order to define the cost of services to each of the other cost reporting entities. Although there is no direct reimbursement for the home office, the allocated costs to the other cost reporting entities are incorporated into their respective Medicare cost reports.

As a result of audits by the Medicare and Medicaid intermediaries, the cost reports may be subject to audit adjustments and retroactive settlements. Masonicare has recorded provisions for future audits and related estimated settlement amounts. In the opinion of management, no material adjustments are expected to result from future audit settlements.

Medicare cost reports for MHC have been settled through September 30, 2011 and Medicare cost reports for MAN, MHH&H and Masonicare Partners Home Health and Hospice have been settled through September 30, 2012. The Medicaid cost reports for MHC and MAN have been reviewed by DSS through September 30, 2006 and 2009, respectively. During 2014, DSS initiated a routine full field audit of MHC's 2009 Medicaid cost report. The final results have not been received.

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, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Masonicare is in compliance with fraud and abuse regulations as well as other applicable governmental laws and regulations. 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.

Revenue from Medicare and Medicaid programs accounted for approximately 61% and 59% of Masonicare's net patient revenue for the years ended September 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2013 net patient service revenues increased by approximately \$1,000,000 due to a reduction in Medicare reserves previously estimated that are no longer considered necessary as a result of decreased settlements on Recovery Audit Contractor (RAC) audits. There were no changes to third party reserves in 2014 other than normal settlements.

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**Note 13 - Revenues from Services to Patients**

The following summarizes net patient service revenues, for the years ended September 30, 2014 and 2013:

<u>2014</u>	<u>Self-Pay</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Hospice &amp; Other</u>	<u>Total</u>
Gross revenues from services to patients	\$ 15,463,020	\$ 50,201,219	\$ 70,864,693	\$ 15,260,147	\$ 26,411,744	\$ 178,200,823
Contractual allowances	-	(6,360,925)	(30,423,030)	(3,920,482)	(192,948)	(40,897,385)
Net revenues from services to patients	<u>\$ 15,463,020</u>	<u>\$ 43,840,294</u>	<u>\$ 40,441,663</u>	<u>\$ 11,339,665</u>	<u>\$ 26,218,796</u>	<u>\$ 137,303,438</u>
<u>2013</u>	<u>Self-Pay</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Hospice &amp; Other</u>	<u>Total</u>
Gross revenues from services to patients	\$ 21,110,702	\$ 51,317,078	\$ 68,262,907	\$ 15,733,000	\$ 27,070,207	\$ 183,493,894
Contractual allowances	-	(6,526,964)	(27,878,421)	(5,055,521)	(282,712)	(39,743,618)
Net revenues from services to patients	<u>\$ 21,110,702</u>	<u>\$ 44,790,114</u>	<u>\$ 40,384,486</u>	<u>\$ 10,677,479</u>	<u>\$ 26,787,495</u>	<u>\$ 143,750,276</u>

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most third-party payers are different from established billing rates of Masonicare and these differences are accounted for as contractual allowances.

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients and others for services rendered. Masonicare has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments and discounted charges, including estimated retroactive settlements under payment agreements with third-party payors.

Masonicare recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients, Masonicare recognizes revenue based on its internal rates. On the basis of historical experience, a significant portion of Masonicare's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Masonicare records a provision for bad debts related to uninsured patients in the period the services are provided.

**Masonicare**  
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**Note 13 - Revenues from Services to Patients (continued)**

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payors under current reimbursement methodologies, and also by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Masonicare analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate appropriate allowance for doubtful accounts and provision for bad debts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, Masonicare analyzes contractually due amounts and provides an allowance for doubtful accounts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), Masonicare records a provision for bad debts in the period of service on the basis of its past experience.

Masonicare's allowance for doubtful accounts for patient accounts receivable balances outstanding greater than 150 days (including self pay balances) covered 151% and 67% of accounts receivable as of September 30, 2014 and 2013, respectively. Masonicare's write-offs predominantly relate to self-pay balances and totaled \$2.8 million and \$1.5 million for fiscal year 2014 and 2013, respectively.

As part of Masonicare's regular review and compliance process, Masonicare changed its current methodology of the calculation and the process to identify charity care cases.

After a detailed review, Masonicare has decided to adjust the methodology in which it set reserves for bad debts to be more conservative and weights older receivables more heavily in the calculation. This decision was made using historical write off data as well as taking into account the current Medicaid application process. The effect of this change is a one-time adjustment to bad debt expense in the amount of \$1.9 million.

Masonicare has also identified accounts initially classified as bad debt that should have been classified as charity care. ASC 954-605-25-11 explicitly states that a facility does not have to determine that a patient is unable to pay at the time of admission in order to classify them as charity. These accounts have been re-classed to charity care in 2014 causing a one-time adjustment to revenue in the amount of \$3.2 million.

**Note 14 - Endowments**

Masonicare's endowment consists of funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

**Masonicare**  
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**Note 14 - Endowments (continued)**

Masonicare has interpreted the relevant laws 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. 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 Board of Trustees. Masonicare considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of Masonicare and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of Masonicare; and (7) the investment policies of Masonicare.

Temporarily restricted net assets are available for the following purposes at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Residual interest trusts not available for Masonicare's purposes until the expiration of the trusts	\$ 974,444	\$ 1,198,888
Investments held to support annuity contractual obligations that are not available for Masonicare's purposes until the expiration of interest income	111,113	222,154
Support of MAV residents	1,156,445	1,031,278
Support for scholarship activities	<u>515,342</u>	<u>448,083</u>
	<u>\$ 2,757,344</u>	<u>\$ 2,900,403</u>

Permanently restricted net assets consist of the following at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments held in perpetuity, the income from which is dedicated to support Masonicare's activities	\$ 51,923,005	\$ 63,965,223
Investment in note receivable	12,593,500	-
Investments held in perpetuity, the income from which is dedicated to support annuity contractual obligations	1,848,689	1,743,347
Investments held in perpetuity, the income from which is dedicated to support MHH&H activities	1,177,282	1,177,282
Fair value of perpetual trusts	<u>12,243,802</u>	<u>11,835,765</u>
	<u>\$ 79,786,278</u>	<u>\$ 78,721,617</u>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires Masonicare to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2014 and 2013, there were no funds that were below the level required by donor or law.

**Masonicare**  
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**Note 14 - Endowments (continued)**

**Return Objectives and Risk Parameters** - Masonicare's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, Masonicare's investment and spending policies for endowment assets attempts to provide preservation of capital, growth after inflation, capital appreciation and compliance with bond covenants. In addition, the objectives include adequate liquidity with limited volatility.

**Spending Policy** - Prior to September 2009 MCF's investment portfolio allocation policy for long-term returns (Spending Policy) provided that the appropriation of funds from principal and or earnings to support annual operational losses of Masonicare. Subsequent to September 2009 and primarily due to unfavorable investment returns within the global equity markets, MCF's Board of Directors and Masonicare's Board of Trustees approved the expenditure of up to \$20 million of invested assets to ensure compliance with Masonicare's bond covenants. None of the \$20 million appropriated has been expended as of September 30, 2014 and 2013.

MCF's Board of Directors and Masonicare's Board of Trustees approved the appropriation of endowment funds for the purpose of acquiring land in Mansfield, CT and Oxford, CT in fiscal years 2011 and 2014, respectively. The total value of land acquired is \$8,118,791 and will be used to develop assisted living facilities to provide services to elderly and further continue the mission of Masonicare.

During fiscal year 2014, MCF's Board of Directors and Masonicare's Board of Trustees approved the appropriation of endowment funds for the purpose of loaning these funds to MAV which in turn loaned these funds to MAM to capitalize SLM. This transaction resulted in the effectuation of two intercompany loan agreements. One agreement between MCF and MAV and another agreement between MAV and MAM. Both intercompany loan agreements were in the amount of \$12,593,500 and bear interest at a rate equivalent to the Applicable Federal Rate as published in Revenue Rulings of the Internal Revenue Service from time to time, until paid in full. Each note matures on May 15, 2028. Repayment shall be interest only until May 15, 2019. Thereafter, payment shall include principal and interest. SLM ultimately used these funds for the construction of a new independent and assisted living facility located in Mystic, CT in order to further continue the mission of Masonicare. Interest expense paid on the note was \$94,434 for the year ended September 30, 2014.

For fiscal periods beginning October 1, 2009 Masonicare's Spending Policy is to support Masonicare's strategic plan initiatives and operational objectives by making available a minimum of 0% up to maximum of 23.5% annually of the 3 year rolling average of the unrestricted portfolio's market value measured as of May 31st. The annual percentage allocation may only exceed 0% in years that the unrestricted investment portfolio's market value has not incurred a decline from the prior year market value as measured as of May 31st. To comply with this Spending Policy, the Investment Committee provides recommendations of the annual percentage allocation to the Board of Trustees based on its evaluation of management's proposal for how the appropriated funds will be utilized including consideration of the projected impact on the investment portfolio. Management presents its proposals at the beginning of each year's internal budget process. Additional requests may be submitted by management to the Investment Committee for evaluation at other times during the year due to timing or extraordinary circumstances for recommendation to the Board of Trustees. The Board of Trustees also approves additional amounts to be withdrawn from funds which are restricted to certain uses pursuant to donor stipulation that are subject to appropriation and expenditure for the relevant specified uses.

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**Notes to the Consolidated Financial Statements**  
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**Note 14 - Endowments (continued)**

Changes in endowment net assets for the years ended September 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2012	\$ 97,510,324	\$ 2,623,307	\$ 77,459,434	\$ 177,593,065
Investment return:				
Investment income	14,761,716	224,250	601,184	15,587,150
Net change in market value	(2,320,114)	122,816	111,948	(2,085,350)
Change in annuity obligations	-	(11,459)	(174,825)	(186,284)
Contributions	3,468,014	60,211	723,876	4,252,101
Released from restrictions	-	(118,722)	-	(118,722)
Net settlements on swap collateral and line of credit	720,000	-	-	720,000
Operations support and settlements	(7,573,994)	-	-	(7,573,994)
Affiliate allocated investment income	1,576,140	-	-	1,576,140
Other changes	(1,224,425)	-	-	(1,224,425)
Balance at September 30, 2013	106,917,661	2,900,403	78,721,617	188,539,681
Investment return:				
Investment income	15,005,076	369,418	623,866	15,998,360
Net change in market value	(6,515,401)	33,852	87,145	(6,394,404)
Change in annuity obligations	-	(271,990)	237,034	(34,956)
Contributions	2,871,125	59,681	116,616	3,047,422
Released from restrictions	-	(334,020)	-	(334,020)
Net settlements on swap collateral and line of credit	-	-	-	-
Operations support and settlements	(13,500,000)	-	-	(13,500,000)
Affiliate allocated investment income	1,576,140	-	-	1,576,140
Other changes	(229,991)	-	-	(229,991)
Balance at September 30, 2014	<u>\$ 106,124,610</u>	<u>\$ 2,757,344</u>	<u>\$ 79,786,278</u>	<u>\$ 188,668,232</u>



**Masonicare**  
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**Note 15 - Concentrations of Credit Risk**

MHC, MAN, MHH&H and Masonicare Partners Home Health and Hospice grant credit without collateral to certain patients, most of whom are insured under third-party payer agreements. The composition of patient and resident receivables before allowances for doubtful accounts consists of the following at September 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Medicare	<b>38 %</b>	43 %
Medicaid	<b>26</b>	37
Private pay and other	<b>36</b>	20
	<b>100 %</b>	100 %

**Note 16 - Income Taxes**

Masonicare, MHC, Keystone, MCF, MAN, MAV, MHH&H, MAH and MAM qualify as tax-exempt corporations under Section 501(c)(3) of the Internal Revenue Code. MMS is a taxable corporation. Income tax expense for MMS was immaterial for the years ended September 30, 2014 and 2013.

SLM is organized as a limited liability company and is being taxed as a partnership under the provisions of the Internal Revenue Code. SLM's taxable income or loss is reported by its members individually. The liability for payment of federal and state income tax on SLM's earnings is the responsibility of its members rather than that of SLM. As MAM is a 78.125% owner of SLM and qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code, the earnings allocated to MAM by SLM is non-taxable.

Masonicare accounts for uncertain tax positions in accordance with certain provisions of FASB ASC 740, which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. Under FASB ASC 740, Masonicare may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Masonicare did not record any unrecognized tax benefits for the years ended September 30, 2014 and 2013. Masonicare anticipates that it will not have a change in unrecognized tax benefits during the next twelve months that would have a material impact on the consolidated financial statements.

Masonicare's policy is to recognize interest and penalties related to income taxes as a component of general and administrative expenses. As of September 30, 2014 and 2013 and for the years then ended, Masonicare did not record any penalties or interest associated with unrecognized tax benefits.

All U.S. federal tax years from 2012 onwards are eligible for audit by the IRS.

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**Note 17 - Functional Expenses**

Masonicare provides health and social care services to the aging population, primarily residents of Connecticut. Expenses related to providing these services for the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Program services	\$ 87,431,396	\$ 85,315,409
Support services	30,201,296	30,020,461
General and administrative	64,462,570	67,436,000
	\$ 182,095,262	\$ 182,771,870

**Note 18 - Commitments, Contingencies and Other Obligations**

Masonicare is involved in various legal actions arising in the normal course of business. Although the ultimate outcome is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of these pending matters will not have a material adverse effect, individually or in the aggregate, upon the consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows.

During March 2005, the FASB issued Interpretation No. 47 which clarifies the term “conditional asset retirement obligation” as used in FASB ASC 410-20, “*Asset Retirement Obligations*”. FASB ASC 410-20 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as facilities containing asbestos, when the amount of the liability can be reasonably estimated. Management is currently evaluating the fair market value of its Asset Retirement Obligation (ARO), relating to its various facilities. An ARO liability of \$852,151 and \$780,326 has been established as of September 30, 2014 and 2013, respectively. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

**Note 19 - Fair Values**

Effective October 1, 2008, Masonicare adopted FASB ASC 820-10 “*Fair Value Measurements and Disclosures*”, which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States and expands disclosures about fair value measurements. FASB ASC 820 does not require any new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability, which is referred to as the exit price. The standards provide guidance on how to measure fair value, when required, under existing accounting standards and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2 and 3).

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that Masonicare has the ability to access at the measurement date.

Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

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**Note 19 - Fair Values (continued)**

Level 3 - Unobservable inputs reflecting Masonicare's estimates of the assumptions that market participants could use in pricing the asset or liability (including assumptions about risk).

Management determines the appropriate classification of its investments in all securities at the time of purchase and re-evaluates such determination at each balance sheet date. Masonicare has classified its investments in available for sale securities as Level 1, 2 and 3, as follows:

<b>2014</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Cash, cash equivalents and interest receivable	\$ 5,152,287	\$ -	\$ -	\$ 5,152,287
Equity securities:				
Basic industries	3,229,254	-	-	3,229,254
Capital goods	-	-	-	-
Communication services	239,307	-	-	239,307
Consumer discretionary	2,858,897	-	-	2,858,897
Consumer staples	1,693,940	-	-	1,693,940
Energy	1,976,802	-	-	1,976,802
Financials	3,817,699	-	-	3,817,699
Health Care	2,888,388	-	-	2,888,388
REITS	414,945	-	-	414,945
Technology	3,773,760	-	-	3,773,760
Utilities	436,939	-	-	436,939
U.S. mutual funds	34,864,902	-	-	34,864,902
International mutual funds	33,943,662	-	-	33,943,662
Public services	23,765	-	-	23,765
Other assets	12,726,649	-	-	12,726,649
Debt securities:				
U.S. government obligations	3,059,971	-	-	3,059,971
U.S. government agencies	1,628,208	-	-	1,628,208
Corporate bonds - industrial	5,316,148	-	-	5,316,148
Corporate bonds - utilities	188,642	-	-	188,642
Corporate bonds - finance	4,643,520	-	-	4,643,520
Mortgage backed securities	3,243,880	-	-	3,243,880
Taxable bond fund	11,241,553	-	-	11,241,553
Other assets	551,773	-	-	551,773
Perpetual interest trusts	12,243,802	-	-	12,243,802
Real estate	-	8,118,791	-	8,118,791
Residual interest trusts	-	1,550,765	-	1,550,765
Other invested assets	-	449,337	-	449,337
<b>Total</b>	<b>\$ 150,158,693</b>	<b>\$ 10,118,893</b>	<b>\$ -</b>	<b>\$ 160,277,586</b>

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 19 - Fair Values (continued)**

<u>2013</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Cash, cash equivalents and interest receivable	\$ 4,144,279	\$ -	\$ -	\$ 4,144,279
Equity securities:				
Basic industries	4,492,795	-	-	4,492,795
Capital goods	22,881	-	-	22,881
Communication services	282,072	-	-	282,072
Consumer discretionary	5,578,069	-	-	5,578,069
Consumer staples	2,439,791	-	-	2,439,791
Energy	2,407,374	-	-	2,407,374
Financials	6,733,134	-	-	6,733,134
Health Care	4,292,262	-	-	4,292,262
REITS	189,040	-	-	189,040
Technology	5,154,396	-	-	5,154,396
Utilities	207,940	-	-	207,940
U.S. mutual funds	39,684,722	-	-	39,684,722
International mutual funds	18,167,201	-	-	18,167,201
Public services	20,620	-	-	20,620
Other assets	30,498,598	-	-	30,498,598
Debt securities:				
U.S. government obligations	2,580,184	-	-	2,580,184
U.S. government agencies	1,055,071	-	-	1,055,071
Corporate bonds - industrial	3,391,402	-	-	3,391,402
Corporate bonds - utilities	184,210	-	-	184,210
Corporate bonds - finance	3,761,800	-	-	3,761,800
Mortgage backed securities	5,077,708	-	-	5,077,708
Municipal bonds	40,088	-	-	40,088
Taxable bond fund	14,922,283	-	-	14,922,283
Other assets	736,435	-	-	736,435
Perpetual interest trusts	11,835,765	-	-	11,835,765
Residual interest trusts	-	1,768,061	-	1,768,061
Other invested assets	-	1,255,765	10,000	1,265,765
<b>Total</b>	<b>\$ 167,900,120</b>	<b>\$ 3,023,826</b>	<b>\$ 10,000</b>	<b>\$ 170,933,946</b>

Investment in Investment Companies, carried at cost, are excluded from the above and amount to \$19,921,058 and \$20,574,467 as of September 30, 2014 and 2013, respectively.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 19 - Fair Values (continued)**

The following table provides a summary of changes in the fair value of Masonicare's interest rate swap liability, classified as Level 3, for the year ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning balance at October 1	\$ 15,407,032	\$ 20,884,267
Total realized and unrealized gains included in earnings	<u>987,739</u>	<u>(5,477,235)</u>
Ending balance at September 30	<u>\$ 16,394,771</u>	<u>\$ 15,407,032</u>

The fair value of the interest rate swap liability is based on information provided by Merrill Lynch, Wells Fargo, PNC and Deutsche Bank. The fair value estimate considers the underlying notional debt principal amounts and the current interest rates paid by Masonicare and Merrill Lynch, Wells Fargo, PNC and Deutsche Bank under the swap contract.

The following methods and assumptions were used by Masonicare in estimating the fair value of its other financial instruments:

**Cash and Cash Equivalents** - The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

**Long-Term Debt** - Fair values of Masonicare's long-term debt are based on current traded value. The fair value of the long-term debt approximates the carrying amount reported in the consolidated balances sheets as of September 30, 2014 and 2013.

**Receivables and Payables** - The fair value of receivables and payables approximates the carrying amount reported in the consolidated balance sheets as of September 30, 2014 and 2013.

**Note 20 - Derivatives**

Masonicare uses derivative instruments, specifically an interest rate swap, to manage its exposure to changes in the interest rate on its CHEFA Series C variable rate bond as further described in Note 6. The use of derivative instruments exposes Masonicare to additional risks related to this derivative instrument, including market risk, credit risk and termination risk as described below. Masonicare has defined risk management practices to mitigate these risks, as appropriate.

On April 4, 2012 Masonicare restructured the interest rate swap agreement with Merrill Lynch. The interest rate swap was divided into four separate transactions, adding three additional swap providers. The interest rate swap restructuring allowed Masonicare to reduce its cash collateral posting requirements by increasing the overall thresholds. In addition, at the close of the transaction, Merrill Lynch returned \$9,400,000 of outstanding collateral.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 20 - Derivatives (continued)**

Masonicare and Merrill Lynch (A-, Baa1) executed an amendment to the existing Swap Agreement which included a new threshold amount of \$7,000,000. Masonicare and Merrill Lynch also executed and amended the existing confirmation that eliminated cash flows, which started accruing on April 4, 2012 through July 1, 2020. As a result of such amendment, Masonicare paid an upfront payment to Merrill Lynch of \$14,134,000 and the current fixed rate will be adjusted from 3.76% to 3.854% starting on July 1, 2020.

Masonicare and Wells Fargo Bank (AA-, Aa3) executed an interest rate swap effective April 4, 2012 through April 3, 2019 (7 years) based on 47.5% of the outstanding notional amount for the first five years and 75% for the last two years. The transaction included an upfront payment from Wells Fargo Bank to Masonicare which was used to pay Merrill Lynch for a partial amendment on the identical notional schedule of the next 7 years. Wells Fargo Bank agreed to a \$7,500,000 collateral threshold.

Masonicare and PNC Bank (A, A2) executed an interest rate swap effective April 4, 2012 through April 5, 2017 (5 years) based on 27.5% of the outstanding notional amount during this time period. Such transaction included an upfront payment from PNC Bank to Masonicare, which was used to pay Merrill Lynch for a partial termination on the identical notional schedule of the next 5 years. PNC Bank agreed to a \$3,500,000 collateral threshold.

Masonicare and Deutsche Bank (A+, Aa3) executed an interest rate swap effective April 4, 2012 through July 1, 2020 (8.25 years) based on 25% of the outstanding notional for the first seven years and 100% for the remaining life of the swap. Such transaction included an upfront payment from Deutsche Bank to Masonicare, which was used to pay Merrill Lynch for a partial termination on the identical notional schedule. Deutsche Bank agreed to a \$5,000,000 collateral threshold.

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that Masonicare will accept. Credit risk is the risk that the counterparties on a derivative instrument may be unable to perform its obligation during the term of the contract. When the fair value of a derivative contract is positive, the counterparties owe Masonicare, which creates credit risk. Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold.

Termination risk represents the risk that Masonicare may be required to make a significant payment to the counterparties, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to Masonicare's ability to meet its debts or liquidity covenants.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 20 - Derivatives (continued)**

In connection with the issuance of the CHEFA Series C bonds, Masonicare entered into an interest rate swap agreement (swap agreement) as detailed above to synthetically fix the interest payment. Under the swap agreement, Masonicare makes fixed payments to the counterparties to the swap agreement and receives variable rate payments equal to 67% of the monthly LIBOR rate, which was approximately .10% and .18% as of September 30, 2014 and 2013, respectively. The difference between the actual variable rate on the debt and the rate of 67% of LIBOR is recorded by Masonicare as an increase or decrease of interest expense depending on the relationship of the rate of 67% of LIBOR to the actual variable rate on the debt. The fair value of the interest rate swap (a liability of \$16,394,771 and \$15,407,032 as of September 30, 2014 and 2013, respectively) has been recorded in the accompanying consolidated balance sheets as a long-term liability. The swap agreement expires on July 1, 2037.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap agreement of \$(987,739) and \$5,477,235 for the years ended September 30, 2014 and 2013, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating income.

**Note 21 - Supplemental Cash Flow Information**

	2014	2013
Cash paid during the year for interest	\$ 3,249,195	\$ 3,406,201

**Note 22 - Subsequent Events**

Subsequent events have been evaluated through December 4, 2014, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

**Masonicare  
Consolidating Balance Sheet  
September 30, 2014**

	MC	MHC	MCF	MAN	MAY	MAH	MHH	Eliminations	Obligated Group	Krestone	NMS	MAM	SIM	Eliminations	Total
<b>Assets</b>															
<b>Current assets:</b>															
Cash and cash equivalents	\$ 3,049,941	\$ 1,970	\$ 28,090	\$ 1,088	\$ 1,800	\$ -	\$ 668,506	\$ -	\$ 3,751,395	\$ 497,293	\$ 100	\$ -	\$ 2,310,055	\$ -	\$ 6,558,843
Restricted cash	-	-	-	-	766,014	-	-	-	766,014	-	-	-	-	-	766,014
Patient accounts receivable, net	-	8,709,469	-	2,241,062	1,797,971	338,232	8,692,612	-	21,839,346	-	198,596	-	-	-	23,037,942
Other receivables	5,236,710	20,213	(6,929)	-	298,964	1,943	(2,281)	-	5,618,550	1,135,641	40,110	-	-	-	6,834,901
Inventory	-	199,071	-	23,686	20,956	-	-	-	243,713	-	-	-	-	-	243,713
Prepaid expenses and other current assets	179,636	409,874	30,866	143,474	151,637	56,892	324,672	-	1,297,051	50,540	33,806	-	-	518,078	1,899,475
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,280,000	-	846,542	-	-	-	-	-	3,626,542	-	-	-	-	-	3,626,542
<b>Total current assets</b>	<b>11,746,287</b>	<b>9,400,597</b>	<b>398,499</b>	<b>2,409,310</b>	<b>3,107,542</b>	<b>397,067</b>	<b>9,683,509</b>	<b>-</b>	<b>37,142,611</b>	<b>1,683,474</b>	<b>312,612</b>	<b>-</b>	<b>2,828,133</b>	<b>-</b>	<b>41,966,820</b>
<b>Assets whose use is limited or restricted:</b>															
By Board of Trustees	-	-	106,124,610	-	-	-	1,347,864	(1,347,864)	106,124,610	-	-	-	-	-	106,124,610
Under patient asset management, trust agreements and patient error accounts	-	504,926	-	28,893	-	-	-	-	533,819	-	-	-	-	-	533,819
Under indenture agreement - held by Trustee	582,936	-	-	-	-	-	-	-	582,936	-	-	-	-	-	582,936
Under trust for retirement and insurance liabilities	300,000	-	-	-	-	-	-	-	300,000	13,586,648	-	-	-	-	13,886,648
By donors for special purposes	-	-	3,686,279	-	-	-	-	-	3,686,279	-	-	-	-	-	3,686,279
By donors for permanent endowment funds	-	-	67,977,852	-	12,593,500	-	-	(12,593,500)	67,977,852	-	-	-	-	(12,593,500)	55,384,352
<b>Total assets whose use is limited or restricted</b>	<b>982,936</b>	<b>504,926</b>	<b>177,788,741</b>	<b>28,893</b>	<b>12,593,500</b>	<b>-</b>	<b>1,347,864</b>	<b>(13,941,364)</b>	<b>179,205,496</b>	<b>13,586,648</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,593,500)</b>	<b>180,498,644</b>
<b>Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes</b>															
	<b>(3,280,000)</b>	<b>-</b>	<b>(846,542)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,626,542)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,626,542)</b>
<b>Non-current assets whose use is limited or restricted</b>															
	<b>(2,397,066)</b>	<b>504,926</b>	<b>177,442,199</b>	<b>28,893</b>	<b>12,593,500</b>	<b>-</b>	<b>1,347,864</b>	<b>(13,941,364)</b>	<b>175,578,954</b>	<b>13,586,648</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,593,500)</b>	<b>176,572,102</b>
Property and equipment, net	12,495,443	29,176,315	82,795	8,677,691	84,539,531	25,985	1,684,791	-	136,684,551	-	541,968	-	13,030,561	-	149,837,080
Classified financing costs	1,735,984	10,597	11,291	8,542	67,135	-	-	-	1,831,549	-	-	-	-	-	1,831,549
Recovery of estimated insurance liabilities insured through commercial policies	231,398	-	-	-	-	-	-	-	231,398	-	-	-	-	-	231,398
Investment in subsidiaries	26,382,018	-	-	-	11,891,049	-	-	(26,561,018)	11,892,049	-	-	12,772,259	-	(24,166,308)	-
<b>Total assets</b>	<b>\$ 50,392,066</b>	<b>\$ 39,094,435</b>	<b>\$ 177,934,784</b>	<b>\$ 11,124,436</b>	<b>\$ 112,198,557</b>	<b>\$ 423,052</b>	<b>\$ 12,716,164</b>	<b>\$ (40,523,382)</b>	<b>\$ 363,361,112</b>	<b>\$ 15,270,122</b>	<b>\$ 451,580</b>	<b>\$ 12,272,259</b>	<b>\$ 15,858,091</b>	<b>\$ (24,166,308)</b>	<b>\$ 370,458,959</b>

<sup>4</sup> Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.



**Masonicare**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2014**

	MC	MHC	MCT	MAN	MAY	MAH	MDBH*	Eliminations	Obligated Group	Keynote	MDS	MAM	SLM	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>															
<b>Current liabilities:</b>															
Current maturities of long-term debt	\$ 2,673,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,673,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,673,000
Accounts payable and accrued expenses	1,111,716	3,786,657	115,882	1,916,341	1,113,943	35,790	2,749,995	-	16,952,224	61,884	251,723	13,914	150,202	-	11,572,967
Accrued salaries and related expenses	1,761,985	2,316,538	38,477	581,234	372,546	103,677	2,233,708	-	7,428,745	-	449,093	-	-	-	7,668,438
Accrued pension and postretirement benefits, current portion	1,942,154	-	-	-	-	-	-	-	1,942,154	-	-	-	-	-	1,942,154
Estimated self-insurance liabilities, current portion	1,172,901	-	-	-	-	-	-	-	1,172,901	-	-	-	-	-	1,172,901
Estimated settlements due to third-party payers	-	157,535	-	27,565	-	-	-	-	1,255,036	-	-	-	-	-	1,255,036
Amounts payable, current portion	-	-	320,109	-	-	-	-	-	320,109	-	-	-	-	-	320,109
Refundable entry fees, current portion	-	-	-	-	1,422,514	-	-	-	1,422,514	-	-	-	-	-	1,422,514
Deferred patient service and other revenues	-	78,303	-	-	1,511,547	-	-	1,344,317	2,094,167	-	-	-	-	-	2,934,167
Deposits	1,944	174,956	-	287,140	1,307,775	-	-	-	1,771,815	-	-	46,035	-	-	1,817,870
Other liabilities	21,232	10,382	-	5,945	18,444	-	-	10,376	136,683	-	-	32,854	-	-	169,537
<b>Total current liabilities</b>	<b>8,685,232</b>	<b>6,536,371</b>	<b>494,468</b>	<b>2,813,305</b>	<b>5,806,773</b>	<b>139,357</b>	<b>7,476,942</b>	<b>-</b>	<b>31,952,448</b>	<b>61,804</b>	<b>724,670</b>	<b>93,969</b>	<b>150,202</b>	<b>-</b>	<b>32,949,093</b>
Accrued pension and postretirement benefits, net of current portion	13,896,096	-	-	-	-	-	-	-	13,896,096	-	-	-	-	-	13,896,096
Interest rate swap liability	16,394,771	-	-	-	-	-	-	-	16,394,771	-	-	-	-	-	16,394,771
Amounts payable, net of current portion	-	-	1,750,495	-	-	-	-	-	1,750,495	-	-	-	-	-	1,750,495
Refundable entry fees, net of current portion	-	-	-	-	22,258,239	32,760	-	-	22,330,999	-	-	-	-	-	22,330,999
Deferred entry fee revenues	-	-	-	-	15,266,399	-	-	-	15,266,399	-	-	-	-	-	15,266,399
Assets held for patient asset management, trust agreements and patient escrow accounts	-	496,232	-	30,417	-	-	-	-	526,649	-	-	-	-	-	526,649
Asset retirement obligation	-	703,274	-	148,877	-	-	-	-	852,151	-	-	-	-	-	852,151
Estimated insurance liabilities insured through commercial policies	231,398	-	-	-	-	-	-	-	231,398	-	-	-	-	-	231,398
Estimated self-insurance liabilities, net of current portion	4,833,798	-	-	-	-	-	-	-	4,833,798	5,865,467	-	-	-	-	10,699,265
Long-term debt, net of current maturities	98,869,224	-	-	-	12,593,500	-	-	(12,593,500)	98,869,224	-	-	12,593,500	-	(12,593,500)	98,869,224
<b>Total liabilities</b>	<b>142,910,519</b>	<b>7,735,877</b>	<b>2,244,963</b>	<b>2,992,599</b>	<b>55,964,911</b>	<b>172,117</b>	<b>7,476,942</b>	<b>(12,593,500)</b>	<b>206,904,428</b>	<b>5,927,271</b>	<b>724,670</b>	<b>12,653,469</b>	<b>150,202</b>	<b>(12,893,500)</b>	<b>213,766,540</b>
<b>Net assets (deficit):</b>															
Unrestricted	(92,518,453)	31,338,558	90,146,199	4,131,837	56,223,646	250,935	5,438,965	(27,928,882)	74,032,806	9,342,851	(270,090)	(381,210)	15,708,492	(37,680,541)	70,882,308
Non-controlling interest in consolidated subsidiary	-	-	-	-	-	-	(169,744)	-	(169,744)	-	-	-	-	-	(169,744)
Total unrestricted net assets	(92,518,453)	31,338,558	90,146,199	4,131,837	56,223,646	250,935	5,239,222	(27,928,882)	73,913,062	9,342,851	(270,090)	(381,210)	15,708,492	(34,164,308)	70,712,564
Temporarily restricted	-	-	2,757,344	-	-	-	-	-	2,757,344	-	-	-	-	-	2,757,344
Permanently restricted	-	-	79,786,278	-	-	-	-	-	79,786,278	-	-	-	-	-	79,786,278
<b>Total net assets (deficit)</b>	<b>(92,518,453)</b>	<b>31,338,558</b>	<b>172,689,821</b>	<b>8,121,837</b>	<b>56,223,646</b>	<b>250,935</b>	<b>5,239,222</b>	<b>(27,928,882)</b>	<b>156,456,684</b>	<b>9,342,851</b>	<b>(270,090)</b>	<b>(381,210)</b>	<b>15,708,492</b>	<b>(24,164,308)</b>	<b>156,692,419</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 50,392,066</b>	<b>\$ 38,094,435</b>	<b>\$ 177,934,784</b>	<b>\$ 11,124,436</b>	<b>\$ 112,188,557</b>	<b>\$ 423,052</b>	<b>\$ 12,716,164</b>	<b>\$ (40,522,382)</b>	<b>\$ 363,361,112</b>	<b>\$ 15,270,122</b>	<b>\$ 454,580</b>	<b>\$ 12,272,259</b>	<b>\$ 15,858,694</b>	<b>\$ (36,757,808)</b>	<b>\$ 370,458,059</b>

\* Home Health Care Services includes the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

**Masonicare  
Consolidating Balance Sheet  
September 30, 2013**

	MC	MHC	MCF	MAN	MAV	MHEH*	Eliminations	Obligated Group	Keystone	MMS	Eliminations	Total
<b>Assets</b>												
<b>Current assets:</b>												
Cash and cash equivalents	\$ 1,401,891	\$ 2,070	\$ 6,039	\$ 200	\$ 1,400	\$ 360,665	\$ -	\$ 1,772,665	\$ 615,128	\$ 100	\$ -	\$ 2,387,893
Restricted cash	-	-	-	-	683,953	-	-	683,953	-	-	-	683,953
Patient accounts receivable, net	-	13,402,271	-	4,329,918	1,748,889	7,670,824	-	27,151,902	-	(163,965)	-	26,987,996
Other receivables	3,986,133	1,515	4,610	-	682,350	34,985	-	4,709,593	809,477	-	-	5,569,541
Investments	-	239,925	-	24,085	20,956	-	-	284,966	-	-	-	284,966
Prepaid expenses and other current assets	349,719	362,765	30,528	174,643	228,426	344,693	-	1,440,736	53,417	40,426	-	1,534,569
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,280,000	-	404,434	-	-	-	-	3,684,434	-	-	-	3,684,434
<b>Total current assets</b>	<b>9,017,743</b>	<b>14,008,546</b>	<b>445,611</b>	<b>4,478,846</b>	<b>3,365,484</b>	<b>8,411,107</b>	<b>-</b>	<b>59,227,337</b>	<b>1,478,022</b>	<b>(12,867)</b>	<b>-</b>	<b>41,132,492</b>
<b>Assets whose use is limited or restricted:</b>												
By Board of Trustees	-	-	106,917,661	-	-	1,347,864	(1,347,864)	106,917,661	-	-	-	106,917,661
Under patient asset management, trust agreements and patient escrow accounts	-	555,316	-	24,284	-	-	-	579,600	-	-	-	579,600
Under indenture agreement - held by Trustees	485,367	-	-	-	-	-	-	485,367	-	-	-	485,367
Under trust for estimated self-insurance liabilities	300,000	-	-	-	-	-	-	300,000	12,190,378	-	-	12,490,378
By donors for specific purposes	-	-	3,778,017	-	-	-	-	3,778,017	-	-	-	3,778,017
By donors for permanent endowment funds	-	-	67,257,390	-	-	-	-	67,257,390	-	-	-	67,257,390
<b>Total assets whose use is limited or restricted</b>	<b>785,367</b>	<b>555,316</b>	<b>177,953,068</b>	<b>24,284</b>	<b>-</b>	<b>1,347,864</b>	<b>(1,347,864)</b>	<b>179,318,033</b>	<b>12,190,378</b>	<b>-</b>	<b>-</b>	<b>191,508,413</b>
<b>Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes</b>												
	<b>(3,280,000)</b>	<b>-</b>	<b>(404,434)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,684,434)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,684,434)</b>
<b>Non-current assets whose use is limited or restricted</b>												
	<b>(2,494,633)</b>	<b>555,316</b>	<b>177,548,634</b>	<b>24,284</b>	<b>-</b>	<b>1,347,864</b>	<b>(1,347,864)</b>	<b>175,633,601</b>	<b>12,190,378</b>	<b>-</b>	<b>-</b>	<b>187,823,979</b>
Property and equipment, net	12,373,181	28,566,964	89,609	8,199,861	86,717,343	1,631,652	-	137,578,640	-	131,789	-	137,710,399
Unamortized financing costs	1,800,961	16,997	11,291	8,542	67,135	-	-	1,898,526	-	-	-	1,898,526
Recoveries of estimated insurance liabilities issued through commercial policies	582,506	-	-	-	-	-	-	582,506	-	-	-	582,506
Investment in subsidiaries	26,582,018	-	-	-	-	-	(26,581,018)	1,000	-	-	(1,000)	-
<b>Total assets</b>	<b>\$ 47,861,776</b>	<b>\$ 43,141,425</b>	<b>\$ 178,995,145</b>	<b>\$ 12,711,535</b>	<b>\$ 90,149,962</b>	<b>\$ 11,590,625</b>	<b>\$ (27,928,882)</b>	<b>\$ 355,421,580</b>	<b>\$ 13,668,400</b>	<b>\$ 58,922</b>	<b>\$ (1,000)</b>	<b>\$ 369,147,902</b>

\* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

**Masonicare**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2013**

	MC	MHC	MCF	MAN	MAY	MHHH*	Eliminations	Obligated Group	Keystone	MMS	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>												
<b>Current liabilities:</b>												
Current maturities of long-term debt	\$ 2,563,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,563,000	\$ -	\$ -	\$ -	\$ 2,563,000
Accounts payable and accrued expenses	1,138,071	2,987,563	93,602	1,348,034	1,124,921	2,965,878	-	9,653,069	107,923	210,970	-	9,971,962
Accrued salaries and related expenses	1,360,449	2,192,756	80,350	609,632	359,405	2,122,028	-	6,665,040	-	319,780	-	7,124,800
Accrued pension and postretirement benefits, current portion	2,441,919	-	-	-	-	-	-	2,441,919	-	-	-	2,441,919
Estimated self-insurance liabilities, current portion	1,172,901	-	-	-	-	-	-	1,172,901	-	-	-	1,172,901
Estimated settlements due to third-party payors	-	292,789	-	27,935	-	1,079,542	-	1,400,266	-	-	-	1,400,266
Annuitant payable, current portion	-	-	381,546	-	-	-	-	381,546	-	-	-	381,546
Refundable entry fees, current portion	-	-	-	-	1,474,558	-	-	1,474,558	-	-	-	1,474,558
Deferred patient service and other revenues	-	74,262	-	-	1,511,547	1,311,936	-	2,897,745	-	-	-	2,897,745
Deposits	1,345	170,331	-	278,905	3,185,527	-	-	1,636,108	-	-	-	1,636,108
Other liabilities	4,153	2,878	-	5,784	18,448	96,390	-	127,653	-	-	-	127,653
<b>Total current liabilities</b>	<b>8,581,838</b>	<b>5,715,579</b>	<b>355,498</b>	<b>2,270,330</b>	<b>5,654,806</b>	<b>7,575,774</b>	<b>-</b>	<b>30,353,825</b>	<b>107,923</b>	<b>730,730</b>	<b>-</b>	<b>31,192,478</b>
<b>Accrued pension and postretirement benefits, net of current portion</b>												
Interest rate swap liability	12,489,294	-	-	-	-	-	-	12,489,294	-	-	-	12,489,294
Annuitant payable, net of current portion	15,407,032	-	1,982,962	-	-	-	-	15,407,032	-	-	-	15,407,032
Refundable entry fees, net of current portion	-	-	-	-	23,606,552	-	-	23,606,552	-	-	-	23,606,552
Deferred entry fee revenues	-	-	-	-	14,375,901	-	-	14,375,901	-	-	-	14,375,901
Assets held for patient asset management, trust agreements and patient escrow accounts	-	573,886	-	28,891	-	-	-	604,777	-	-	-	604,777
Asset retirement obligation	-	680,327	-	99,999	-	-	-	780,326	-	-	-	780,326
Estimated insurance liabilities insured through commercial policies	582,506	-	-	-	-	-	-	582,506	-	-	-	582,506
Estimated self-insurance liabilities, net of current portion	4,610,370	-	-	-	-	-	-	4,610,370	7,018,340	-	-	11,628,710
Long-term debt, net of current maturities	101,556,000	-	-	-	-	-	-	101,556,000	-	-	-	101,556,000
<b>Total liabilities</b>	<b>145,227,040</b>	<b>6,971,792</b>	<b>2,538,460</b>	<b>2,399,220</b>	<b>43,637,259</b>	<b>7,575,774</b>	<b>-</b>	<b>206,349,545</b>	<b>7,126,263</b>	<b>730,730</b>	<b>-</b>	<b>214,206,538</b>
<b>Net assets (deficit):</b>												
Unrestricted	(95,265,264)	36,169,631	93,924,665	10,312,313	46,512,703	4,053,937	(27,928,882)	67,689,103	6,542,137	(671,808)	(1,000)	73,558,432
Non-controlling interest in consolidated subsidiary	-	-	-	-	-	(239,088)	-	(239,088)	-	-	-	(239,088)
<b>Total unrestricted net assets</b>	<b>(95,265,264)</b>	<b>36,169,631</b>	<b>93,924,665</b>	<b>10,312,313</b>	<b>46,512,703</b>	<b>3,814,849</b>	<b>(27,928,882)</b>	<b>67,450,015</b>	<b>6,542,137</b>	<b>(671,808)</b>	<b>(1,000)</b>	<b>73,319,344</b>
Temporarily restricted	-	-	2,900,403	-	-	-	-	2,900,403	-	-	-	2,900,403
Permanently restricted	-	-	78,721,617	-	-	-	-	78,721,617	-	-	-	78,721,617
<b>Total net assets (deficit)</b>	<b>(95,265,264)</b>	<b>36,169,631</b>	<b>175,556,685</b>	<b>10,312,313</b>	<b>46,512,703</b>	<b>3,814,849</b>	<b>(27,928,882)</b>	<b>149,072,635</b>	<b>6,542,137</b>	<b>(671,808)</b>	<b>(1,000)</b>	<b>154,941,364</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 47,861,776</b>	<b>\$ 43,141,423</b>	<b>\$ 178,095,145</b>	<b>\$ 12,711,533</b>	<b>\$ 90,149,962</b>	<b>\$ 11,390,623</b>	<b>\$ (27,928,882)</b>	<b>\$ 355,421,580</b>	<b>\$ 13,668,400</b>	<b>\$ 58,922</b>	<b>\$ (1,000)</b>	<b>\$ 360,147,902</b>

\* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

**Masonicare**  
**Consolidating Statement of Operations**  
**For the Year Ended September 30, 2014**

	MC	MHC	MCF	MAN	MAV	MHH*	MAH	Eliminations	Obligated Group	Keystone	NMS	MAM	SLM	Eliminations	Total
<b>Operating revenues:</b>															
Net patient service revenues	\$ -	\$ 58,553,625	\$ -	\$ 14,297,024	\$ (31)	\$ 57,317,861	\$ 3,296,670	\$ (1,020,405)	\$ 152,544,144	\$ -	\$ 4,759,294	\$ -	\$ -	\$ -	\$ 157,303,438
Resident fees	-	2,091,152	-	-	16,659,711	-	10,600	-	18,761,463	-	-	-	-	-	18,761,463
Other revenues	1,265,983	1,748,720	92,075	4,050,006	9,680,809	369,955	59	(732,282)	16,515,325	836,169	1,429,794	-	82	(1,868,266)	16,613,104
Provision for bad debts	-	(2,671,590)	-	(1,106,529)	-	(707,330)	(10,767)	-	(4,496,256)	-	(4,924)	-	-	-	(4,201,160)
<b>Total operating revenues net of provision for bad debts</b>	<b>1,265,983</b>	<b>59,761,907</b>	<b>92,075</b>	<b>17,240,501</b>	<b>20,340,489</b>	<b>56,980,466</b>	<b>3,335,962</b>	<b>(1,752,687)</b>	<b>163,324,696</b>	<b>836,169</b>	<b>6,184,164</b>	<b>-</b>	<b>82</b>	<b>(1,868,266)</b>	<b>168,476,845</b>
<b>Operating expenses:</b>															
Salaries and wages	11,630,134	31,103,497	535,476	9,092,268	5,105,923	31,195,456	2,523,048	-	91,185,802	-	5,560,091	34,393	-	-	96,781,185
Employee benefits	3,231,346	10,800,460	121,211	3,082,593	1,372,505	8,705,740	597,207	-	27,620,862	-	951,019	9,659	-	-	28,881,531
Supplies and other services	2,497,885	9,561,412	1,849,336	3,028,146	3,133,943	5,807,063	126,389	(101,306)	25,102,868	(990,512)	341,770	129	75,596	(836,172)	23,753,679
Professional fees	1,269,172	5,706,609	253,563	2,731,041	3,494,284	5,990,053	356,521	(1,651,381)	18,173,862	198,033	791,924	-	633,185	(1,032,094)	18,764,910
Depreciation and amortization	1,171,418	2,574,520	15,811	971,460	4,360,272	229,981	57	-	9,323,519	-	43,975	-	94	-	9,307,588
Interest and other fees	243,955	846,047	282,175	312,797	3,255,919	-	-	(94,434)	4,846,309	-	-	94,439	-	(94,439)	4,846,309
Management fee	(9,190,318)	5,475,226	63,369	1,096,011	754,664	3,144,295	199,456	-	(457,313)	-	457,313	-	-	-	-
<b>Total operating expenses</b>	<b>10,553,592</b>	<b>64,067,781</b>	<b>2,620,931</b>	<b>20,334,226</b>	<b>21,481,310</b>	<b>55,072,588</b>	<b>3,512,658</b>	<b>(1,847,121)</b>	<b>175,795,969</b>	<b>(732,479)</b>	<b>8,146,983</b>	<b>138,619</b>	<b>708,875</b>	<b>(1,062,705)</b>	<b>182,695,262</b>
<b>(Loss) income from operations</b>	<b>(9,287,609)</b>	<b>(4,305,874)</b>	<b>(2,528,860)</b>	<b>(3,093,725)</b>	<b>4,859,179</b>	<b>1,907,878</b>	<b>(116,696)</b>	<b>94,434</b>	<b>(12,471,273)</b>	<b>1,568,648</b>	<b>(1,962,819)</b>	<b>(138,619)</b>	<b>(708,793)</b>	<b>94,439</b>	<b>(13,618,417)</b>
<b>Non-operating income (expense):</b>															
Contributions	-	-	2,871,125	-	-	-	-	-	2,871,125	-	-	-	-	-	2,871,125
Investment (loss) income	(899)	-	15,005,076	-	979,285	-	-	(94,434)	15,889,028	1,421,520	-	(553,745)	-	1,151,670	17,908,478
Changes in fair value of interest rate swap agreement	(987,739)	-	-	-	-	-	-	-	(987,739)	-	-	-	-	-	(987,739)
<b>Total non-operating income (expense)</b>	<b>(988,638)</b>	<b>-</b>	<b>17,876,201</b>	<b>-</b>	<b>979,285</b>	<b>-</b>	<b>-</b>	<b>(94,434)</b>	<b>17,772,414</b>	<b>1,421,520</b>	<b>-</b>	<b>(553,745)</b>	<b>-</b>	<b>1,151,670</b>	<b>19,791,859</b>
<b>Excess of revenues (under) over expenses</b>	<b>(10,276,247)</b>	<b>(4,305,874)</b>	<b>15,347,341</b>	<b>(3,093,725)</b>	<b>5,838,464</b>	<b>1,907,878</b>	<b>(116,696)</b>	<b>-</b>	<b>5,301,141</b>	<b>2,990,168</b>	<b>(1,962,819)</b>	<b>(692,364)</b>	<b>(708,793)</b>	<b>1,246,109</b>	<b>6,173,442</b>
<b>Gain (loss) attributable to non-controlling interest in consolidated subsidiary</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(69,344)</b>	<b>-</b>	<b>-</b>	<b>(69,344)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,048</b>	<b>85,704</b>
<b>Excess of revenues (under) over expenses of Masonicare</b>	<b>\$ (10,276,247)</b>	<b>\$ (4,305,874)</b>	<b>\$ 15,347,341</b>	<b>\$ (3,093,725)</b>	<b>\$ 5,838,464</b>	<b>\$ 1,838,534</b>	<b>\$ (116,696)</b>	<b>\$ -</b>	<b>\$ 5,231,797</b>	<b>\$ 2,990,168</b>	<b>\$ (1,962,819)</b>	<b>\$ (692,364)</b>	<b>\$ (708,793)</b>	<b>\$ 1,401,157</b>	<b>\$ 6,259,146</b>

\* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

**Masonicare**  
**Consolidating Statement of Operations**  
**For the Year Ended September 30, 2013**

	MC	MHC	MCF	MAN	MAV	MHHF*	Eliminations	Oligated Group	Keystone	MMS	Eliminations	Total
<b>Operating revenues:</b>												
Net patient service revenues	\$ -	\$ 40,569,239	\$ -	\$ 16,100,625	\$ (19)	\$ 62,714,137	\$ (132,767)	\$ 139,251,228	\$ -	\$ 4,499,048	\$ -	\$ 143,750,276
Resident fees	-	1,981,600	-	-	16,417,802	-	-	18,399,402	-	-	-	18,399,402
Other revenues	1,273,690	2,923,846	116,645	4,220,604	9,611,023	401,807	(1,686,905)	16,860,710	914,600	805,406	(2,164,567)	16,416,149
Provision for bad debts	-	(1,718,414)	-	(514,579)	-	(299,988)	-	(2,532,981)	-	-	-	(2,532,981)
<b>Total operating revenues net of provision for bad debts</b>	<b>1,273,690</b>	<b>63,756,271</b>	<b>116,645</b>	<b>19,806,660</b>	<b>26,028,809</b>	<b>62,815,956</b>	<b>(1,819,672)</b>	<b>171,978,359</b>	<b>914,600</b>	<b>5,304,454</b>	<b>(2,164,567)</b>	<b>176,032,846</b>
<b>Operating expenses:</b>												
Salaries and wages	11,116,132	31,294,519	546,785	9,135,084	4,907,636	33,428,996	-	90,428,902	-	5,493,044	-	95,921,946
Employee benefits	3,146,246	11,503,155	129,744	3,247,576	1,462,819	9,069,153	-	28,558,699	-	935,874	-	29,494,567
Supplies and other services	2,860,361	9,732,037	1,354,147	5,221,297	2,998,018	5,918,661	(175,845)	25,408,676	495,033	354,345	(1,191,149)	25,066,925
Professional fees	1,404,789	6,282,827	154,247	2,790,769	3,380,815	5,490,857	(1,645,827)	17,904,477	201,948	985,525	(973,418)	18,118,332
Depreciation and amortization	1,281,258	2,690,222	19,785	1,055,108	4,301,201	269,907	-	9,617,481	-	31,948	-	9,649,429
Interest and other fees	197,932	803,171	263,743	294,705	2,961,122	-	-	4,520,671	-	-	-	4,520,671
Management fee	(7,627,708)	2,938,823	48,756	933,681	610,800	2,708,452	-	(387,196)	-	387,196	-	-
<b>Total operating expenses</b>	<b>11,943,010</b>	<b>65,244,554</b>	<b>2,497,207</b>	<b>20,678,148</b>	<b>20,622,411</b>	<b>46,886,026</b>	<b>(1,819,672)</b>	<b>176,051,704</b>	<b>697,001</b>	<b>8,187,732</b>	<b>(2,164,567)</b>	<b>182,171,870</b>
<b>(Loss) income from operations</b>	<b>(10,669,320)</b>	<b>(1,488,283)</b>	<b>(2,380,562)</b>	<b>(871,508)</b>	<b>5,406,398</b>	<b>5,929,930</b>	<b>-</b>	<b>(4,073,345)</b>	<b>217,599</b>	<b>(2,883,278)</b>	<b>-</b>	<b>(6,739,024)</b>
<b>Non-operating income (expense):</b>												
Contributions	-	-	3,468,014	-	-	-	-	3,468,014	-	-	-	3,468,014
Investment (loss) income	(155)	-	14,761,716	-	1,576,915	-	-	16,338,676	594,150	-	-	16,932,626
Changes in fair value of interest rate swap agreement	3,477,235	-	-	-	-	-	-	3,477,235	-	-	-	3,477,235
<b>Total non-operating income (expense)</b>	<b>5,477,080</b>	<b>-</b>	<b>18,229,730</b>	<b>-</b>	<b>1,576,915</b>	<b>-</b>	<b>-</b>	<b>25,283,725</b>	<b>594,150</b>	<b>-</b>	<b>-</b>	<b>25,877,875</b>
<b>Excess of revenues (under) over expenses</b>	<b>(5,192,240)</b>	<b>(1,488,283)</b>	<b>15,849,168</b>	<b>(871,508)</b>	<b>6,983,315</b>	<b>5,929,930</b>	<b>-</b>	<b>21,210,380</b>	<b>811,749</b>	<b>(2,883,278)</b>	<b>-</b>	<b>19,138,851</b>
Gain attributable to non-controlling interest in consolidated subsidiary	-	-	-	-	-	(163,780)	-	(163,780)	-	-	-	(163,780)
<b>Excess of revenues (under) over expenses of Masonicare</b>	<b>\$ (5,192,240)</b>	<b>\$ (1,488,283)</b>	<b>\$ 15,849,168</b>	<b>\$ (871,508)</b>	<b>\$ 6,983,315</b>	<b>\$ 5,766,150</b>	<b>\$ -</b>	<b>\$ 21,046,600</b>	<b>\$ 811,749</b>	<b>\$ (2,883,278)</b>	<b>\$ -</b>	<b>\$ 18,975,071</b>

\* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.