



22 Masonic Avenue
P.O. Box 70
Wallingford, CT 06492
888-679-9997
www.masonicare.org

MASONICARE
CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015

Masonicare
Health Center

Masonicare
at
Ashlar Village

Masonicare
at
Mystic

Masonicare
Home Health & Hospice

Masonicare Partners
Home Health & Hospice

Masonicare at Home

Masonicare
at
Newtown

Masonicare
Primary Care Physicians

Masonicare
Behavioral Health

The Masonic
Charity Foundation
of Connecticut

MASONICARE
CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of Masonicare:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Masonicare and its subsidiaries (Masonicare), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Masonicare as of September 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidated statements of operations are 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 are not a required part of the consolidated financial statements. The consolidated balance sheets and consolidated statements of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.


Crowe Horwath LLP

Simsbury, Connecticut
February 14, 2017

MASONICARE
CONSOLIDATED BALANCE SHEETS
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
	<i>(in thousands)</i>	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 5,306	\$ 4,143
Restricted cash	768	767
Patient accounts receivable, net of allowance for doubtful accounts of \$5,892 in 2016 and \$6,177 in 2015	20,561	18,727
Other receivables	1,247	1,432
Inventories	288	282
Prepaid expenses and other current assets	8,345	7,254
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,576	3,583
Total current assets	40,091	36,188
Assets whose use is limited or restricted:		
By Board of Trustees	87,150	88,813
Under patient asset management, trust agreements and patient escrow accounts	417	499
Under indenture agreement - held by Trustees	542	506
Under trust for estimated self-insurance liabilities	14,857	13,461
By donors for specific purposes	3,902	3,577
By donors for permanent endowment funds	41,342	54,200
Total assets whose use is limited or restricted	148,210	161,056
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes		
	(3,576)	(3,583)
Non-current assets whose use is limited or restricted	144,634	157,473
Property and equipment, net	191,380	156,646
Unamortized financing costs	1,921	2,038
Recoveries of estimated insurance liabilities insured through commercial policies	888	108
Total assets	\$ 378,914	\$ 352,453

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

MASONICARE
CONSOLIDATED BALANCE SHEETS (CONTINUED)
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
	<i>(in thousands)</i>	
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 2,948	\$ 2,787
Accounts payable and accrued expenses	22,685	11,707
Accrued salaries and related expenses	8,327	7,657
Accrued pension and postretirement benefits, current portion	431	421
Interest rate swap liability, current portion	2,356	2,563
Estimated self-insurance liabilities, current portion	1,370	1,435
Estimated settlements due to third-party payers	1,315	1,311
Annuities payable, current portion	296	303
Refundable entry fees, current portion	1,564	1,515
Deferred patient service and other revenues	2,781	2,856
Deposits	2,330	2,174
Other liabilities	237	257
Total current liabilities	46,640	34,986
Accrued pension and postretirement benefits, net of current portion	18,598	18,374
Interest rate swap liability, net of current portion	19,346	16,825
Annuities payable, net of current portion	1,560	1,653
Refundable entry fees, net of current portion	21,327	21,236
Deferred entry fee revenues	13,995	14,945
Assets held for patient asset management, trust agreements and patient escrow accounts	429	484
Asset retirement obligation	899	798
Estimated insurance liabilities insured through commercial policies	888	108
Estimated self-insurance liabilities, net of current portion	11,475	9,982
Long-term debt, net of current maturities	106,634	96,082
Total liabilities	241,791	215,473
Net assets:		
Unrestricted net assets of Masonicare	50,780	51,339
Non-controlling interest in consolidated subsidiary	4,392	4,264
Total unrestricted net assets	55,172	55,603
Temporarily restricted	3,099	2,691
Permanently restricted	78,852	78,686
Total net assets	137,123	136,980
Total liabilities and net assets	\$ 378,914	\$ 352,453

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

MASONICARE
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
	<i>(in thousands)</i>	
Operating revenues:		
Net patient service revenues	\$ 147,191	\$ 136,119
Resident fees	20,370	19,156
Other revenues	15,978	16,315
Provision for bad debts	<u>(1,869)</u>	<u>(2,810)</u>
Total operating revenues, net of provision for bad debts	181,670	168,780
Operating expenses:		
Salaries and wages	103,218	97,023
Employee benefits	29,387	26,700
Supplies and other services	27,400	25,297
Professional fees	19,936	18,290
Depreciation and amortization	10,121	9,431
Interest and other fees	<u>4,457</u>	<u>4,392</u>
Total operating expenses	<u>194,519</u>	<u>181,133</u>
Loss from operations	(12,849)	(12,353)
Non-operating income:		
Contributions	2,207	1,728
Investment income	<u>7,466</u>	<u>11,583</u>
Total non-operating income	<u>9,673</u>	<u>13,311</u>
Excess of revenues (under) over expenses before severance costs, disposal of construction in progress and change in fair value of interest rate swap agreement		
	(3,176)	958
Severance costs	474	978
Disposal of construction in progress	<u>-</u>	<u>1,000</u>
Excess of revenues under expenses before change in fair value of interest rate swap agreement		
	(3,650)	(1,020)
Change in fair value of interest rate swap agreement	<u>(2,314)</u>	<u>(2,994)</u>
Excess of revenues under expenses		
	(5,964)	(4,014)
Excess of revenues under expenses attributable to non-controlling interest in consolidated subsidiaries		
	<u>146</u>	<u>564</u>
Excess of revenues under expenses of Masonicare		
	(5,818)	(3,450)
Other changes in unrestricted net assets:		
Change in unrealized appreciation (depreciation) on investments	5,621	(10,640)
Post-retirement changes other than net periodic benefit costs	(362)	(5,452)
Capital contribution attributable to non-controlling interest in consolidated subsidiary	<u>274</u>	<u>911</u>
Change in unrestricted net assets	<u>\$ (285)</u>	<u>\$ (18,631)</u>

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

MASONICARE
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
Years Ended September 30, 2016 and 2015

	Unrestricted					
Total	Masonicare	Non- controlling interest	Total	Temporarily Restricted	Permanently Restricted	
		<i>(in thousands)</i>				
Balances, September 30, 2014	\$ 157,341	\$ 70,881	\$ 3,917	\$ 74,798	\$ 2,757	\$ 79,786
Excess of revenues under expenses	(4,014)	(3,450)	(564)	(4,014)	-	-
Capital contribution attributable to non-controlling interest in consolidated subsidiary	911	-	911	911	-	-
Change in unrealized losses on investments	(11,246)	(10,640)	-	(10,640)	(305)	(301)
Change in post-retirement benefit plans' liability to be recognized in future periods	(5,452)	(5,452)	-	(5,452)	-	-
Change attributable to non-controlling interest in consolidated subsidiaries	-	-	-	-	-	-
Restricted gifts, grants and bequests	212	-	-	-	73	139
Restricted investment income	252	-	-	-	252	-
Change in annuity obligations	(905)	-	-	-	33	(938)
Net assets released from restrictions	(119)	-	-	-	(119)	-
Change in net assets	<u>(20,361)</u>	<u>(19,542)</u>	<u>347</u>	<u>(19,195)</u>	<u>(66)</u>	<u>(1,100)</u>
Balances, September 30, 2015	136,980	51,339	4,264	55,603	2,691	78,686
Excess of revenues under expenses	(5,964)	(5,818)	(146)	(5,964)	-	-
Capital contribution attributable to non-controlling interest in consolidated subsidiary	274	-	274	274	-	-
Change in unrealized gains on investments	6,029	5,621	-	5,621	253	155
Change in post-retirement benefit plans' liability to be recognized in future periods	(362)	(362)	-	(362)	-	-
Change attributable to non-controlling interest in consolidated subsidiaries	-	-	-	-	-	-
Restricted gifts, grants and bequests	276	-	-	-	19	257
Restricted investment income	242	-	-	-	242	-
Change in annuity obligations	(247)	-	-	-	(1)	(246)
Net assets released from restrictions	(105)	-	-	-	(105)	-
Change in net assets	<u>143</u>	<u>(559)</u>	<u>128</u>	<u>(431)</u>	<u>408</u>	<u>166</u>
Balances, September 30, 2016	<u>\$ 137,123</u>	<u>\$ 50,780</u>	<u>\$ 4,392</u>	<u>\$ 55,172</u>	<u>\$ 3,099</u>	<u>\$ 78,852</u>

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

MASONICARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<i>(in thousands)</i>	<u>2015</u>
Cash flows from operating activities:			
Change in net assets	\$	143	\$ (20,361)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:			
Depreciation and financing cost amortization		10,121	9,431
Post-retirement changes other than net periodic benefit costs		362	5,452
Pension expense recognized due to settlement		720	-
Disposal of property and equipment		-	1,000
Provision for bad debts		1,869	2,810
Restricted contributions		(276)	(212)
Capital contribution attributable to non-controlling interest in consolidated subsidiary		(274)	(911)
Unrealized (gains) losses on investments		(6,029)	11,246
Amortization of deferred entry fee revenues		(6,362)	(5,573)
Changes in fair value of interest rate swap agreement		2,314	2,994
Changes in operating assets and liabilities:			
Patient accounts receivable		(3,703)	500
Other receivables		(1,646)	528
Inventories		(6)	(38)
Prepaid expenses and other current assets		(40)	(807)
Accounts payable and accrued expenses		(2,373)	553
Accrued salaries and related expenses		670	86
Accrued pension and postretirement benefits		106	(2,778)
Estimated self-insurance liabilities		1,428	563
Estimated settlements due to third-party payers		4	56
Annuities payable		(100)	-
Deferred patient service and other revenues		(75)	(79)
Deposits		156	355
Other liabilities		759	(630)
Assets held for patient asset management, trust agreements and patient escrow accounts		(55)	(8)
Asset retirement obligation		101	(53)
Net cash provided by operating activities		<u>(2,186)</u>	<u>4,124</u>
Cash flows from investing activities:			
Proceeds from sales of investments		76,882	63,214
Purchases of investments		(58,019)	(55,556)
Change in restricted cash		(1)	(1)
Purchases of property and equipment		<u>(32,327)</u>	<u>(16,898)</u>
Net cash used in investing activities		<u>(13,465)</u>	<u>(9,241)</u>
Cash flows from financing activities:			
Proceeds from entrance fees		7,277	4,973
Refunds of entrance fees		(1,727)	(722)
Long-term debt-borrowings		13,501	-
Long-term debt-repayments		(2,787)	(2,673)
Capital contribution attributable to non-controlling interest in consolidated subsidiary		274	911
Restricted contributions		<u>276</u>	<u>212</u>
Net cash provided by financing activities		<u>16,814</u>	<u>2,701</u>
Net change in cash and cash equivalents		1,163	(2,416)
Cash and cash equivalents, beginning of year		<u>4,143</u>	<u>6,559</u>
Cash and cash equivalents, end of year	\$	<u>5,306</u>	\$ <u>4,143</u>
Supplemental disclosure of cash flow information:			
Non-cash investing activity: amounts accrued but not paid for construction in progress	\$	<u>12,774</u>	\$ <u>2,296</u>
Cash paid for interest	\$	<u>3,174</u>	\$ <u>3,198</u>

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

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

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 the parent holding company and support organization for its affiliate corporations (collectively referred to as Masonicare or the System). Masonicare, organized in 1995 for the benefit of providing long-range strategic and financial planning, policy development and support services for its affiliates, provides a continuum of retirement living, healthcare and related services primarily focused on older adults. The System provides services statewide to all, with a mission to enhance quality of life through an exceptional continuum of person-centered care. The predecessor organization (The Masonic Charity Foundation of Connecticut) was founded in 1889. The affiliate corporations in the System are: Masonicare Health Center (MHC), The Masonic Charity Foundation of Connecticut, Inc. (MCF), Masonicare at Newtown (MAN), Masonicare at Ashlar Village (MAV), Masonicare at Home (MAH), Masonicare Home Health and Hospice (MHH&H), Keystone Indemnity Company, Ltd. (Keystone), Masonic Management Services, Inc. (MMS), Masonicare at Mystic (MAM) and Senior Living by Masonicare (SLM).

SLM is a strategic partnership formed January 30, 2014 by MAM and Mystic Senior Living Associates, LLC (MSLA), an unaffiliated for-profit entity. The partnership is a Connecticut Limited Liability Company that will provide assisted living (including memory care assisted living) and independent living to the elderly. MAV currently owns 86.9% of SLM through its 100% owned subsidiary, MAM, with the remaining 13.1% owned by MSLA. In May 2014, SLM began construction on a 179-unit facility in Mystic Connecticut. 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, and received approval from the Internal Revenue Service of its tax-exempt status on March 26, 2015. MAM contributed \$15,421 and \$3,252 of equity to SLM during 2016 and 2015, respectively. MSLA contributed \$274 and \$911 of equity to SLM during 2016 and 2015, respectively. MAM recorded the non-controlling interest in SLM of \$3,601 and \$3,697 on the consolidated balance sheets at September 30, 2016 and 2015, respectively.

Masonicare Partners Home Health & Hospice (MPHH&H) is a strategic partnership formed in 2007 by MHH&H and Saint Francis Hospital and Medical Center (SFH). MHH&H owns 65% of MPHH&H, with the remaining 35% owned by SFH. MHH&H recorded the non-controlling interest in MPHH&H of \$791 and \$567 on the consolidated balance sheets at September 30, 2016 and 2015, respectively.

There were no significant effects to Masonicare's net assets as a result of changes in Masonicare's ownership interest in MPHH&H and SLM.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes: Masonicare, MHC, MCF, MAN, MAV, MHH&H, MAH, Keystone 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 2016 and 2015.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an 86.9% 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 are 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, 2016 and 2015. 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.

All U.S. federal tax years from fiscal 2013 onwards are eligible for audit by the IRS.

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

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).

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 Deposit Insurance Corporation (FDIC) insures cash balances up to \$250 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.

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

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$19,451 and \$20,413 as of September 30, 2016 and 2015, respectively. The Investment Companies reported an unaudited value of Masonicare's investment in these securities of \$28,108 and \$31,046 as of September 30, 2016 and 2015, respectively.

As of September 30, 2016 and 2015, Masonicare had \$3,014 and \$4,729, respectively, of unfunded commitments owed to the Investment Companies.

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 and the cost basis of that investment is reduced. There were no impairment losses recorded for the years ended September 30, 2016 and 2015.

For equity securities, Masonicare 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.

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 is met, an impairment equal to the difference between the debt securities' 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 appreciation (depreciation) on investments.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in trust 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.

The income earned on restricted funds is generally available for operations of Masonicare and is recorded as revenue in the consolidated statements of operations, 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.

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MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, with amounts amortized to income on a straight-line basis over the shorter of the estimated remaining residential life expectancies of the individual residents. 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.

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.

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 recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Provision for Bad Debts: Masonicare records an allowance for doubtful accounts, which is based on its estimation of bad debts against its outstanding patient accounts receivable. Patient accounts receivable deemed uncollectable are charged against this account. The allowance for doubtful accounts estimate is based on Masonicare's past experience with collecting its receivables, an analysis of the composition of the current accounts receivable, and taking into consideration business and economic conditions, trends in governmental health insurance coverage and other collection indicators. Bad debt expense was \$1,869 and \$2,810 for the years ended September 30, 2016 and 2015, respectively.

(Continued)

MASONICARE
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care: During fiscal year 2016 and 2015, Masonicare's charity care (determined on the basis of cost) was \$25 and \$40, respectively.

Excess of Revenues Under Expenses: The consolidated statements of operations and changes in net assets include excess of revenues under expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues under expenses consistent with industry practice, include the change in unrealized gains and losses on investments other than trading securities, certain adjustments to the post-retirement liability, and the change attributable to the non-controlling interest in consolidated subsidiaries.

Non-operating income included in excess of revenues under expenses consists of unrestricted contributions and investment income (including realized gains and losses and investment management fees).

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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 92,065	\$ 86,224
Support services	29,390	30,758
General and administrative	<u>73,538</u>	<u>66,129</u>
	<u>\$ 194,993</u>	<u>\$ 183,111</u>

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.

Reclassifications: Certain reclassifications have been made to the amounts reported for fiscal 2015 to conform the presentation with the 2016 presentation. These reclassifications had no effect on total assets or changes in net assets and are not material to the consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through February 14, 2017, the date the consolidated financial statements were issued. Other than the refinancing of Masonicare's long-term debt (see Note 6) and the settlement of pending litigation by SLM (see Note 14), management believes that there are no subsequent events having a material impact on the consolidated financial statements.

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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 years.

Assets whose use is limited or restricted consists of the following at September 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Fair Value (**)</u>	<u>Cost</u>	<u>Fair Value (**)</u>	<u>Cost</u>
Cash, cash equivalents and interest receivable	\$ 9,615	\$ 9,615	\$ 10,091	\$ 10,091
Marketable equity securities	75,649	78,447	81,681	90,460
Fixed income securities	21,530	21,964	25,317	26,108
Perpetual interest trusts	10,980	8,530	11,152	8,530
Residual interest trusts	1,576	1,281	1,562	1,281
Real estate	7,215	7,216	8,119	8,119
Other investments	21,645	21,456	23,130	23,429
Other assets	<u>-</u>	<u>-</u>	<u>4</u>	<u>5</u>
TOTAL (***)	<u>\$ 148,210</u>	<u>\$ 148,509</u>	<u>\$ 161,056</u>	<u>\$ 168,023</u>

** Included in the above fair value are alternative investments that are carried at cost. The total cost of these investments amounted to \$19,451 and \$20,413 as of September 30, 2016 and 2015, respectively. The alternative investments reported an unaudited value of Masonicare's investment in the securities of \$28,108 and \$31,046 as of September 30, 2016 and 2015, respectively.

*** As of September 30, 2016 and 2015, MCF held a note receivable due from MAV in the amount of \$25,594 and \$12,594 respectively, and MAV held a note receivable from MAM in the amount of \$25,594 and \$12,594 respectively, as more fully described in Note 12. These note receivables eliminate in consolidation and are therefore not included in the above table.

Investment income is comprised of the following for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 3,531	\$ 3,723
Realized gains on sales of investments	4,357	8,392
Less: investment management fees	<u>(422)</u>	<u>(532)</u>
	<u>\$ 7,466</u>	<u>\$ 11,583</u>

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment, consists of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 6,134	\$ 6,134
Land improvements	14,692	14,584
Buildings	237,817	234,371
Furniture and equipment	<u>60,657</u>	<u>58,616</u>
	319,300	313,705
Less: accumulated depreciation	<u>(184,544)</u>	<u>(175,038)</u>
	134,756	138,667
Construction in progress (estimated cost to complete - \$12,647)	<u>56,624</u>	<u>17,979</u>
	<u>\$ 191,380</u>	<u>\$ 156,646</u>

Depreciation expense was \$9,961 and \$9,250 for the years ended September 30, 2016 and 2015, respectively.

During 2015, Masonicare disposed of \$1,000 of construction in progress costs related to certain projects.

NOTE 5 - UNAMORTIZED FINANCING COSTS

Unamortized financing costs consist of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unamortized financing costs	\$ 2,703	\$ 2,660
Less: accumulated amortization	<u>(782)</u>	<u>(622)</u>
	<u>\$ 1,921</u>	<u>\$ 2,038</u>

Amortization expense related to financing costs was \$160 and \$181 for the years ended September 30, 2016 and 2015, respectively.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Dollars in thousands)

NOTE 6 - LONG-TERM DEBT

Year-end Disclosure

Long-term debt consists of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Connecticut Health & Educational Facilities Authority (CHEFA) tax-exempt Revenue Bonds:		
Series C - 3.06% to 7.96% term bonds due 2037	\$ 66,362	\$ 68,303
Series E - 4.50% term bonds due 2037	29,719	30,566
M & T Bank Construction Loan	13,322	-
Other	179	-
	109,582	98,869
Less: current maturities	(2,948)	(2,787)
	\$ 106,634	\$ 96,082

Pursuant to a loan agreement dated September 1, 2012, Masonicare issued CHEFA bonds in the amount of \$33,000 (Series E bonds) for the purpose of refinancing previously issued Series D bonds (used to fund capital expenditures at MAV and MHC). 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 entered into a Direct Purchase Agreement with Webster Bank to purchase 100% of the bonds issued.

Pursuant to a loan agreement dated as of October 1, 2007, Masonicare issued CHEFA bonds in the amount of \$81,065 (Series C bonds) for the purpose of financing the expansion of and renovations to the facilities at MAV and MHC and to refinance the outstanding CHEFA Series A and Series B debt. Masonicare Issue, Series C bonds are variable rate demand revenue bonds that mature 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 are currently secured by an irrevocable letter of credit expiring on November 4, 2020 issued by Manufacturers and Traders Trust Company (M&T Bank). Masonicare has entered into interest rate swap agreements relating to the aggregate principal amount of the Series C bonds as more fully described below.

Under the indenture agreements, the Obligated Group (Masonicare, MHC, MCF, MAN, MAV [excluding MAM and SLM] MAH and MHH&H [excluding MPH&H]) 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 place limits on additional borrowings and require the Obligated Group to maintain certain financial covenants. The Obligated Group was in compliance with these covenants for the years ended September 30, 2016 and 2015.

In connection with the construction of the 179 unit facility in Mystic, Connecticut, SLM has entered into a \$38,280 construction loan credit agreement with M&T Bank. Under the terms of the amended agreement dated July 20, 2016, the credit facility bears an interest rate of 1-month Libor plus 400 basis points; is partially guaranteed by SLM's partners (along with their parent corporations); and has a maturity date of May 1, 2020 (with an option for SLM to extend the maturity date for an additional one-year period).

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - LONG-TERM DEBT (Continued)

The annual maturities of long-term debt in each of the succeeding five years and thereafter are as follows: \$2,948, 2017; \$3,074, 2018; \$3,114, 2019; \$3,254, 2020; \$3,486, 2021; and \$90,758 thereafter.

Funds held by Trustees under the indenture agreement are as follows at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Principal and interest funds, held by U.S. Bank	\$ 513	\$ 490
Principal and interest funds, held by Webster Bank	29	16
	\$ 542	\$ 506

In connection with the issuance of the CHEFA Series C bonds, Masonicare entered into an interest rate swap agreement (Swap Agreement) 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 1.56% and 0.85% as of September 30, 2016 and 2015, 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 \$21,702 and \$19,388 as of September 30, 2016 and 2015, respectively) has been recorded in the accompanying consolidated balance sheets as a current and 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 Swap Agreement of \$(2,314) and \$(2,994) for the years ended September 30, 2016 and 2015, respectively, is recorded in the consolidated statements of operations and changes in net assets.

Masonicare executed an amended Swap Agreement in 2012 with Merrill Lynch, which divided the original swap into four separate transactions with the addition of three additional swap providers. Key elements of the current Swap Agreements are as follows:

Masonicare and PNC Bank interest rate swap agreement through April 5, 2017, based on 27.5% of the outstanding notional amount during this time at 3.991% with a \$3,500 collateral threshold. The notional amount of the interest rate swap agreement is \$18,252 and \$18,785 as of September 30, 2016 and 2015, respectively.

Masonicare and Wells Fargo Bank interest rate swap agreement through April 3, 2019, based on 47.5% of the outstanding notional amount for the first years and 75% for the last two years of the agreement at 3.986% with a \$7,500 collateral threshold. The notional amount of the interest rate swap agreement is \$31,526 and \$32,447 as of September 30, 2016 and 2015, respectively.

Masonicare and Deutsche Bank interest rate swap agreement through July 1, 2020, based on 25% of the outstanding notional for the first years and 100% for the period April 4, 2019 to the end of the agreement at 4.130% with a \$5,000 collateral threshold. The notional amount of the interest rate swap agreement is \$16,593 and \$17,078 as of September 30, 2016 and 2015, respectively.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - LONG-TERM DEBT (Continued)

Masonicare and Merrill Lynch interest rate swap agreement from July 1, 2020 to July 1, 2037 at 3.854% with a \$7,000 collateral threshold.

The use of an interest rate swap to manage exposure to changes in the interest rate on its CHEFA Series C variable rate bonds exposes Masonicare to additional risks related to this derivative instrument, including market risk, credit risk and termination risk.

Masonicare has defined risk management practices to mitigate these risks, as follows:

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 their 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.

Subsequent Event Disclosure

Subsequent to year-end Masonicare has refinanced its outstanding series C and series E bonds, has terminated the related Swap Agreement and borrowed incremental funds for ongoing capital expenditures, through issuance of Series F and Series G bonds dated November 15, 2016. The sources and uses of funds for the Series F and Series G bonds are as follows:

	<u>Series F</u>	<u>Series G</u>	<u>Total</u>
Par amount of bonds	\$ 110,030	\$ 5,755	\$ 115,785
Original issue discount	(197)	(122)	(319)
Bond Premium	6,756	-	6,756
Total bond Proceeds	<u>116,589</u>	<u>5,633</u>	<u>122,222</u>
Series C principal fund	774	71	845
TOTAL SOURCES OF FUNDS	<u>\$ 117,363</u>	<u>\$ 5,704</u>	<u>\$ 123,067</u>
Refunding escrow deposits	\$ 90,964	\$ 5,612	\$ 96,576
Swap Agreement termination fee	20,155	-	20,155
Capital project fund deposit	4,440	-	4,440
Costs of issuance/Other	1,804	92	1,896
TOTAL USES OF FUNDS	<u>\$ 117,363</u>	<u>\$ 5,704</u>	<u>\$ 123,067</u>

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - LONG-TERM DEBT (Continued)

Masonicare Issue Series F and Series G bonds are fixed rate bonds that mature at various dates through July 1, 2043, with an average coupon rate of 4.84%. The indenture agreements require the Obligated Group to make monthly deposits with the trustee (U.S. Bank) to fund future principal and interest payments, places limits on additional borrowings and requires the Obligated Group to maintain certain financial covenants. The Obligated Group was in compliance with these covenants for the year ended September 30, 2016. Annual maturities of the Series F and Series G bonds in each of the succeeding five years and thereafter are as follows: \$1,495, 2017; \$2,410, 2018; \$2,505, 2019; \$2,605, 2020; \$2,710, 2021; and \$104,060 thereafter.

In connection with this refinancing, \$1,680 of deferred financing costs related to the Series C and Series E bonds will be written off in fiscal 2017.

NOTE 7 - LINE OF CREDIT

Masonicare has entered into a revolving line of credit agreement with M&T Bank for \$10,000. 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, 2016 and 2015, Masonicare did not have any outstanding amounts drawn against this line of credit.

NOTE 8 - SELF-INSURANCE LIABILITIES

Workers' Compensation:

Effective January 1, 2001, Masonicare became self-insured for the deductible portion of workers' compensation claims. During fiscal 2009, Masonicare was notified that the State of Connecticut would no longer permit the self-insurance of workers' compensation claims, and effective March 1, 2009 has obtained commercial insurance coverage for such claims. The workers' compensation trust will continue to cover the costs of the deductible portion of claims arising through the date of the change (\$250 per claim through December 31, 2004 and \$350 through February 28, 2009). During 2009, Masonicare obtained a surety bond to secure the future obligations of the self-insured deductible program, with \$300 in collateral (held in trust at J.P Morgan Chase Bank N.A.) included in assets under trust for self-insurance liabilities within the consolidated balance sheets as of September 30, 2016 and 2015, respectively.

Beginning March 1, 2009, Masonicare has purchased a pre-funded large deductible policy from a commercial carrier with a deductible limit of \$350 per claim and a \$4,300 aggregate limit (\$4,200 through March 1, 2010). Masonicare is required to pre-fund a loss escrow account with the commercial carrier; amounts held in escrow by the commercial carrier total \$6,001 and \$4,950 as of September 30, 2016 and 2015, respectively, and are carried within prepaid expenses and other current assets on the consolidated balance sheets.

Masonicare employed independent actuaries to estimate the ultimate costs of the self-insured deductibles and the pre-funded large deductible policies, which approximate \$4,995 and \$4,062 at September 30, 2016 and 2015, respectively. These liabilities (included in estimated self-insurance liabilities within the accompanying consolidated balance sheets) have also been discounted at a rate of 3% at September 30, 2016 and 2015, and in management's opinion provide an adequate reserve for loss contingencies.

(Continued)

MASONICARE
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NOTE 8 - SELF-INSURANCE LIABILITIES (Continued)

Malpractice and General Liability-

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 \$10,000 per claim with an annual aggregate of \$14,000 for general liability insurance and \$13,000 per claim with an annual aggregate of \$16,000 for professional liability insurance, subject to reinsurance. The liability for incurred but not reported claims of \$525 and \$538 as of September 30, 2016 and 2015, respectively, has been retained at Masonicare.

Masonicare has employed independent actuaries to estimate the ultimate costs of the settlement of claims under the program. Accrued professional and general liability reserves are discounted at a rate of 3% as of September 30, 2016 and 2015. Management considers the liability to be adequate as of September 30, 2016 and 2015; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustment to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations of future years when such adjustments, if any, become known.

Activity in the estimated liability for outstanding losses and loss-related adjustment expenses at Keystone for the years ended September 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 5,382	\$ 5,865
Less: reinsurance recoverable	<u>(960)</u>	<u>(1,117)</u>
Net balance, beginning of year	4,422	4,748
Incurred related to:		
Current year	2,817	1,358
Prior years	<u>(1,983)</u>	<u>(1,475)</u>
Total incurred	834	(117)
Paid related to:		
Current year	-	-
Prior years	<u>(2)</u>	<u>(289)</u>
Total paid	(2)	(289)
Impact of change in discounting	<u>(60)</u>	<u>80</u>
Net balance, end of year	5,194	4,422
Add: reinsurance recoverable	<u>762</u>	<u>960</u>
Balance, end of year	<u>\$ 5,956</u>	<u>\$ 5,382</u>

As a result of changes in management's estimates of the ultimate settlement amount of claims reported in prior years, incurred losses and loss adjustment expenses decreased by \$1,983 and \$1,475 in 2016 and 2015, respectively.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - SELF-INSURANCE LIABILITIES (Continued)

Medical and Dental Insurance:

Masonicare self-insures liabilities related to medical coverage on its employees and dependents (covered members) up to \$150 per covered member, and has procured a stop loss policy with AETNA for coverage in excess of \$150 per covered member. Masonicare has estimated the value of incurred but not reported liabilities of the self-insured medical and dental benefit plans of \$1,370 and \$1,435 as of September 30, 2016 and 2015. Masonicare paid claims and administrative fees related to this program of \$13,479 and \$14,632 for the years ended September 30, 2016 and 2015, respectively.

NOTE 9 - REVENUES FROM SERVICES TO PATIENTS

The following summarizes net patient service revenues, for the years ended September 30, 2016 and 2015:

<u>2016</u>	<u>Self-Pay</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Other</u>	<u>Total</u>
Gross revenues from services to patients	\$ 19,444	\$ 78,929	\$ 75,163	\$ 12,718	\$ 4,341	\$ 190,595
Contractual allowances	<u>(55)</u>	<u>(5,967)</u>	<u>(32,766)</u>	<u>(3,112)</u>	<u>(1,504)</u>	<u>(43,404)</u>
Net revenues from services to patients	<u>\$ 19,389</u>	<u>\$ 72,962</u>	<u>\$ 42,397</u>	<u>\$ 9,606</u>	<u>\$ 2,837</u>	<u>\$ 147,191</u>
<u>2015</u>	<u>Self-Pay</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Other</u>	<u>Total</u>
Gross revenues from services to patients	\$ 17,667	\$ 73,414	\$ 72,545	\$ 11,706	\$ 3,134	\$ 178,466
Contractual allowances	<u>(78)</u>	<u>(5,865)</u>	<u>(31,985)</u>	<u>(3,123)</u>	<u>(1,296)</u>	<u>(42,347)</u>
Net revenues from services to patients	<u>\$ 17,589</u>	<u>\$ 67,549</u>	<u>\$ 40,560</u>	<u>\$ 8,583</u>	<u>\$ 1,838</u>	<u>\$ 136,119</u>

Patient accounts receivable and revenues are recorded when patient services are performed at the estimated net realizable amounts from third-party payers, patients and others for services rendered. Masonicare has agreements with third-party payers that provide for payments at amounts different from established rates, with these differences accounted for as contractual allowances. 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 payers.

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 published 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; accordingly, Masonicare records a provision for bad debts related to uninsured patients in the period the services are provided.

(Continued)

MASONICARE
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NOTE 9 - REVENUES FROM SERVICES TO PATIENTS (Continued)

In evaluating the collectability of accounts receivable, Masonicare analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate an appropriate allowance for doubtful accounts. Management's assessment includes historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators. There are no significant changes in the allowance for doubtful accounts related to patient accounts receivable from prior year.

MHC, MAN, MHH&H and MPHH&H 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Medicare	40%	45%
Medicaid	30%	28%
Private pay and other	<u>30%</u>	<u>27%</u>
	<u>100%</u>	<u>100%</u>

NOTE 10 - THIRD-PARTY PAYER REIMBURSEMENT

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

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:

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.

Geriatric medical psychiatric beds of MHC are reimbursed on an Inpatient Psychiatric Facility Prospective Payment System, which considers patient diagnosis along with clinical and functional factors such a length of stay and comorbidity.

Skilled nursing care beds of MHC and MAN are reimbursed using the Resource Utilization Groups (RUGS) PPS methodology, which considers patient diagnosis with the level of clinical & rehab care given determined through Minimum Data Set (MDS) evaluation.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 - THIRD-PARTY PAYER REIMBURSEMENT (Continued)

Home health services are reimbursed using the home health resource groups (HHRG) 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 benefit agency is located), and is subject to a variety of final claim adjustments which can modify the payment based on actual utilization and level of clinical and functional severity reported at the end of the episode.

Hospice services are reimbursed on a per diem basis based on level of care.

Outpatient services (non-home health) are reimbursed either on a rate per case outpatient prospective payment Ambulatory Payment Classification (APC) system, or on a cost basis or a blend of cost and fee schedules.

Medicaid: Services rendered to Medicaid program beneficiaries are reimbursed under a variety of reimbursement methodologies:

Skilled nursing care beds of MHC and MAN are reimbursed by applying a prospective rate system that categorizes costs into five major groupings, with the facilities' actual costs compared to state maximums-with the lower amounts determining reimbursement. Although the base period used to compute the rates is to be updated every two to four years, the Connecticut legislature has overridden the rebasing with reimbursement continuing 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.

Home health services are reimbursed based on a fixed fee for service rates.

Hospice services are reimbursed on a per diem basis.

Filing Requirements: MHC, MAN, MHH&H and MPHH&H 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, MAN, MHH&H and MPHH&H have been settled through September 30, 2013. The Medicaid cost reports for MHC and MAN have been reviewed through September 30 2009.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 10 - THIRD-PARTY PAYER REIMBURSEMENT (Continued)

During fiscal 2015, Masonicare began participation in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative- Model 3 for selective episodes of care at MHC and MAN. These arrangements include financial and performance accountability for the selected episodes of care. Participation in this initiative has not had a material impact on results of operations.

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. 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. Management believes that Masonicare is in compliance with fraud and abuse regulations as well as other applicable governmental laws and regulations.

Revenue from Medicare and Medicaid programs accounted for approximately 78.4% and 79.5% of Masonicare's net patient revenue for the years ended September 30, 2016 and 2015, 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. There were no changes to third party reserves in 2016 and 2015 other than normal settlements.

NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFITS

For fiscal 2016 and 2015, Masonicare offers to substantially all of its employees a defined contribution retirement plan with various investment options. Masonicare provides a "safe-harbor" (immediately vested) 3% contribution for eligible plan participants (beginning after the first year of service with at least 1,000 hours of service) based upon eligible compensation as defined. Also as part of this retirement plan, Masonicare matches \$0.25 for every dollar contributed into the savings plan up to 4% of eligible compensation as defined (beginning after the first month of service). The employer match is subject to a 3-year graduated vesting schedule (0%-50%-100%) based upon at least 1,000 hours of service. Total defined contribution pension expense was \$2,993 and \$2,681 for the years ended 2016 and 2015, respectively.

Masonicare has a frozen defined benefit pension plan, with all participants 100% vested in their account balances. Benefits will be fully payable upon retirement as defined or upon plan termination. Pension cost for the defined benefit retirement plan was \$2,452 and \$650 for fiscal 2016 and 2015, respectively.

Masonicare also has a frozen nonqualified supplemental retirement plan for certain executives. During fiscal 2015, the plan's final liabilities were determined. Pension cost for the nonqualified supplemental retirement plan was \$0 and \$(1,180) for the years ended September 30, 2016 and 2015, respectively.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFITS (Continued)

Masonicare also has a postretirement health plan for certain eligible employees who were hired prior to January 1, 2000 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 of the plan costs and the retirees pay premiums based on age and years of service at retirement. Postretirement health plan cost was \$(204) and \$(191) for the years ended September 30, 2016 and 2015, respectively.

Total pension and other postretirement benefits expense for the years ended September 30, 2016 and 2015 was \$5,241 and \$1,960, respectively.

Significant assumptions are as follows as of September 30, 2016 and 2015:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Weighted average assumptions:				
Discount rate on Qualified Plan	4.20%	4.20%	3.85%	3.85%
Expected return on plan assets	7.50%	7.00%	N/A	N/A
Health care cost trend rate:				
Initial health care cost trend rate	N/A	N/A	6.50%	6.75%
Ultimate health care cost trend rate	N/A	N/A	5.00%	5.00%
Number of years to ultimate rate	N/A	N/A	7 years	8 years

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 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:

	1-Percentage Point <u>Increase</u>	1-Percentage Point <u>Decrease</u>
Effect on total of service and interest cost components	\$ 8	\$ (7)
Effect on postretirement benefit obligation	\$ 268	\$ (233)

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFITS (Continued)

The following table sets forth the funded status of the postretirement benefit plans and the related amounts recognized in Masonicare's consolidated financial statements at September 30, 2016 and 2015.

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 35,568	\$ 33,955	\$ 3,709	\$ 3,697
Participant contributions	-	-	42	36
Service cost	-	-	5	7
Interest cost	1,356	1,272	137	151
Actuarial loss	2,907	3,404	193	103
Benefits paid	(1,150)	(1,883)	(259)	(285)
Settlement	<u>(1,475)</u>	<u>(1,180)</u>	<u>-</u>	<u>-</u>
Benefit obligation at end of year	<u>\$ 37,206</u>	<u>\$ 35,568</u>	<u>\$ 3,827</u>	<u>\$ 3,709</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 20,507	\$ 21,814	\$ -	\$ 12
Actual return on plan assets	2,030	(1,141)	-	-
Employer contributions	2,112	1,489	217	237
Participant contributions	-	-	42	36
Benefits paid	(1,150)	(1,655)	(259)	(285)
Settlement	<u>(1,475)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fair value of plan assets at end of year	<u>\$ 22,024</u>	<u>\$ 20,507</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued liability	<u>\$ (15,182)</u>	<u>\$ (15,061)</u>	<u>\$ (3,827)</u>	<u>\$ (3,709)</u>
Defined benefit pension plan	\$ (14,788)	\$ (14,548)		
Supplemental executive retirement plan	<u>(394)</u>	<u>(513)</u>		
Accrued liability	<u>\$ (15,182)</u>	<u>\$ (15,061)</u>		
Postretirement health plan, net			\$ (3,827)	\$ (3,709)
Retiree Part D subsidy receivable			<u>(20)</u>	<u>(25)</u>
Accrued liability			<u>\$ (3,847)</u>	<u>\$ (3,734)</u>

Components of net periodic benefit costs are as follows for the years ended September 30, 2016 and 2015:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Service cost	\$ -	\$ -	\$ 5	\$ 7
Interest cost	1,356	1,272	137	151
Expected return on plan assets	(1,111)	(1,428)	-	-
Amortization of prior service cost	-	-	(437)	(437)
Actuarial loss recognized	1,487	975	89	88
Settlement	720	-	-	-
Curtailment Loss	-	(169)	-	-
	<u>\$ 2,452</u>	<u>\$ 650</u>	<u>\$ (206)</u>	<u>\$ (191)</u>

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFITS (Continued)

Of the \$362 of postretirement changes other than net periodic benefit costs for the defined benefit pension plan recorded in the consolidated statements of changes in unrestricted net assets for the year ended September 30, 2016, \$2,820 reflects liability loss due to assumption change (updated mortality tables); \$85 reflects liability loss due to participant experience, \$918 reflects asset return gain, \$1,475 represents amounts recognized due to settlement of plan obligations. Postretirement changes other than net periodic benefit costs of \$196 for the postretirement health plan were also recorded in the consolidated statements of changes in unrestricted net assets for the year ended September 30, 2016.

Amounts recorded in unrestricted net assets as of September 30, 2016, not yet amortized as components of net periodic benefit costs are as follows:

Unamortized prior service credit	\$	(1,481)
Unamortized actuarial loss		19,432
Amount recognized as a reduction in unrestricted net assets	\$	<u>17,951</u>

The amortization of the above items expected to be recognized in net periodic costs for the year ended September 30, 2017 is \$(437) and \$1,720 for prior service credit and actuarial loss, respectively.

The fair values of Masonicare's pension plan assets as of September 30 2016, by asset category classified as Level 1, 2 and 3, as defined in Note 13, are as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>2016</u>				
Cash, cash equivalents and interest receivable	\$ 1,708	\$ -	\$ -	\$ 1,708
Mutual and other equity funds:				
Fixed income taxable bond	5,795	-	-	5,795
U.S. equity	8,209	-	-	8,209
International	5,961	-	-	5,961
Commodities	351	-	-	351
	<u>\$ 22,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,024</u>

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFITS (Continued)

The fair values of Masonicare's pension plan assets as of September 30 2015, by asset category classified as Level 1, 2 and 3, as defined in Note 13, are as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>2015</u>				
Cash, cash equivalents and interest receivable	\$ 1,888	\$ -	\$ -	\$ 1,888
Mutual and other equity funds:				
Fixed income taxable bond	4,000	-	-	4,000
U.S. equity	8,419	-	-	8,419
International	5,904	-	-	5,904
Commodities	296	-	-	296
	<u>\$ 20,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,507</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 \$1,243 to its defined benefit pension plan and \$212 to its postretirement health plan in fiscal year 2016. The costs and related obligations of the supplemental executive retirement plan are included within the pension benefit tables set forth above.

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

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
2017	\$ 5,580	\$ 292
2018	\$ 2,670	\$ 302
2019	\$ 3,100	\$ 312
2020	\$ 3,480	\$ 318
2021	\$ 3,040	\$ 321
Thereafter	\$ 12,770	\$ 1,251

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 12 - ENDOWMENTS

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

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.

Permanently restricted net assets consist of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments held in perpetuity, the income from which is dedicated to support Masonicare's activities	\$ 39,836	\$ 52,476
Investment in SLM*	25,594	12,594
Investments held in perpetuity, the income from which is dedicated to support annuity contractual obligations	1,265	1,288
Investments held in perpetuity, the income from which is dedicated to support MHH&H activities	1,177	1,177
Fair value of perpetual trusts	<u>10,980</u>	<u>11,151</u>
	<u>\$ 78,852</u>	<u>\$ 78,686</u>

*See Spending Policy section of Note 12 for more information

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Residual interest trusts not available for Masonicare's purposes until the expiration of the trusts	\$ 987	\$ 981
Investments held to support annuity contractual obligations that are not available for Masonicare's purposes until the expiration of interest income	267	134
Support of MAV residents	1,335	1,165
Support for scholarship activities	<u>510</u>	<u>411</u>
	<u>\$ 3,099</u>	<u>\$ 2,691</u>

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 12 - ENDOWMENTS (Continued)

Of the \$2,691 of temporarily restricted net assets as of September 30, 2015, \$207 reflect the unexpended accumulated earnings related to permanently restricted net assets. During fiscal 2016, these temporarily restricted net assets were increased by realized and unrealized investment earnings of \$129 and reduced by distributions of \$41, resulting in an unexpended accumulated earnings balance of \$295 as of September 30, 2016.

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, 2016 and 2015, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters: Masonicare's investment and spending policies for endowment assets attempt 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 attempt 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: During fiscal year 2014, MCF's Board of Directors and Masonicare's Board of Trustees approved the appropriation of \$12,594 of endowment funds for the purpose of loaning these funds to MAV which in turn loaned these funds to MAM to capitalize SLM. During fiscal year 2015, MCF's Board of Directors and Masonicare's Board of Trustees approved the additional appropriation of \$13,000 of endowment funds for the same purpose. These transactions have resulted in the effectuation of four intercompany loan agreements- two agreements between MCF and MAV and another two other agreements between MAV and MAM. Both intercompany loan agreements were in the amount of \$12,594 and \$13,000 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, and mature on May 15, 2028 and April 29, 2029. Repayment shall be interest only until May 15, 2019 and April 29, 2020. Thereafter, payment shall include principal and interest. MAM utilized these moneys to invest in SLM, which is in the process of constructing a new independent living and assisted living facility in Mystic, CT in order to further continue the mission of Masonicare. Interest expense paid on the note was \$443 and \$325 for the years ended September 30, 2016 and 2015, respectively.

MCF's Board of Directors and Masonicare's Board of Trustees previously approved the appropriation of endowment funds for the purpose of acquiring land in Oxford, CT (during fiscal 2014) and Mansfield, CT (during fiscal 2011). The total value of the land acquired (total cost of \$7,216) will be used to develop assisted and independent living facilities to provide services to the elderly and further continue the mission of Masonicare.

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 12 - ENDOWMENTS (Continued)

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 annually 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.

MCF's investment portfolio allocation policy for long-term returns (Spending Policy) provides for 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 has also 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, 2016 and 2015.

NOTE 13 - 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 based on data not quoted in active markets but corroborated by market data available to Masonicare.

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).

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 13 - FAIR VALUES (Continued)

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:

<u>2016</u>	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
Cash, cash equivalents and interest receivable	\$ 9,615	\$ -	\$ -	\$ 9,615
Equity securities:				
U.S. equity securities	18,839	-	-	18,839
U.S. mutual funds	29,202	-	-	29,202
International mutual funds	23,878	-	-	23,878
Other assets	5,669	-	-	5,669
Debt securities:				
U.S. government securities	4,030	-	-	4,030
Corporate bonds	5,511	-	-	5,511
Mortgage backed securities	2,377	-	-	2,377
Taxable bond fund	9,249	-	-	9,249
Other assets	197	-	-	197
Perpetual interest trusts	10,980	-	-	10,980
Real estate	-	7,215	-	7,215
Residual interest trusts	-	1,576	-	1,576
Other invested assets	-	421	-	421
Total	<u>\$ 119,547</u>	<u>\$ 9,212</u>	<u>\$ -</u>	<u>\$ 128,759</u>

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 13 - FAIR VALUES (Continued)

<u>2015</u>	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
Cash, cash equivalents and interest receivable	\$ 10,091	\$ -	\$ -	\$ 10,091
Equity securities:				
U.S. equity securities	15,867	-	-	15,867
U.S. mutual funds	31,257	-	-	31,257
International mutual funds	28,442	-	-	28,442
Other assets	8,086	-	-	8,086
Debt securities:				
U.S. government securities	4,491	-	-	4,491
Corporate bonds	8,569	-	-	8,569
Mortgage backed securities	2,291	-	-	2,291
Taxable bond fund	9,313	-	-	9,313
Other assets	232	-	-	232
Perpetual interest trusts	11,152	-	-	11,152
Real estate	-	8,119	-	8,119
Residual interest trusts	-	1,562	-	1,562
Other invested assets	-	421	-	421
Total	<u>\$ 129,791</u>	<u>\$ 10,102</u>	<u>\$ -</u>	<u>\$ 139,893</u>

Investment in Investment Companies, carried at cost, are excluded from the above and amount to \$19,451 and \$21,163 as of September 30, 2016 and 2015, respectively.

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.

Receivables and Payables: The fair value of receivables and payables approximates the carrying amount reported in the consolidated balance sheets as of September 30, 2016 and 2015.

Real Estate: Real estate is carried at original cost, which approximates fair value.

Residual Interest Trusts: Primarily corporate bonds, with fair value determined based on defined sector, benchmark yields, yield to maturity and considering any adjustment required related to corporate action(s).

(Continued)

MASONICARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015
(Dollars in thousands)

NOTE 13 - FAIR VALUES (Continued)

Interest Rate Swap Liability: The \$21,702 and \$19,388 fair value at September 30, 2016 and 2015, respectively, of the interest rate swap liability (classified as Level 2) is based on information provided by the swap providers, and considers the underlying notional debt principal amounts and the current interest rates paid by the parties under the terms of the swap contract.

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, 2016 and 2015.

NOTE 14 - COMMITMENTS, CONTINGENCIES AND OTHER OBLIGATIONS

Leases

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, 2016:

2017	\$	1,020
2018	\$	735
2019	\$	196
2020	\$	114

Total rent expense under all operating leases was approximately \$1,107 and \$886 for the years ended September 30, 2016 and 2015, respectively.

Asset Retirement Obligation

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 has evaluated the fair market value of its Asset Retirement Obligation (ARO), relating to its various facilities, with an ARO liability of \$899 and \$798 established as of September 30, 2016 and 2015, respectively. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

Other Legal Matters

Subsequent to year-end, SLM has accepted an Offer of Compromise to settle all pending litigation with the former contractor on the Mystic project. Of the \$3,000 settlement paid during October and included as a component of accounts payable and accrued expenses in the consolidated balance sheet as of September 30, 2016, \$1,934 was included as a component of property and equipment, net and \$1,064 was included as a component of supplies and other services in the consolidated statement of operations for the year ended September 30, 2016.

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.

MASONICARE
CONSOLIDATING BALANCE SHEET
September 30, 2016
(Dollars in thousands)

	MC	MHC	MCF	MAN	MAV	MAH	MHHH*	Elims	Ob Grp	Keystone	MMS	MAM	SLM	Elims	Total
Assets															
Current assets:															
Cash and cash equivalents	\$ 3,138	\$ 2	\$ 276	\$ 4	\$ 2	\$ -	\$ 976	\$ -	\$ 4,398	\$ 845	\$ -	\$ -	\$ 63	\$ -	\$ 5,306
Restricted cash	-	-	-	-	768	-	-	-	768	-	-	-	-	-	768
Patient accounts receivable, net	-	7,023	-	2,021	1,984	552	8,749	-	20,329	-	232	-	-	-	20,561
Other receivables	67	(24)	18	(4)	140	16	82	-	295	762	190	-	-	-	1,247
Inventories	-	238	-	28	22	-	-	-	288	-	-	-	-	-	288
Prepaid expenses and other current assets	6,236	522	35	150	171	2	47	-	7,533	45	40	-	727	-	8,345
Assets whose use is limited or restricted - required for current liabilities & operating purpose	<u>3,280</u>	<u>-</u>	<u>296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,576</u>
Total current assets	12,721	7,761	625	2,199	3,087	570	10,224	-	37,187	1,652	462	-	790	-	40,091
Intercompany	(23,179)	30	(246)	-	855	(151)	23,555	-	864	-	(9)	(855)	-	-	-
Assets whose use is limited or restricted:															
By Board of Trustees	-	-	87,150	-	25,594	-	-	-	112,744	-	-	-	-	(25,594)	87,150
Under patient asset management, trust agreements and patient escrow accounts	-	371	-	46	-	-	-	-	417	-	-	-	-	-	417
Under indenture agreement - held by Trustees	542	-	-	-	-	-	-	-	542	-	-	-	-	-	542
Under trust for estimated self-insurance liabilities	300	-	-	-	-	-	-	-	300	14,557	-	-	-	-	14,857
By donors for specific purposes	-	-	3,902	-	-	-	-	-	3,902	-	-	-	-	-	3,902
By donors for permanent endowment funds	-	-	66,936	-	-	-	-	(25,594)	41,342	-	-	-	-	-	41,342
Total assets whose use is limited or restricted	842	371	157,988	46	25,594	-	-	(25,594)	159,247	14,557	-	-	-	(25,594)	148,210
Less: Assets whose use is limited or restricted - required for current liabilities & operating purpose	<u>(3,280)</u>	<u>-</u>	<u>(296)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,576)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,576)</u>
Non-current assets whose use is limited or restricted	(2,438)	371	157,692	46	25,594	-	-	(25,594)	155,671	14,557	-	-	-	(25,594)	144,634
Property and equipment, net	16,452	29,350	82	9,531	79,136	37	740	-	135,328	-	111	-	55,941	-	191,380
Unamortized financing costs	1,605	8	9	7	51	-	-	-	1,680	-	-	-	241	-	1,921
Recoveries of estimated insurance liabilities insured through commercial policies	888	-	-	-	-	-	-	-	888	-	-	-	-	-	888
Investment in subsidiaries	<u>26,582</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,582)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,845</u>	<u>-</u>	<u>(28,845)</u>	<u>-</u>
Total assets	<u>\$ 32,631</u>	<u>\$ 37,520</u>	<u>\$ 158,162</u>	<u>\$ 11,783</u>	<u>\$ 108,723</u>	<u>\$ 456</u>	<u>\$ 34,519</u>	<u>\$ (52,176)</u>	<u>\$ 331,618</u>	<u>\$ 16,209</u>	<u>\$ 564</u>	<u>\$ 27,990</u>	<u>\$ 56,972</u>	<u>\$ (54,439)</u>	<u>\$ 378,914</u>

See accompanying Independent Auditor's Report.

MASONICARE
CONSOLIDATING BALANCE SHEET (Continued)
September 30, 2016
(Dollars in thousands)

	MC	MHC	MCF	MAN	MAV	MAH	MHH*	Elims	Ob Grp	Keystone	MMS	MAM	SLM	Elims	Total
Liabilities and Net Assets (Deficit)															
Current liabilities:															
Current maturities of long-term debt	\$ 2,907	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,907	\$ -	\$ -	\$ -	\$ 41	\$ -	\$ 2,948
Accounts payable and accrued expenses	1,723	2,740	95	844	1,407	94	2,390	-	9,293	76	159	-	13,157	-	22,685
Accrued salaries and related expenses	1,833	2,665	70	609	455	140	2,186	-	7,958	-	369	-	-	-	8,327
Accrued pension and postretirement benefits, current portion	431	-	-	-	-	-	-	-	431	-	-	-	-	-	431
Interest rate swap liability, current portion	2,356	-	-	-	-	-	-	-	2,356	-	-	-	-	-	2,356
Estimated self-insurance liabilities, current portion	1,370	-	-	-	-	-	-	-	1,370	-	-	-	-	-	1,370
Estimated settlements due to third-party payers	-	181	-	16	-	-	1,118	-	1,315	-	-	-	-	-	1315
Annuities payable, current portion	-	-	296	-	-	-	-	-	296	-	-	-	-	-	296
Refundable entry fees, current portion	-	-	-	-	1,564	-	-	-	1,564	-	-	-	-	-	1,564
Deferred patient service and other revenues	-	84	-	-	1,512	-	1,185	-	2,781	-	-	-	-	-	2,781
Deposits	24	169	-	328	1,581	-	-	-	2,102	-	-	-	228	-	2,330
Other liabilities	29	19	14	16	14	-	58	-	150	-	87	-	-	-	237
Total current liabilities	10,673	5,858	475	1,813	6,533	234	6,937	-	32,523	76	615	-	13,426	-	46,640
Accrued pension and postretirement benefits, net of current portion															
	18,598	-	-	-	-	-	-	-	18,598	-	-	-	-	-	18,598
Interest rate swap liability, net of current portion															
	19,346	-	-	-	-	-	-	-	19,346	-	-	-	-	-	19,346
Annuities payable, net of current portion															
	-	-	1,560	-	-	-	-	-	1,560	-	-	-	-	-	1,560
Refundable entry fees, net of current portion															
	-	-	-	-	21,303	24	-	-	21,327	-	-	-	-	-	21,327
Deferred entry fee revenues															
	-	-	-	-	13,995	-	-	-	13,995	-	-	-	-	-	13,995
Assets held for patient asset management, trust agreements and patient escrow accounts															
	-	367	-	62	-	-	-	-	429	-	-	-	-	-	429
Asset retirement obligation															
	-	754	-	145	-	-	-	-	899	-	-	-	-	-	899
Estimated insurance liabilities insured through commercial policies															
	888	-	-	-	-	-	-	-	888	-	-	-	-	-	888
Estimated self-insurance liabilities, net of current portion															
	5,519	-	-	-	-	-	-	-	5,519	5,956	-	-	-	-	11,475
Long-term debt, net of current maturities															
	93,175	-	-	-	25,594	-	-	(25,594)	93,175	-	-	25,594	13,459	(25,594)	106,634
Total liabilities	148,199	6,979	2,035	2,020	67,425	258	6,937	(25,594)	208,259	6,032	615	25,594	26,885	(25,594)	241,791
Net assets (deficit):															
Unrestricted	(115,568)	30,541	74,176	9,763	4,1298	198	26,791	(26,582)	40,617	10,177	(51)	2,396	26,486	(28,845)	50,780
Non-controlling interest in consolidated subsidiary	-	-	-	-	-	-	791	-	791	-	-	-	3,601	-	4,392
Total unrestricted net assets	(115,568)	30,541	74,176	9,763	4,1298	198	27,582	(26,582)	41,408	10,177	(51)	2,396	30,087	(28,845)	55,172
Temporarily restricted	-	-	3,099	-	-	-	-	-	3,099	-	-	-	-	-	3,099
Permanently restricted	-	-	78,852	-	-	-	-	-	78,852	-	-	-	-	-	78,852
Total net assets (deficit)	(115,568)	30,541	156,127	9,763	4,1298	198	27,582	(26,582)	123,359	10,177	(51)	2,396	30,087	(28,845)	137,123
Total liabilities and net assets (deficit)	\$ 32,631	\$ 37,520	\$ 158,162	\$ 11,783	\$ 108,723	\$ 456	\$ 34,519	\$ (52,176)	\$ 331,618	\$ 16,209	\$ 564	\$ 27,990	\$ 56,972	\$ (54,439)	\$ 378,914

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

See accompanying Independent Auditor's Report.

MASONICARE
CONSOLIDATING BALANCE SHEET
September 30, 2015
(Dollars in thousands)

	MC	MHC	MCF	MAN	MAV	MAH	MHHH*	Elims	Ob Grp	Keystone	MMS	MAM	SLM	Elims	Total
Assets															
Current assets:															
Cash and cash equivalents	\$ (2,516)	\$ 2	\$ 1	\$ 1	\$ 1	\$ -	\$ 5,873	\$ -	\$ 3,362	\$ 770	\$ -	\$ -	\$ 11	\$ -	\$ 4,143
Restricted cash	-	-	-	-	767	-	-	-	767	-	-	-	-	-	767
Patient accounts receivable, net	-	6,695	-	1,873	1,935	446	7,704	-	18,653	-	74	-	-	-	18,727
Other receivables	118	(3)	(34)	(1)	126	16	(11)	-	211	978	243	-	-	-	1,432
Inventories	-	239	-	22	21	-	-	-	282	-	-	-	-	-	282
Prepaid expenses and other current assets	5,174	434	18	165	133	2	1,176	-	7,102	57	39	-	56	-	7,254
Assets whose use is limited or restricted - required for current liabilities & operating purposes	<u>3,280</u>	<u>-</u>	<u>303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,583</u>
Total current assets	6,056	7,367	288	2,060	2,983	464	14,742	-	33,960	1,805	356	-	67	-	36,188
Intercompany	(17,419)	40	(8,376)	-	8,578	29	17,576	-	428	-	(9)	(419)	-	-	-
Assets whose use is limited or restricted:															
By Board of Trustees	-	-	88,813	-	12,594	-	-	-	10,1407	-	-	-	-	(12,594)	88,813
Under patient asset management, trust agreements and patient escrow accounts	-	461	-	38	-	-	-	-	499	-	-	-	-	-	499
Under indenture agreement - held by Trustees	506	-	-	-	-	-	-	-	506	-	-	-	-	-	506
Under trust for estimated self-insurance liabilities	300	-	-	-	-	-	-	-	300	13,161	-	-	-	-	13,461
By donors for specific purposes	-	-	3,577	-	-	-	-	-	3,577	-	-	-	-	-	3,577
By donors for permanent endowment funds	-	-	66,794	-	-	-	-	(12,594)	54,200	-	-	-	-	-	54,200
Total assets whose use is limited or restricted	806	461	159,184	38	12,594	-	-	(12,594)	160,489	13,161	-	-	-	(12,594)	161,056
Less: Assets whose use is limited or restricted - required for current liabilities & operating purposes	<u>(3,280)</u>	<u>-</u>	<u>(303)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,583)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,583)</u>
Non-current assets whose use is limited or restricted	(2,474)	461	158,881	38	12,594	-	-	(12,594)	156,906	13,161	-	-	-	(12,594)	157,473
Property and equipment, net	13,880	30,209	86	10,191	82,129	-	867	-	137,362	-	152	-	19,132	-	156,646
Unamortized financing costs	1,667	10	10	8	62	-	-	-	1,757	-	-	-	281	-	2,038
Recoveries of estimated insurance liabilities insured through commercial policies	108	-	-	-	-	-	-	-	108	-	-	-	-	-	108
Investment in subsidiaries	<u>26,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,581)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,845</u>	<u>-</u>	<u>(15,845)</u>	<u>-</u>
Total assets	<u>\$28,399</u>	<u>\$38,087</u>	<u>\$ 150,889</u>	<u>\$ 12,297</u>	<u>\$ 106,346</u>	<u>\$ 493</u>	<u>\$ 33,185</u>	<u>\$(39,175)</u>	<u>\$ 330,521</u>	<u>\$ 14,966</u>	<u>\$ 499</u>	<u>\$ 15,426</u>	<u>\$ 19,480</u>	<u>\$(28,439)</u>	<u>\$ 352,453</u>

See accompanying Independent Auditor's Report.

MASONICARE
CONSOLIDATING BALANCE SHEET (Continued)
September 30, 2015
(Dollars in thousands)

	<u>MC</u>	<u>MHC</u>	<u>MCF</u>	<u>MAN</u>	<u>MAV</u>	<u>MAH</u>	<u>MHHH*</u>	<u>Elims</u>	<u>Ob Grp</u>	<u>Keystone</u>	<u>MMS</u>	<u>MAM</u>	<u>SLM</u>	<u>Elims</u>	<u>Total</u>
Liabilities and Net Assets (Deficit)															
Current liabilities:															
Current maturities of long-term debt	\$ 2,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,787
Accounts payable and accrued expenses	1,427	2,733	115	928	1,451	101	2,305	-	9,060	52	202	-	2,393	-	11,707
Accrued salaries and related expenses	1,697	2,499	65	601	383	89	1,964	-	7,298	-	359	-	-	-	7,657
Accrued pension and postretirement benefits, current portion	421	-	-	-	-	-	-	-	421	-	-	-	-	-	421
Interest rate swap liability, current portion	2,563	-	-	-	-	-	-	-	2,563	-	-	-	-	-	2,563
Estimated self-insurance liabilities, current portion	1,435	-	-	-	-	-	-	-	1,435	-	-	-	-	-	1,435
Estimated settlements due to third-party payers	-	221	-	45	-	-	1,045	-	1,311	-	-	-	-	-	1,311
Annuities payable, current portion	-	-	303	-	-	-	-	-	303	-	-	-	-	-	303
Refundable entry fees, current portion	-	-	-	-	1,515	-	-	-	1,515	-	-	-	-	-	1,515
Deferred patient service and other revenues	-	79	-	-	1,512	-	1,265	-	2,856	-	-	-	-	-	2,856
Deposits	24	158	-	313	1,492	-	-	-	1,987	-	-	-	187	-	2,174
Other liabilities	17	36	-	18	18	-	76	-	165	-	92	-	-	-	257
Total current liabilities	10,371	5,726	483	1,905	6,371	190	6,655	-	31,701	52	653	-	2,580	-	34,986
Accrued pension and postretirement benefits, net of current portion															
	18,374	-	-	-	-	-	-	-	18,374	-	-	-	-	-	18,374
Interest rate swap liability, net of current portion															
	16,825	-	-	-	-	-	-	-	16,825	-	-	-	-	-	16,825
Annuities payable, net of current portion															
	-	-	1,653	-	-	-	-	-	1,653	-	-	-	-	-	1,653
Refundable entry fees, net of current portion															
	-	-	-	-	21,208	28	-	-	21,236	-	-	-	-	-	21,236
Deferred entry fee revenues															
	-	-	-	-	14,945	-	-	-	14,945	-	-	-	-	-	14,945
Assets held for patient asset management, trust agreements and patient escrow accounts															
	-	444	-	40	-	-	-	-	484	-	-	-	-	-	484
Asset retirement obligation															
	-	729	-	69	-	-	-	-	798	-	-	-	-	-	798
Estimated insurance liabilities insured through commercial policies															
	108	-	-	-	-	-	-	-	108	-	-	-	-	-	108
Estimated self-insurance liabilities, net of current portion															
	4,600	-	-	-	-	-	-	-	4,600	5,382	-	-	-	-	9,982
Long-term debt, net of current maturities															
	96,082	-	-	-	12,594	-	-	(12,594)	96,082	-	-	12,594	-	(12,594)	96,082
Total liabilities	146,360	6,899	2,136	2,014	55,118	218	6,655	(12,594)	206,806	5,434	653	12,594	2,580	(12,594)	215,473
Net assets (deficit):															
Unrestricted	(117,961)	31,188	67,376	10,283	51,228	275	25,963	(26,581)	41,771	9,532	(154)	2,832	13,203	(15,845)	51,339
Non-controlling interest in consolidated subsidiary	-	-	-	-	-	-	567	-	567	-	-	-	3,697	-	4,264
Total unrestricted net assets	(117,961)	31,188	67,376	10,283	51,228	275	26,530	(26,581)	42,338	9,532	(154)	2,832	16,900	(15,845)	55,603
Temporarily restricted	-	-	2,691	-	-	-	-	-	2,691	-	-	-	-	-	2,691
Permanently restricted	-	-	78,686	-	-	-	-	-	78,686	-	-	-	-	-	78,686
Total net assets (deficit)	(117,961)	31,188	148,753	10,283	51,228	275	26,530	(26,581)	123,715	9,532	(154)	2,832	16,900	(15,845)	136,980
Total liabilities and net assets (deficit)	\$28,399	\$38,087	\$150,889	\$12,297	\$106,346	\$493	\$33,185	\$(39,175)	\$330,521	\$14,966	\$499	\$15,426	\$19,480	\$(28,439)	\$352,453

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

See accompanying Independent Auditor's Report.

MASONICARE
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended September 30, 2016
(Dollars in thousands)

	MC	MHC	MCF	MAN	MAV	MHHH*	MAH	Elms	ObGrp	Keystone	MMS	MAM	SLM	Elms	Total
Operating revenues:															
Net patient service revenues	\$ -	\$ 63,410	\$ -	\$ 14,137	\$ -	\$ 61,472	\$ 5,232	\$ (1,219)	\$ 143,032	\$ -	\$ 4,159	\$ -	\$ -	\$ -	\$ 147,191
Resident fees	-	2,248	-	-	18,112	-	10	-	20,370	-	-	-	-	-	20,370
Other revenues	1,187	1,011	105	3,950	10,264	199	7	(440)	16,283	611	1,220	-	-	(2,136)	15,978
Provision for bad debts	-	(991)	-	(171)	(28)	(660)	(19)	-	(1,869)	-	-	-	-	-	(1,869)
Total operating revenues, net	1,187	65,678	105	17,916	28,348	61,011	5,230	(1,659)	177,816	611	5,379	-	-	(2,136)	181,670
Operating expenses:															
Salaries and wages	12,772	32,189	527	8,825	5,242	34,652	3,860	-	98,067	-	4,975	-	176	-	103,218
Employee benefits	3,142	11,017	161	3,313	1,473	8,443	819	-	28,368	-	957	-	62	-	29,387
Supplies and other services	2,763	9,513	1,314	2,989	3,234	5,834	92	263	26,002	823	361	-	1,223	(1,009)	27,400
Professional fees	1,578	6,281	195	2,730	3,637	6,510	176	(1,921)	19,186	188	679	39	969	(1,125)	19,936
Depreciation and amortization	1,396	2,794	16	1,083	4,375	321	1	-	9,986	-	55	-	80	-	10,121
Interest and other fees	194	782	262	289	3,373	-	-	(443)	4,457	-	-	443	-	(443)	4,457
Management fee	(9,526)	3,540	64	1,071	811	3,326	297	-	(417)	-	417	-	-	-	-
Total operating expenses	12,319	66,116	2,539	20,300	22,145	59,086	5,245	(2,101)	185,649	1,011	7,444	482	2,510	(2,577)	194,519
(Loss) income from operations	(11,132)	(438)	(2,434)	(2,384)	6,203	1,925	(15)	442	(7,833)	(400)	(2,065)	(482)	(2,510)	441	(12,849)
Non-operating income (expense):															
Contributions	-	-	2,207	-	-	-	-	-	2,207	-	-	-	-	-	2,207
Investment income (loss)	1	-	5,142	-	1,345	-	-	-	6,488	978	-	-	-	-	7,466
Intercompany investment income (loss)	-	-	443	-	443	-	-	(443)	443	-	-	-	-	(443)	-
Total non-operating income (expense)	1	-	7,792	-	1,788	-	-	(443)	9,138	978	-	-	-	(443)	9,673
Excess of revenues (under) over expenses before severance costs, disposal of construction in progress and change in fair value of interest rate swap agreement															
	(11,131)	(438)	5,358	(2,384)	7,991	1,925	(15)	(1)	1,305	578	(2,065)	(482)	(2,510)	(2)	(3,176)
Severance costs															
	469	-	-	-	-	-	-	-	469	-	5	-	-	-	474
Disposal of construction in progress															
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess of revenues (under) over expenses before change in fair value of interest rate swap agreement															
	(11,600)	(438)	5,358	(2,384)	7,991	1,925	(15)	(1)	836	578	(2,070)	(482)	(2,510)	(2)	(3,650)
Changes in fair value of interest rate swap agreement															
	(2,314)	-	-	-	-	-	-	-	(2,314)	-	-	-	-	-	(2,314)
Excess of revenues (under) over expenses															
	(13,914)	(438)	5,358	(2,384)	7,991	1,925	(15)	(1)	(1,478)	578	(2,070)	(482)	(2,510)	(2)	(5,964)
Excess of revenues (under) over expenses attributable to non-controlling interest in consolidated subsidiaries															
	-	-	-	-	-	(224)	-	-	(224)	-	-	-	370	-	146
Excess of revenues (under) over expenses of Masonicare															
	<u>\$ (13,914)</u>	<u>\$ (438)</u>	<u>\$ 5,358</u>	<u>\$ (2,384)</u>	<u>\$ 7,991</u>	<u>\$ 1,701</u>	<u>\$ (15)</u>	<u>\$ (1)</u>	<u>\$ (1,702)</u>	<u>\$ 578</u>	<u>\$ (2,070)</u>	<u>\$ (482)</u>	<u>\$ (2,140)</u>	<u>\$ (2)</u>	<u>\$ (5,818)</u>

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

See accompanying Independent Auditor's Report.

MASONICARE
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended September 30, 2015
(Dollars in thousands)

	<u>MC</u>	<u>MHC</u>	<u>MCF</u>	<u>MAN</u>	<u>MAV</u>	<u>MHHH*</u>	<u>MAH</u>	<u>Elims</u>	<u>Ob Grp</u>	<u>Keystone</u>	<u>MMS</u>	<u>MAM</u>	<u>SLM</u>	<u>Elims</u>	<u>Total</u>
Operating revenues:															
Net patient service revenues	\$ -	\$ 60,778	\$ -	\$ 12,771	\$ -	\$ 55,706	\$ 3,911	\$ (1,099)	\$ 132,067	\$ -	\$ 4,052	\$ -	\$ -	\$ -	\$ 136,119
Resident fees	-	2,119	-	-	17,023	-	14	-	19,156	-	-	-	-	-	19,156
Other revenues	1,191	1,476	120	3,739	9,753	71	(22)	(542)	15,786	974	1,592	-	-	(2,037)	16,315
Provision for bad debts	-	(1,282)	-	(15)	(47)	(1,458)	(8)	-	(2,810)	-	-	-	-	-	(2,810)
Total operating revenues, net	1,191	63,091	120	16,495	26,729	54,319	3,895	(1,641)	164,199	974	5,644	-	-	(2,037)	168,780
Operating expenses:															
Salaries and wages	12,281	31,420	519	8,814	5,312	30,717	2,814	-	91,877	-	4,967	-	179	-	97,023
Employee benefits	1,999	10,273	115	3,038	1,440	8,437	484	-	25,786	-	861	-	53	-	26,700
Supplies and other services	2,312	9,933	1,340	3,025	3,283	5,714	84	(55)	25,636	(3)	420	-	165	(921)	25,297
Professional fees	1,739	5,328	151	2,313	3,448	5,838	207	(1,586)	17,438	170	674	-	1,124	(1,116)	18,290
Depreciation and amortization	1,197	2,535	16	921	4,309	298	3	-	9,279	-	44	-	108	-	9,431
Interest and other fees	192	776	258	285	3,206	-	-	(325)	4,392	-	-	325	-	(325)	4,392
Management fee	(9,046)	3,459	57	1,042	787	3,071	216	-	(414)	-	414	-	-	-	-
Total operating expenses	10,674	63,724	2,456	19,438	21,785	54,075	3,808	(1,966)	173,994	167	7,380	325	1,629	(2,362)	181,133
(Loss) income from operations	(9,483)	(633)	(2,336)	(2,943)	4,944	244	87	325	(9,795)	807	(1,736)	(325)	(1,629)	325	(12,353)
Non-operating income (expense):															
Contributions	-	-	1,728	-	-	-	-	-	1,728	-	-	-	-	-	1,728
Investment income (loss)	(1)	-	9,484	-	1,366	-	-	-	10,849	734	-	-	-	-	11,583
Intercompany investment income (loss)	-	-	325	-	325	-	-	(325)	325	-	-	-	-	(325)	-
Total non-operating income (expense)	(1)	-	11,537	-	1,691	-	-	(325)	12,902	734	-	-	-	(325)	13,311
Excess of revenues (under) over expenses before															
severance costs, disposal of construction in progress															
and change in fair value of interest rate swap agreement	(9,484)	(633)	9,201	(2,943)	6,635	244	87	-	3,107	1,541	(1,736)	(325)	(1,629)	-	958
Severance costs	77	549	-	148	166	38	-	-	978	-	-	-	-	-	978
Disposal of construction in progress	-	-	-	-	-	-	-	-	-	-	-	-	1,000	-	1,000
Excess of revenues (under) over expenses before change															
in fair value of interest rate swap agreement	(9,561)	(1,182)	9,201	(3,091)	6,469	206	87	-	2,129	1,541	(1,736)	(325)	(2,629)	-	(1,020)
Changes in fair value of interest rate swap agreement	(2,994)	-	-	-	-	-	-	-	(2,994)	-	-	-	-	-	(2,994)
Excess of revenues (under) over expenses	(12,555)	(1,182)	9,201	(3,091)	6,469	206	87	-	(865)	1,541	(1,736)	(325)	(2,629)	-	(4,014)
Excess of revenues (under) over expenses attributable to															
non-controlling interest in consolidated subsidiaries	-	-	-	-	-	(21)	-	-	(21)	-	-	-	585	-	564
Excess of revenues (under) over expenses of Masonicare	\$ (12,555)	\$ (1,182)	\$ 9,201	\$ (3,091)	\$ 6,469	\$ 185	\$ 87	\$ -	\$ (886)	\$ 1,541	\$ (1,736)	\$ (325)	\$ (2,044)	\$ -	\$ (3,450)

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