

# Masonicare

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

As of and for the Years Ended  
September 30, 2012 and 2011

**Masonicare**  
**Independent Auditors' Report, Consolidated Financial Statements,**  
**and Supplemental Information**  
**As of and for the Years Ended September 30, 2012 and 2011**

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Independent Auditors' Report

To the Board of Trustees of Masonicare:

We have audited the consolidated balance sheets of Masonicare and its subsidiaries (Masonicare), a Connecticut not-for-profit, non-stock corporation, as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Masonicare's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Masonicare as of September 30, 2012 and 2011, and the results of its consolidated operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The consolidating 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. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Saslow Lufkin & Buggy, LLP*

January 3, 2013

**Masonicare**  
**Consolidated Balance Sheets**  
**September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,984,483	\$ 2,551,509
Restricted cash	681,779	3,269,558
Patient accounts receivable, net of allowance for doubtful accounts of \$3,890,209 and \$4,152,602, respectively	27,185,910	22,045,567
Other receivables	4,856,041	5,331,032
Inventories	293,970	288,847
Prepaid expenses and other current assets	972,625	891,899
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,685,053	3,685,284
Total current assets	40,659,861	38,063,696
Assets whose use is limited or restricted:		
By Board of Trustees	97,510,324	66,342,051
Under patient asset management, trust agreements and patient escrow accounts	681,701	471,343
Under indenture agreement - held by Trustees	839,352	595,887
Under trust for estimated self-insurance liabilities	11,032,719	9,596,573
Under trust for interest rate swap obligation	720,000	10,546,034
By donors for specific purposes	3,533,558	2,961,060
By donors for permanent endowment funds	65,146,092	63,844,090
Total assets whose use is limited or restricted	179,463,746	154,357,038
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	(3,685,053)	(3,685,284)
Non-current assets whose use is limited or restricted	175,778,693	150,671,754
Property and equipment, net	143,481,802	147,411,468
Unamortized financing costs	1,906,366	1,857,544
Recoveries of estimated insurance liabilities insured through commercial policies	428,056	-
Total assets	\$ 362,254,778	\$ 338,004,462

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

**Masonicare**  
**Consolidated Balance Sheets (continued)**  
**September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 2,435,000	\$ 2,335,000
Accounts payable and accrued expenses	8,538,524	8,004,065
Accrued salaries and related expenses	6,622,848	5,668,240
Accrued pension and postretirement benefits, current portion	2,512,558	2,515,447
Estimated self-insurance liabilities, current portion	1,172,640	1,175,830
Estimated settlements due to third-party payers	4,206,864	5,627,813
Annuities payable, current portion	388,049	405,284
Refundable entry fees, current portion	1,350,310	1,206,873
Deferred patient service and other revenues	2,750,718	2,890,521
Deposits	1,597,526	1,486,097
Total current liabilities	31,575,037	31,315,170
Accrued pension and postretirement benefits, net of current portion	19,022,854	17,421,556
Interest rate swap liability	20,884,267	20,902,212
Annuities payable, net of current portion	2,137,831	2,052,022
Refundable entry fees, net of current portion	29,106,876	30,522,992
Deferred entry fee revenues	12,576,923	11,532,493
Assets held for patient asset management, trust agreements and patient escrow accounts	658,865	459,237
Asset retirement obligation	733,976	706,784
Estimated insurance liabilities insured through commercial policies	428,056	-
Estimated self-insurance liabilities, net of current portion	10,546,415	10,759,061
Long-term debt, net of current maturities	104,245,000	106,095,000
Total liabilities	231,916,100	231,766,527
Net assets:		
Unrestricted net assets of Masonicare	50,658,804	29,315,151
Non-controlling interest in consolidated subsidiary	(402,867)	(359,742)
Total unrestricted net assets	50,255,937	28,955,409
Temporarily restricted	2,623,307	2,109,958
Permanently restricted	77,459,434	75,172,568
Total net assets	130,338,678	106,237,935
Total liabilities and net assets	\$ 362,254,778	\$ 338,004,462

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

**Masonicare**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Operating revenues:		
Net patient service revenues	\$ 140,017,072	\$ 136,954,474
Resident fees	18,451,314	18,241,802
Other revenues	14,307,584	13,785,752
Total operating revenues	<b>172,775,970</b>	168,982,028
Operating expenses:		
Salaries and wages	92,869,769	89,656,817
Employee benefits	27,387,504	24,448,200
Supplies and other services	21,967,099	23,477,544
Professional fees	18,353,789	17,470,315
Depreciation and amortization	10,115,252	9,687,804
Interest	3,859,887	2,929,089
Provision for bad debts	768,053	1,071,273
Total operating expenses	<b>175,321,353</b>	168,741,042
(Loss) income from operations	<b>(2,545,383)</b>	240,986
Non-operating income (expense):		
Contributions	3,203,974	2,052,994
Investment income	6,929,037	10,404,468
Change in fair value of interest rate swap agreement	17,945	(3,306,094)
Total non-operating income (expense)	<b>10,150,956</b>	9,151,368
Excess of revenues over expenses	<b>7,605,573</b>	9,392,354
Loss (gain) attributable to non-controlling interest in consolidated subsidiary	<b>43,125</b>	(198,865)
Excess of revenues over expenses of Masonicare	<b>7,648,698</b>	9,193,489
Other changes in unrestricted net assets:		
Change in unrealized appreciation (depreciation) on investments	16,013,771	(11,386,113)
Pension changes other than net periodic benefit costs	(2,318,816)	(3,793,729)
(Loss) gain attributable to non-controlling interest in consolidated subsidiary	<b>(43,125)</b>	198,865
Change in unrestricted net assets	<b>21,300,528</b>	(5,787,488)
Unrestricted net assets, beginning of year	<b>28,955,409</b>	34,742,897
Unrestricted net assets, end of year	<b>\$ 50,255,937</b>	\$ 28,955,409

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

**Masonicare**  
**Consolidated Statements of Changes in Net Assets**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Unrestricted net assets:		
Excess of revenues over expenses of Masonicare	\$ 7,648,698	\$ 9,193,489
Change in unrealized appreciation (depreciation) on investments	16,013,771	(11,386,113)
Pension changes other than net periodic benefit costs	(2,318,816)	(3,793,729)
(Loss) gain attributable to non-controlling interest in consolidated subsidiary	(43,125)	198,865
Change in unrestricted net assets	<b>21,300,528</b>	<b>(5,787,488)</b>
Temporarily restricted net assets:		
Bequests, contributions, pledges and changes in value of residual trusts	101,223	55,725
Investment income	105,508	81,453
Realized gains on sales of investments	85,703	125,905
Change in unrealized appreciation (depreciation) on investments	414,055	(224,467)
Change in annuity obligations	(79,848)	(126,924)
Net assets released for capital acquisitions	(113,292)	(132,448)
Change in temporarily restricted net assets	<b>513,349</b>	<b>(220,756)</b>
Permanently restricted net assets:		
Bequests, contributions and pledges	735,943	1,374,398
Investment income	123,331	112,569
Realized gains on sales of investments	91,171	82,582
Change in annuity obligations	(264,792)	(242,560)
Change in fair value of perpetual trusts	1,262,174	(539,417)
Change in unrealized appreciation (depreciation) on investments	339,039	(98,753)
Change in permanently restricted net assets	<b>2,286,866</b>	<b>688,819</b>
Change in net assets	<b>24,100,743</b>	<b>(5,319,425)</b>
Net assets, beginning of year	<b>106,237,935</b>	111,557,360
Net assets, end of year	<b>\$ 130,338,678</b>	<b>\$ 106,237,935</b>

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

**Masonicare**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Change in net assets	\$ 24,100,743	\$ (5,319,425)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,115,252	9,687,804
Pension changes other than net periodic benefit costs	2,318,816	3,793,729
Provision for bad debts	768,053	1,071,273
Restricted contributions, investment income and other	(1,067,692)	(1,627,145)
Realized and unrealized (gains) losses on investments	(22,734,217)	3,011,375
Amortization of deferred entry fee revenues	(5,908,878)	(6,139,210)
Loss (gain) attributable to non-controlling interest in consolidated subsidiary	43,125	(198,865)
Changes in fair value of interest rate swap agreement	(17,945)	3,306,094
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(5,908,396)	(5,038,152)
Other receivables	474,991	(2,694,912)
Inventories	(5,123)	(37,176)
Prepaid expenses and other current assets	(80,726)	222,229
Accounts payable and accrued expenses	534,459	(1,467,564)
Accrued salaries and related expenses	954,608	486,740
Accrued pension and postretirement benefits	(720,407)	(1,127,076)
Estimated self-insurance liabilities	(215,836)	(551,481)
Estimated settlements due to third-party payers	(1,420,949)	272,429
Deferred patient service and other revenues	(139,803)	48,725
Deposits	111,429	(21,408)
Assets held for patient asset management, trust agreements and patient escrow accounts	199,628	(95,677)
Asset retirement obligation	27,192	27,192
	<b>1,428,324</b>	<b>(2,390,501)</b>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	67,933,309	123,209,085
Purchases of investments	(70,965,637)	(120,485,154)
Change in restricted cash	2,587,779	(929,651)
Purchases of property and equipment, net	(5,549,123)	(4,833,421)
	<b>(5,993,672)</b>	<b>(3,039,141)</b>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from entrance fees	7,752,300	7,344,475
Refunds of entrance fees	(2,071,670)	(2,389,457)
Proceeds from long-term debt	33,000,000	-
Payments on long-term debt	(34,750,000)	(2,240,000)
Restricted contributions, investment income and other	1,067,692	1,627,145
	<b>4,998,322</b>	<b>4,342,163</b>
Net cash provided by financing activities		
Net change in cash and cash equivalents	432,974	(1,087,479)
Cash and cash equivalents at beginning of year	2,551,509	3,638,988
Cash and cash equivalents at end of year	\$ 2,984,483	\$ 2,551,509

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



**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 1 - General**

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

Effective December 1, 2007, MHH&H formed a strategic partnership with the two homecare branches operated by Saint Francis Hospital and Medical Center. The partnership, Masonicare Partners Home Health & Hospice, includes the Greater Hartford Branch of MHH&H and Suffield branches of Saint Francis Homecare. MHH&H owns a 65% share of Masonicare Partners Home Health & Hospice with the remaining 35% owned by Saint Francis Hospital and Medical Center. MHH&H records a 65% interest in this company with the remaining 35% recorded as a non-controlling interest in consolidated subsidiary. Masonicare recorded the minority interest in Masonicare Partners Home Health & Hospice of \$402,867 and \$359,742 on the consolidated balance sheets at September 30, 2012 and 2011, respectively.

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

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

**Basis of Reporting** - The accompanying 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), which requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the changes in net assets available for benefits during the reporting periods. Actual results could differ from those estimates.

**Net Patient Service Revenues** - Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue from Medicare and Medicaid accounted for approximately 65% of total net patient service revenue for each of the years ended September 30, 2012 and 2011.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

**Cash and Cash Equivalents** - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less from the date of acquisition, excluding amounts whose use is limited or restricted. The Federal Depository Insurance Corporation (FDIC) insures cash balances up to \$250,000 per customer, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. Amounts in excess of the FDIC limits are uninsured. Most of Masonicare's banking activity is maintained with several regional banks and, from time-to-time, exceeds FDIC limits. It is Masonicare's policy to monitor these banks' financial strength on an ongoing basis.

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

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

Masonicare invests in several limited partnerships (the Investment Companies). Some of these investments are in the form of both a master and feeder fund structure. The Investment Companies invest primarily in securities of publicly traded companies, securities of privately held distressed companies, real estate ventures and other financial instruments including a variety of derivative products such as call and put options, warrants and convertible securities. These Investment Companies are not traded on an exchange and do not provide Masonicare with the ability to redeem shares on a daily basis. There is generally no secondary market for trading interests in the Investment Companies. Instead, the net asset value serves as the basis for the investor's periodic (i.e. monthly or quarterly) subscription and redemption activity pursuant to the terms of each Investment Companies' governing documents. In accordance with FASB ASC 958-10 "Consolidation" and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations", Masonicare reports the carrying values of the Investment Companies at cost. The fair values of these securities amounted to \$29,093,029 and \$32,902,997 as of September 30, 2012 and 2011, respectively. Because of the inherent uncertainty of the fair value of securities measured in good faith by the general partner, the estimated fair values of those securities may be materially higher or lower than the values that would have been used had a ready market for these securities existed. As of September 30, 2012 and 2011, Masonicare had \$2,120,640 and \$2,680,460, 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, included in other than temporary impairments on investments, and the cost basis of that investment is reduced.

For equity securities, Masonicare's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and Masonicare's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no impairment losses recorded during the years ended September 30, 2012 and 2011.

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

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.

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

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

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

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

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

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

**Deferred 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.

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

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

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

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

**Bad Debts** - Masonicare uses the indirect method to record bad debts. Masonicare records an allowance for doubtful accounts, which is based on its estimation of bad debts, against its outstanding patient accounts receivable. This estimate is based on Masonicare's past experience with collecting its receivables and an analysis of current accounts receivable. Bad debt expense was \$768,053 and \$1,071,273 for the years ended September 30, 2012 and 2011, respectively.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

**Accounting Pronouncements Adopted** - In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure.*" ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. Masonicare's adoption of ASU 2010-23 did not have a material impact on its overall consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries.*" ASU No. 2010-24 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. Masonicare's adoption of ASU 2010-24 resulted in the recording of additional claim liabilities and insurance recoveries from third party insurance carriers in the amount of \$428,056.

**Pending Accounting Pronouncements** - In May 2011, the FASB issued ASU No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs.*" ASU No. 2011-04 amends certain guidance in ASC 820, "*Fair Value Measurement.*" ASU 2011-04 expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied on a prospective basis. Masonicare is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Masonicare's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, "*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.*" ASU 2011-07 requires a health care entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012. Masonicare is currently evaluating the effect that the provisions of ASU 2011-07 will have on its overall consolidated financial statements.

In July 2012, the FASB issued ASU No.2012-01, "*Health Care Entities (Topic 954) Continuing Care Retirement Communities - Refundable Advanced Fees.*" ASU No. 2012-01 clarifies that an entity should classify an advanced fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon re-occupancy by a subsequent resident, which is limited to the proceeds of re-occupancy. Refundable advanced fees that are contingent upon re-occupancy by a subsequent resident but are not limited to the proceeds of re-occupancy should be accounted for and reported as a liability. This ASU is effective for fiscal years beginning after December 15, 2012, with retrospective application required. Masonicare's adoption of ASU No. 2012-01 will not have a material effect on the consolidated financial statements.

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

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

Assets whose use is limited or restricted are comprised as follows at September 30, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
<b>By Board of Trustees:</b>				
Cash and cash equivalents	\$ 5,017,932	\$ 5,017,932	\$ 2,178,948	\$ 2,178,948
Marketable equity securities	67,103,295	75,339,869	56,953,640	50,708,816
Fixed income securities	14,438,764	15,192,271	10,924,461	11,320,875
Other investments	1,944,953	1,945,252	2,111,612	2,111,612
Other assets	15,000	15,000	21,800	21,800
	<u>88,519,944</u>	<u>97,510,324</u>	<u>72,190,461</u>	<u>66,342,051</u>
<b>Under patient asset management, trust agreements and patient escrow accounts:</b>				
Cash and cash equivalents	331,913	331,913	170,396	170,396
Other investments	331,205	331,205	286,468	286,469
Other assets	18,583	18,583	14,479	14,478
	<u>681,701</u>	<u>681,701</u>	<u>471,343</u>	<u>471,343</u>
<b>Under indenture agreement - held by Trustees:</b>				
Cash and cash equivalents	15,679	15,679	13,892	13,892
Fixed income securities	824,003	823,673	582,539	581,995
	<u>839,682</u>	<u>839,352</u>	<u>596,431</u>	<u>595,887</u>
<b>Under trust for estimated self-insurance liabilities:</b>				
Marketable equity securities	4,089,839	4,578,838	5,531,155	5,086,727
Fixed income securities	4,299,849	4,459,277	2,736,306	2,819,104
Other investments	1,847,553	1,994,604	1,655,000	1,690,742
	<u>10,237,241</u>	<u>11,032,719</u>	<u>9,922,461</u>	<u>9,596,573</u>
<b>Under trust for interest rate swap obligation:</b>				
Cash and cash equivalents	720,000	720,000	10,546,034	10,546,034
	<u>720,000</u>	<u>720,000</u>	<u>10,546,034</u>	<u>10,546,034</u>
<b>By donors for specific purposes:</b>				
Cash, cash equivalents and interest receivable	330,554	330,554	421,582	421,582
Marketable equity securities	723,196	1,047,624	779,541	716,202
Fixed income securities	912,339	961,274	669,954	688,996
Residual interest trusts	1,076,986	1,193,006	1,076,986	1,133,180
Other investments	1,100	1,100	1,100	1,100
	<u>3,044,175</u>	<u>3,533,558</u>	<u>2,949,163</u>	<u>2,961,060</u>
<b>By donors for permanent endowment funds:</b>				
Cash, cash equivalents and interest receivable	748,563	748,563	192,018	192,018
Marketable equity securities	26,539,075	26,943,557	25,591,699	25,717,949
Fixed income securities	7,004,524	7,094,819	5,053,052	5,082,539
Perpetual interest trusts	8,530,137	11,395,472	8,530,137	10,133,298
Residual interest trusts	440,159	562,231	440,159	495,338
Other investments	18,401,450	18,401,450	23,061,087	22,222,948
	<u>61,663,908</u>	<u>65,146,092</u>	<u>62,868,152</u>	<u>63,844,090</u>
	<u>\$ 165,706,651</u>	<u>\$ 179,463,746</u>	<u>\$ 159,544,045</u>	<u>\$ 154,357,038</u>

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

Investment income is comprised of the following for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 3,146,305	\$ 3,518,890
Realized gains on sales of investments	4,352,430	7,616,918
Less: investment management fees	<u>(569,698)</u>	<u>(731,340)</u>
	<u>\$ 6,929,037</u>	<u>\$ 10,404,468</u>

**Note 4 - Property and Equipment**

Property and equipment, consists of the following at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 419,334	\$ 419,334
Land improvements	13,989,259	13,616,902
Buildings	221,662,173	219,206,198
Furniture and equipment	<u>53,070,413</u>	<u>51,232,161</u>
	289,141,179	284,474,595
Less: accumulated depreciation	<u>(149,171,309)</u>	<u>(140,021,880)</u>
	139,969,870	144,452,715
Construction in progress (estimated cost to complete - \$3,915,000)	<u>3,511,932</u>	<u>2,958,753</u>
	<u>\$ 143,481,802</u>	<u>\$ 147,411,468</u>

Depreciation expense was \$9,492,390 and \$9,579,326 for the years ended September 30, 2012 and 2011, respectively. Included in property and equipment as of September 30, 2012 and 2011, are capitalized leased assets for computer equipment with a cost of \$377,822 and related accumulated depreciation of \$376,666 for both 2012 and 2011.

For the year ended September 30, 2012 and 2011, \$3,281,706 of capitalized interest has been included within property and equipment, respectively.

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**Note 5 - Unamortized Financing Costs**

Unamortized financing costs consist of the following at September 30, 2012 and 2011:

	2012	2011
Deferred financing costs	\$ 2,308,592	\$ 2,177,227
Less: accumulated amortization	(402,226)	(319,683)
	\$ 1,906,366	\$ 1,857,544

Amortization expense related to deferred financing costs was \$82,543 and \$81,598, for the years ended September 30, 2012 and 2011, respectively.

**Note 6 - Long-Term Debt**

On October 23, 2007 and pursuant to a loan agreement dated as of October 1, 2007, Masonicare issued to CHEFA bonds in the amount of \$116,065,000 for the purpose of financing the expansion of and renovations to the facilities at MAV and MHC. This bond issuance also constitutes a refinancing of the CHEFA 1998 Revenue Bonds (Series A and Series B) issued debt. The bond issuance is in the form of Masonicare Issue, Series C and Masonicare Issue, Series D financing. Masonicare Issue, Series C and Series D are variable rate demand revenue bonds in the amounts of \$81,065,000 and \$35,000,000, respectively, with both series bonds maturing on July 1, 2037. The variable interest rates on the bonds are based upon the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. The bonds were originally secured by an irrevocable letter of credit expiring on, October 31, 2012, issued by Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association). On September 5, 2012, Masonicare entered into a three year agreement with Manufacturers and Traders Trust Company (M&T Bank) to provide a substitute letter of credit in connection with the issuance of the bonds. On October 16, 2007, Masonicare entered into an interest rate swap agreement relating to the aggregate principal amount of the Series C bonds as more fully described in Note 21.

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



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

Long-term debt consists of the following at September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
CHEFA Revenue Bonds:		
Series C - 3.06% to 7.96% term bonds due 2037	\$ 73,680,000	\$ 75,325,000
Series D - 3.06% to 7.96% term bonds due 2037	-	33,105,000
Series E - 4.50% term bonds due 2037	<b>33,000,000</b>	-
	<b>106,680,000</b>	108,430,000
Less: current maturities	<b>(2,435,000)</b>	(2,335,000)
	<b>\$ 104,245,000</b>	<b>\$ 106,095,000</b>

Under the indenture agreements, the Obligated Group is required to make monthly deposits with the Trustee to fund future principal and interest payments. The agreements also place limits on additional borrowings and further require the Obligated Group to maintain a specified debt service coverage ratio. The Obligated Group was in compliance with these covenants for the years ended September 30, 2012 and 2011.

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

2013	\$ 2,435,000
2014	2,561,000
2015	2,563,000
2016	2,673,000
2017	2,787,000
Thereafter	93,661,000
	<b>\$ 106,680,000</b>

Funds held by trustees under the indenture agreement are as follows at September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Principal and interest funds, held by Fidelity	\$ 410,039	\$ -
Principal and interest funds, held by U.S Bank	<b>429,313</b>	595,887
	<b>\$ 839,352</b>	<b>\$ 595,887</b>

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

Effective March 5, 2010 and later extended on July 9, 2011, Masonicare entered into a revolving line of credit agreement with Webster Bank, National Association for \$10,000,000. Advances under the line of credit bear interest at the higher of a 4% interest rate or the Eurodollar rate plus 175 basis points. The agreement expires upon mutual consent of both parties. As of September 30, 2012 and 2011, Masonicare did not have any outstanding amounts drawn against this line of credit.

**Note 8 - Self-Insurance Liabilities**

Masonicare is self-insured for its long-term care professional and general liability exposure through Keystone, a wholly-owned subsidiary domiciled in Vermont. Effective January 1, 2008, Keystone provides claims-made coverage of \$13,000,000 per claim and \$10,000,000 per claim (\$12,000,000 per claim for fiscal year end 2011) for professional and general liability insurance, respectively, subject to reinsurance. Masonicare has employed independent actuaries to estimate the ultimate costs of the settlement of claims under the program, which approximate \$6,215,302 and \$6,052,952 at September 30, 2012 and 2011, respectively. Accrued professional and general liability reserves are discounted at a rate of 3% and 4% as of September 30, 2012 and 2011, respectively, and in management's opinion provide an adequate reserve for loss contingencies.

Masonicare also self-insures the deductible portion of workers compensation claims. The self-insured deductible amount is \$250,000 from January 1, 2001 through January 1, 2005 and \$350,000 from January 1, 2005 to February 28, 2009. Effective March 1, 2009, Masonicare has purchased a pre-funded large deductible policy from a commercial carrier with a deductible limit of \$350,000 per claim with a \$4,300,000 aggregate limit (\$4,200,000 through March 1, 2010). Masonicare has established an irrevocable trust to hold assets, accumulate income and pay settled claims and expenses related to the workers' compensation program for the self-insured deductibles. Masonicare has employed independent actuaries to estimate the ultimate costs of the deductible portion of workers compensation claims, which approximate \$4,331,112 and \$4,706,109 at September 30, 2012 and 2011, respectively. Accrued workers compensation reserves have been discounted at a rate of 3% at September 30, 2012 and 2011 and in management's opinion provide an adequate reserve for loss contingencies. Effective February 24, 2009, Masonicare obtained a surety bond to secure its future obligations of the self-insured deductible program. To effectuate the surety bond agreement Masonicare has provided \$300,000 in collateral (960,000 in fiscal year 2011), which is held in trust at J.P Morgan Chase Bank N.A. and is included within assets under trust for self-insurance liabilities within the consolidated balance sheets as of September 30, 2012 and 2011, respectively. In addition, Masonicare is required to pre-fund a loss escrow account with the commercial carrier for the large deductible policy. Amounts held in escrow by the commercial carrier total \$2,900,486 and \$1,729,626 as of September 30, 2012 and 2011, respectively, and are carried within other receivables on the consolidated balance sheets.

Effective January 1, 2007, Masonicare self-insured liabilities related to medical coverage on its employees and dependents (covered members) up to \$100,000 per covered member. Masonicare procured a stop loss policy with CIGNA Healthcare for coverage in excess of \$100,000 per covered member. Masonicare recorded liabilities in accordance with the program of \$1,172,640 and \$1,175,830 as of September 30, 2012 and 2011, respectively. Masonicare paid claims and administrative fees related to this program of \$15,348,702 and \$14,356,850 for the years ended September 30, 2012 and 2011, respectively.

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

Masonicare leases certain real estate and equipment under several non-cancelable operating leases. Future minimum rental payments under non-cancelable operating leases with initial terms in excess of one year are as follows at September 30, 2012:

2013	\$	632,413
2014	\$	553,648
2015	\$	480,192
2016	\$	385,155
2017	\$	341,014

Total rent expense under all operating leases was approximately \$854,094 and \$895,480 for the years ended September 30, 2012 and 2011, respectively.

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

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

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

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

The valuation dates are September 30, 2012 and 2011 and pertinent information relating to these plans is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 33,317,167	\$ 30,786,389	\$ 4,024,294	\$ 4,341,037
Participant contributions	-	-	46,475	52,174
Service cost	216,476	198,277	10,184	31,467
Interest cost	1,443,318	1,474,719	179,039	214,202
Actuarial loss (gain)	4,437,481	2,402,272	269,521	(363,527)
Benefits paid	<u>(1,746,965)</u>	<u>(1,544,490)</u>	<u>(257,879)</u>	<u>(251,059)</u>
Benefit obligation at end of year	<u>\$ 37,667,477</u>	<u>\$ 33,317,167</u>	<u>\$ 4,271,634</u>	<u>\$ 4,024,294</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 17,405,433	\$ 17,869,788	\$ -	\$ -
Actual return on plan assets	2,730,217	(895,402)	-	-
Employer contribution	2,015,014	1,975,537	211,404	198,885
Participant contribution	-	-	46,475	52,174
Benefits paid	<u>(1,746,965)</u>	<u>(1,544,490)</u>	<u>(257,879)</u>	<u>(251,059)</u>
Fair value of plan assets at end of year	<u>\$ 20,403,699</u>	<u>\$ 17,405,433</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued liability	<u>\$ (17,263,778)</u>	<u>\$ (15,911,734)</u>	<u>\$ (4,271,634)</u>	<u>\$ (4,024,294)</u>

Significant assumptions are as follows as of September 30, 2012 and 2011:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Weighted average assumptions:</b>				
Discount rate on Qualified Plan	4.60%	5.10%	4.60%	5.10%
Discount rate on Supplemental Executive Retirement Plan	2.50%	2.60%	N/A	N/A
Expected return on plan assets	7.00%	7.70%	N/A	N/A
Rate of compensation increase	5.00%*	5.00%*	N/A	N/A
<b>Health care cost trend rate:</b>				
Initial health care cost trend rate	N/A	N/A	7.50%	8.00%
Ultimate health care cost trend rate	N/A	N/A	5.00%	5.00%
Number of years to ultimate rate	N/A	N/A	4 years	5 years

\* Relates to Supplemental Executive Retirement Plan only.

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

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

	<b>1-Percentage Point Increase</b>	<b>1-Percentage Point Decrease</b>
Effect on total of service and interest cost components	\$ 10,700	\$ (9,600)
Effect on postretirement benefit obligation	\$ 272,000	\$ (243,000)

Components of net periodic benefit costs are as follows for the years ended September 30, 2012 and 2011:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Service cost	\$ 216,476	\$ 198,277	\$ 10,184	\$ 31,467
Interest cost	1,443,318	1,474,719	179,039	214,202
Expected return on plan assets	(1,184,862)	(1,336,087)	-	-
Amortization of prior service cost	-	-	(436,572)	(436,572)
Actuarial loss recognized	<u>1,132,484</u>	<u>783,099</u>	<u>117,391</u>	<u>159,064</u>
	<u>\$ 1,607,416</u>	<u>\$ 1,120,008</u>	<u>\$ (129,958)</u>	<u>\$ (31,839)</u>

Amounts recorded in unrestricted net assets as of September 30, 2012, not yet amortized as components of net periodic benefit costs are as follows:

Unamortized prior service credit	\$ (3,227,582)
Unamortized actuarial loss	<u>19,969,952</u>
Amount recognized as a reduction in unrestricted net assets	<u>\$ 16,742,370</u>

The amortization of the above items expected to be recognized in net periodic costs for the year ended September 30, 2013 is \$971,749.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 10 - Pension and Other Postretirement Benefits (continued)**

The fair values of Masonicare's pension plan assets as of September 30, by asset category classified as Level 1, 2 and 3 as defined in Note 18 are as follows:

<b>2012</b>	<b>Total</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash, cash equivalents and interest receivable	\$ 739,943	\$ 739,943	\$ -	\$ -
Equity securities:				
Consumer discretionary	306,557	306,557	-	-
Consumer staples	278,801	278,801	-	-
Energy	288,859	288,859	-	-
Financials	526,916	526,916	-	-
Health Care	377,921	377,921	-	-
Industrials	299,330	299,330	-	-
Information technology	524,705	524,705	-	-
Materials	62,861	62,861	-	-
Utilities	40,169	40,169	-	-
Other	649,015	649,015	-	-
Corporate bond:				
Industrial	17,430	-	17,430	-
Mutual and other equity funds	<u>16,291,192</u>	<u>16,291,192</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,403,699</u>	<u>\$ 20,386,269</u>	<u>\$ 17,430</u>	<u>\$ -</u>

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 10 - Pension and Other Postretirement Benefits (continued)**

<u>2011</u>	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash, cash equivalents and interest receivable	\$ 714,353	\$ 714,353	\$ -	\$ -
Equity securities:				
Consumer discretionary	312,714	312,714	-	-
Consumer staples	276,224	276,224	-	-
Energy	307,334	307,334	-	-
Financials	498,892	498,892	-	-
Health Care	334,619	334,619	-	-
Industrials	365,808	365,808	-	-
Information technology	544,689	544,689	-	-
Materials	105,395	105,395	-	-
Utilities	44,083	44,083	-	-
Other	747,064	747,064	-	-
Corporate bond:				
Industrial	16,609	-	16,609	-
Mutual and other equity funds	<u>13,137,649</u>	<u>13,137,649</u>	<u>-</u>	<u>-</u>
	<u>\$ 17,405,433</u>	<u>\$ 17,388,824</u>	<u>\$ 16,609</u>	<u>\$ -</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 \$1,814,558 to its pension plan, \$348,000 to its postretirement plan and \$350,000 to its supplemental executive retirement plan in fiscal year 2013. The costs and related obligations of the supplemental executive retirement plan are included within the pension benefit tables set forth above.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

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

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

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
2013	\$ 3,369,000	\$ 303,000
2014	\$ 3,585,000	\$ 334,000
2015	\$ 3,021,000	\$ 348,000
2016	\$ 1,984,000	\$ 363,000
2017	\$ 2,734,000	\$ 372,000
Thereafter	\$ 13,163,000	\$ 1,636,000

Masonicare offers to substantially all of its employees a defined contribution plan with various investment options. To be eligible, an employee must have completed 90 days of service and be at least 21 years old. Total defined contribution pension expense was \$1,477,458 and \$1,088,169 for the years ended September 30, 2012 and 2011, respectively.

MHC also offers a non-qualified pension plan with accrued benefit costs of \$0 and \$975 for 2012 and 2011, respectively. These costs and related obligations are not included in the tables set forth above.

**Note 11 - Entrance Fees**

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

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

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

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

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



**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 12 - Third-Party Payer Reimbursement (continued)**

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

**Medicare** - Services rendered to Medicare program beneficiaries are reimbursed under a variety of reimbursement methodologies. The acute care beds of MHC are reimbursed on a Diagnostic Related Group (DRG) Prospective Payment System (PPS) methodology. Reimbursement amounts differ based on diagnosis and acuity level. The geriatric medical psychiatric beds of MHC began being paid on the Inpatient Psychiatric Facility Prospective Payment System effective October 1, 2005. This new payment system is being phased in over four years. For fiscal year 2012 and 2011, the per discharge payment is based upon a federal and hospital specific blended rate. Services are reimbursed based on patient diagnosis along with clinical and functional factors. The long-term care beds in MHC and MAN are reimbursed using the Resource Utilization Groups (RUGS) PPS methodology. This PPS method reimburses services rendered to Medicare program beneficiaries based on a diagnosis determined through the minimum data set (MDS) evaluation.

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

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

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

DSS had instituted a user fee, which requires all long term care facilities to pay an amount per non-Medicare patient day back to the State. Rates paid to these facilities were adjusted through a formula that was compared to the costs for fiscal year 2003 but capped with a maximum amount of increase. MAN received this maximum amount. MHC was being paid through an interim rate agreed between MHC and the State. Interim rate facilities had rate increases calculated based upon a formula. MHC received the maximum this formula allowed. MAN and MHC were granted special interim rates by the State effective July 1, 2007. These rates are subject to review and adjustment if actual allowable costs are less than the rates paid.

**Filing Requirements** - Each entity must file annual Medicare and 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.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 12 - Third-Party Payer Reimbursement (continued)**

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

Medicare cost reports for MHC have been settled through September 30, 2006 and Medicare cost reports for MAN, MHH&H and Masonicare Partners Home Health and Hospice have been settled through September 30, 2008. The Medicaid cost reports for MHC and MAN have been reviewed by DSS through September 30, 2010. During 2011, DSS initiated a routine full field audit of MHC's 2006 Medicaid cost report. The final results had insignificant adjustments.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Masonicare is in compliance with fraud and abuse regulations as well as other applicable governmental laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**Note 13 - Endowments**

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

Masonicare 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.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 13 - Endowments (continued)**

Temporarily restricted net assets are available for the following purposes at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Residual interest trusts not available for Masonicare's purposes until the expiration of the trusts	\$ 1,193,006	\$ 1,133,180
Investments held to support annuity contractual obligations that are not available for Masonicare's purposes until the expiration of income interest	92,474	(62,580)
Support of MAV residents	973,895	860,161
Support for scholarship activities	363,932	179,197
	<u>\$ 2,623,307</u>	<u>\$ 2,109,958</u>

Permanently restricted net assets consist of the following at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments held in perpetuity, the income from which is dedicated to support Masonicare's activities	\$ 63,101,167	\$ 62,204,521
Investments held in perpetuity, the income from which is dedicated to support annuity contractual obligations	1,785,513	1,657,467
Investments held in perpetuity, the income from which is dedicated to support MHH&H activities	1,177,282	1,177,282
Fair value of perpetual trusts	11,395,472	10,133,298
	<u>\$ 77,459,434</u>	<u>\$ 75,172,568</u>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires Masonicare to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2012 and 2011, 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 attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

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

**Masonicare**  
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**Note 13 - Endowments (continued)**

*Spending Policy* - Prior to September 2009 MCF's investment portfolio allocation policy for long-term returns (Spending Policy) provided that the appropriation of funds from principal and or earnings to support annual operational losses of Masonicare. Subsequent to September 2009 and primarily due to unfavorable investment returns within the global equity markets, MCF's Board of Directors and Masonicare's Board of Trustees approved the expenditure of up to \$20 million of invested assets to ensure compliance with Masonicare's bond covenants. As of September 30, 2012 and 2011, \$13,015,592 is due to the permanent endowment assets for this appropriation. None of the \$20 million appropriated has been expended as of September 30, 2012 and 2011.

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 13 - Endowments (continued)**

Changes in endowment net assets for the years ended September 30, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2010	\$ 77,431,690	\$ 2,330,714	\$ 74,483,749	\$ 154,246,153
Investment return:				
Investment income	9,333,194	207,358	(344,266)	9,196,286
Net change in market value	(10,513,560)	(224,467)	(98,753)	(10,836,780)
Change in annuity obligations	-	(126,924)	(242,560)	(369,484)
Contributions	2,052,994	55,725	1,374,398	3,483,117
Released for capital acquisitions	-	(132,448)	-	(132,448)
Net settlements on swap collateral and line of credit	(6,356,304)	-	-	(6,356,304)
Line of credit reserve	(2,000,000)	-	-	(2,000,000)
Operations support and settlements	(3,450,000)	-	-	(3,450,000)
Other changes	(155,963)	-	-	(155,963)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at October 1, 2011	66,342,051	2,109,958	75,172,568	143,624,577
Investment return:				
Investment income	6,063,200	191,211	1,476,676	7,731,087
Net change in market value	14,838,789	414,055	339,039	15,591,883
Change in annuity obligations	-	(79,848)	(264,792)	(344,640)
Contributions	3,203,974	101,223	735,943	4,041,140
Released for capital acquisitions	-	(113,292)	-	(113,292)
Net settlements on swap collateral and line of credit	11,536,034	-	-	11,536,034
Operations support and settlements	(5,635,173)	-	-	(5,635,173)
Affiliate allocated investment income	1,555,992	-	-	1,555,992
Other changes	(394,543)	-	-	(394,543)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at September 30, 2012	<u>\$ 97,510,324</u>	<u>\$ 2,623,307</u>	<u>\$ 77,459,434</u>	<u>\$ 177,593,065</u>

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 14 - Concentrations of Credit Risk**

MHC, MAN, MHH&H and Masonicare Partners Home Health and Hospice grant credit without collateral to certain patients, most of whom are insured under third-party payer agreements. The composition of patient and resident receivables before allowances for doubtful accounts consists of the following at September 30, 2012 and 2011:

	2012	2011
Medicare	34 %	41 %
Medicaid	46	38
Private pay and other	20	21
	100 %	100 %

**Note 15 - Income Taxes**

Masonicare, MHC, Keystone, MCF, MAN, MAV and MHH&H qualify as tax-exempt corporations under Section 501(c)(3) of the Internal Revenue Code. MMS is a taxable corporation. Income tax expense was immaterial for the years ended September 30, 2012 and 2011.

Masonicare accounts for income taxes in accordance with FASB ASC 740, “*Income Taxes*”. FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of certain assets and liabilities.

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 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 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.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Masonicare did not record any unrecognized tax benefits for the years ended September 30, 2012 and 2011. Masonicare anticipates that it will not have a change in unrecognized tax benefits during the next twelve months that would have a material impact on the consolidated financial statements.

Masonicare’s policy is to recognize interest and penalties related to income taxes as a component of general and administrative expenses. As of September 30, 2012 and 2011 and for the years then ended, Masonicare did not record any penalties or interest associated with unrecognized tax benefits.

All U.S. federal tax years from 2009 onwards are eligible for audit by the IRS.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 16 - 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, 2012 and 2011 are as follows:

	2012	2011
Program services	\$ 79,930,551	\$ 71,630,438
Support services	30,703,655	28,084,847
General and administrative	64,687,147	69,025,757
	\$ 175,321,353	\$ 168,741,042

**Note 17 - Commitments, Contingencies and Other Obligations**

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

During March 2005, the FASB issued Interpretation No. 47 which clarifies the term “conditional asset retirement obligation” as used in FASB ASC 410-20, “*Asset Retirement Obligations*”. FASB ASC 410-20 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as facilities containing asbestos, when the amount of the liability can be reasonably estimated. Management is currently evaluating the fair market value of its Asset Retirement Obligation (ARO), relating to its various facilities. An ARO liability of \$733,976 and \$706,784 has been established as of September 30, 2012 and 2011, respectively. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

**Note 18 - Fair Values**

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

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

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 18 - Fair Values (continued)**

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

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

<u>2012</u>	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash, cash equivalents and interest receivable	\$ 7,164,641	\$ 7,164,641	\$ -	\$ -
Equity securities:				
Basic industries	3,407,769	3,407,769	-	-
Communication services	213,313	213,313	-	-
Consumer discretionary	3,182,250	3,182,250	-	-
Consumer staples	1,973,507	1,973,507	-	-
Energy	2,376,473	2,376,473	-	-
Financials	4,989,854	4,989,854	-	-
Health Care	3,440,707	3,440,707	-	-
REITS	180,215	180,215	-	-
Technology	4,363,703	4,363,703	-	-
Utilities	383,079	383,079	-	-
Other assets	3,644,541	3,644,541	-	-
U.S. mutual funds	37,123,343	37,123,343	-	-
International mutual funds	13,292,578	13,292,578	-	-
Other assets	14,846,458	14,846,458	-	-
Fixed income securities:				
U.S. government obligations	1,689,290	1,689,290	-	-
U.S. government agencies	1,088,443	1,088,443	-	-
Corporate bonds - industrial	3,442,262	3,442,262	-	-
Corporate bonds - finance	4,255,930	4,255,930	-	-
Mortgage backed securities	6,014,298	6,014,298	-	-
Municipal bonds	122,516	122,516	-	-
Taxable bond fund	24,471,944	24,471,944	-	-
Other assets	1,476,224	1,476,224	-	-
Perpetual interest trusts	11,395,472	11,395,472	-	-
Residual interest trusts	1,755,237	-	1,755,237	-
Other invested assets	3,308,766	1,672,006	1,621,760	15,000
Total	<u>\$ 159,602,813</u>	<u>\$ 156,210,816</u>	<u>\$ 3,376,997</u>	<u>\$ 15,000</u>



**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 18 - Fair Values (continued)**

<u>2011</u>	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash, cash equivalents and interest receivable	\$ 13,522,870	\$ 13,522,870	\$ -	\$ -
Equity securities:				
Basic industries	3,433,994	3,433,994	-	-
Communication services	305,834	305,834	-	-
Consumer discretionary	2,551,146	2,551,146	-	-
Consumer staples	1,722,930	1,722,930	-	-
Energy	1,805,545	1,805,545	-	-
Financials	3,759,421	3,759,421	-	-
Health Care	2,796,657	2,796,657	-	-
REITS	87,380	87,380	-	-
Technology	3,372,874	3,372,874	-	-
Utilities	342,276	342,276	-	-
Other assets	3,926,026	3,926,026	-	-
U.S. mutual funds	25,434,106	25,434,106	-	-
International mutual funds	15,081,206	15,081,206	-	-
Other assets	18,746,929	18,746,929	-	-
Fixed income securities:				
U.S. government obligations	707,195	707,195	-	-
U.S. government agencies	490,923	490,923	-	-
Corporate bonds - industrial	1,728,480	1,728,480	-	-
Corporate bonds - finance	1,526,433	1,526,433	-	-
Mortgage backed securities	3,141,471	3,141,471	-	-
Taxable bond fund	6,447,445	6,447,445	-	-
Other assets	5,314,932	5,314,932	-	-
Perpetual interest trusts	10,133,298	10,133,298	-	-
Residual interest trusts	1,628,518	-	1,628,518	-
Other invested assets	2,229,524	286,468	1,921,256	21,800
<b>Total</b>	<b>\$ 130,237,413</b>	<b>\$ 126,665,839</b>	<b>\$ 3,549,774</b>	<b>\$ 21,800</b>

Investment in Investment Companies, carried at cost, are excluded from the above and amount to \$19,860,933 and \$24,119,625 as of September 30, 2012 and 2011, respectively.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 18 - Fair Values (continued)**

The following table provides a summary of changes in the fair value of Masonicare's interest rate swap liability, classified as Level 3, for the year ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning balance at October 1	\$ 20,902,212	\$ 17,596,118
Total realized and unrealized (gains) losses Included in earnings	<u>(17,945)</u>	<u>3,306,094</u>
Ending balance at September 30	<u>\$ 20,884,267</u>	<u>\$ 20,902,212</u>

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

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

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

**Long-Term Debt** - Fair values of Masonicare's long-term debt are based on current traded value. The fair value of the long-term debt approximates the carrying amount reported in the consolidated balances sheets as of September 30, 2012 and 2011.

**Receivables and Payables** - The fair value of receivables and payables approximates the carrying amount reported in the consolidated balance sheets as of September 30, 2012 and 2011.

**Note 19 - Supplemental Cash Flow Information**

	<u>2012</u>	<u>2011</u>
Cash paid during the year for interest	<u>\$ 3,115,918</u>	<u>\$ 2,916,380</u>

**Note 20 - Subsequent Events**

Subsequent events have been evaluated through January 3, 2013, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the financial statements.

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
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**Note 21 - Derivatives**

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

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

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

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

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

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

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

**Masonicare**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 21 - Derivatives (continued)**

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

In connection with the issuance of the CHEFA Series C bonds, Masonicare entered into an interest rate swap agreement (swap agreement) as detailed above to synthetically fix the interest payment. Under the swap agreement, Masonicare makes fixed payments to the counterparties to the swap agreement and receives variable rate payments equal to 67% of the monthly LIBOR rate, which was approximately .22% and .17% as of September 30, 2012 and 2011, 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 \$20,884,267 and \$20,902,214 as of September 30, 2012 and 2011, respectively) has been recorded in the accompanying consolidated balance sheets as a long-term liability. The swap agreement expires on July 1, 2037 and is secured by \$720,000 and \$10,546,034 of assets as of September 30, 2012 and 2011, respectively, under trust with the swap counterparties.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap agreement of \$17,945 and (\$3,306,094) for the years ended September 30, 2012 and 2011, respectively, is recorded in the consolidated statements of operations as a component of non-operating income.

## Masonicare Consolidating Balance Sheet September 30, 2012

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Keystone Indemnity Company, Ltd.	Masonic Management Services, Inc.	Eliminations	Total
Assets												
Current assets:												
Cash and cash equivalents	\$ 2,432,549	\$ 3,586	\$ 18,275	\$ 200	\$ 7,365	\$ 2,950	\$ -	\$ 2,464,925	\$ 519,458	\$ 100	\$ -	\$ 2,984,483
Restricted cash	-	-	-	-	681,779	-	-	681,779	-	-	-	681,779
Patient accounts receivable, net	-	14,386,017	-	4,215,107	1,492,874	7,028,016	-	27,122,014	-	63,896	-	27,185,910
Other receivables	2,987,499	2,520	(393)	-	1,391,650	48,146	-	4,429,422	398,989	27,630	-	4,856,041
Inventories	-	201,304	-	71,710	20,956	-	-	293,970	-	-	-	293,970
Prepaid expenses and other current assets	182,535	270,883	29,176	96,045	91,932	244,533	-	915,104	57,419	102	-	972,625
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,280,000	-	405,053	-	-	-	-	3,685,053	-	-	-	3,685,053
<b>Total current assets</b>	<b>8,882,583</b>	<b>14,864,310</b>	<b>452,111</b>	<b>4,383,062</b>	<b>3,686,556</b>	<b>7,323,645</b>	<b>-</b>	<b>39,592,267</b>	<b>975,866</b>	<b>91,728</b>	<b>-</b>	<b>40,659,861</b>
Assets whose use is limited or restricted:												
By Board of Trustees	-	-	97,510,324	-	-	1,542,864	(1,542,864)	97,510,324	-	-	-	97,510,324
Under patient asset management, trust agreements and patient escrow accounts	-	638,861	-	42,840	-	-	-	681,701	-	-	-	681,701
Under indenture agreement - held by Trustees	839,352	-	-	-	-	-	-	839,352	-	-	-	839,352
Under trust for estimated self-insurance liabilities	334,319	-	-	-	-	-	-	334,319	10,698,400	-	-	11,032,719
Under trust for interest rate swap obligation	720,000	-	-	-	-	-	-	720,000	-	-	-	720,000
By donors for specific purposes	-	-	3,533,558	-	-	-	-	3,533,558	-	-	-	3,533,558
By donors for permanent endowment funds	-	-	65,146,092	-	-	-	-	65,146,092	-	-	-	65,146,092
<b>Total assets whose use is limited or restricted</b>	<b>1,893,671</b>	<b>638,861</b>	<b>166,189,974</b>	<b>42,840</b>	<b>-</b>	<b>1,542,864</b>	<b>(1,542,864)</b>	<b>168,765,346</b>	<b>10,698,400</b>	<b>-</b>	<b>-</b>	<b>179,463,746</b>
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes												
	(3,280,000)	-	(405,053)	-	-	-	-	(3,685,053)	-	-	-	(3,685,053)
Non-current assets whose use is limited or restricted												
	(1,386,329)	638,861	165,784,921	42,840	-	1,542,864	(1,542,864)	165,080,293	10,698,400	-	-	175,778,693
Property and equipment, net	12,932,859	31,206,968	102,076	8,972,858	88,880,098	1,242,432	-	143,337,291	-	144,511	-	143,481,802
Unamortized financing costs	1,806,337	10,925	11,547	8,726	68,831	-	-	1,906,366	-	-	-	1,906,366
Recoveries of estimated insurance liabilities insured through commercial policies	428,056	-	-	-	-	-	-	428,056	-	-	-	428,056
Investment in subsidiaries	26,582,018	-	-	-	-	-	(21,174,158)	5,407,860	-	-	(5,407,860)	-
<b>Total assets</b>	<b>\$ 49,245,524</b>	<b>\$ 46,721,064</b>	<b>\$ 166,350,655</b>	<b>\$ 13,407,486</b>	<b>\$ 92,635,485</b>	<b>\$ 10,108,941</b>	<b>\$ (22,717,022)</b>	<b>\$ 355,752,133</b>	<b>\$ 11,674,266</b>	<b>\$ 236,239</b>	<b>\$ (5,407,860)</b>	<b>\$ 362,254,778</b>

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

See accompanying Independent Auditors' Report.

**Masonicare**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2012**

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Keystone Indemnity Company, Ltd.	Masonic Management Services, Inc.	Eliminations	Total
Liabilities and Net Assets (Deficit)												
Current liabilities:												
Current maturities of long-term debt	\$ 2,435,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,435,000	\$ -	\$ -	\$ -	\$ 2,435,000
Accounts payable and accrued expenses	1,119,010	2,277,856	89,747	1,053,812	1,043,807	2,828,866	-	8,413,098	52,103	73,323	-	8,538,524
Accrued salaries and related expenses	1,354,445	1,957,343	53,056	573,993	313,677	1,941,818	-	6,194,332	-	428,516	-	6,622,848
Accrued pension and postretirement benefits, current portion	2,512,558	-	-	-	-	-	-	2,512,558	-	-	-	2,512,558
Estimated self-insurance liabilities, current portion	1,172,640	-	-	-	-	-	-	1,172,640	-	-	-	1,172,640
Estimated settlements due to third-party payers	1,369,590	480,772	-	27,955	125,504	2,203,043	-	4,206,864	-	-	-	4,206,864
Annuities payable, current portion	-	-	388,049	-	-	-	-	388,049	-	-	-	388,049
Refundable entry fees, current portion	-	-	-	-	1,350,310	-	-	1,350,310	-	-	-	1,350,310
Deferred patient service and other revenues	-	72,253	-	-	1,404,491	1,273,974	-	2,750,718	-	-	-	2,750,718
Deposits	1,097	171,192	-	269,562	1,155,675	-	-	1,597,526	-	-	-	1,597,526
<b>Total current liabilities</b>	<b>9,964,340</b>	<b>4,959,416</b>	<b>530,852</b>	<b>1,925,322</b>	<b>5,393,464</b>	<b>8,247,701</b>	<b>-</b>	<b>31,021,095</b>	<b>52,103</b>	<b>501,839</b>	<b>-</b>	<b>31,575,037</b>
Accrued pension and postretirement benefits, net of current portion	19,022,854	-	-	-	-	-	-	19,022,854	-	-	-	19,022,854
Interest rate swap liability	20,884,267	-	-	-	-	-	-	20,884,267	-	-	-	20,884,267
Annuities payable, net of current portion	-	-	2,137,831	-	-	-	-	2,137,831	-	-	-	2,137,831
Refundable entry fees, net of current portion	-	-	-	-	29,106,876	-	-	29,106,876	-	-	-	29,106,876
Deferred entry fee revenues	-	-	-	-	12,576,923	-	-	12,576,923	-	-	-	12,576,923
Assets held for patient asset management, trust agreements and patient escrow accounts	-	624,011	-	34,854	-	-	-	658,865	-	-	-	658,865
Asset retirement obligation	-	656,027	-	77,949	-	-	-	733,976	-	-	-	733,976
Estimated insurance liabilities insured through commercial policies	428,056	-	-	-	-	-	-	428,056	-	-	-	428,056
Estimated self-insurance liabilities, net of current portion	4,331,112	-	-	-	-	-	-	4,331,112	6,215,303	-	-	10,546,415
Long-term debt, net of current maturities	104,245,000	-	-	-	-	-	-	104,245,000	-	-	-	104,245,000
<b>Total liabilities</b>	<b>158,875,629</b>	<b>6,239,454</b>	<b>2,668,683</b>	<b>2,038,125</b>	<b>47,077,263</b>	<b>8,247,701</b>	<b>-</b>	<b>225,146,855</b>	<b>6,267,406</b>	<b>501,839</b>	<b>-</b>	<b>231,916,100</b>
Net assets (deficit):												
Unrestricted	(109,630,105)	40,481,610	83,599,231	11,369,361	45,558,222	2,264,107	(22,717,022)	50,925,404	5,406,860	(265,600)	(5,407,860)	50,658,804
Non-controlling interest in consolidated subsidiary	-	-	-	-	-	(402,867)	-	(402,867)	-	-	-	(402,867)
<b>Total unrestricted net assets</b>	<b>(109,630,105)</b>	<b>40,481,610</b>	<b>83,599,231</b>	<b>11,369,361</b>	<b>45,558,222</b>	<b>1,861,240</b>	<b>(22,717,022)</b>	<b>50,522,537</b>	<b>5,406,860</b>	<b>(265,600)</b>	<b>(5,407,860)</b>	<b>50,255,937</b>
Temporarily restricted	-	-	2,623,307	-	-	-	-	2,623,307	-	-	-	2,623,307
Permanently restricted	-	-	77,459,434	-	-	-	-	77,459,434	-	-	-	77,459,434
<b>Total net assets (deficit)</b>	<b>(109,630,105)</b>	<b>40,481,610</b>	<b>163,681,972</b>	<b>11,369,361</b>	<b>45,558,222</b>	<b>1,861,240</b>	<b>(22,717,022)</b>	<b>130,605,278</b>	<b>5,406,860</b>	<b>(265,600)</b>	<b>(5,407,860)</b>	<b>130,338,678</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 49,245,524</b>	<b>\$ 46,721,064</b>	<b>\$ 166,350,655</b>	<b>\$ 13,407,486</b>	<b>\$ 92,635,485</b>	<b>\$ 10,108,941</b>	<b>\$ (22,717,022)</b>	<b>\$ 355,752,133</b>	<b>\$ 11,674,266</b>	<b>\$ 236,239</b>	<b>\$ (5,407,860)</b>	<b>\$ 362,254,778</b>

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

See accompanying Independent Auditors' Report.

## Masonicare Consolidating Balance Sheet September 30, 2011

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Keystone Indemnity Company, Ltd.	Masonic Management Services, Inc.	Eliminations	Total
Assets												
Current assets:												
Cash and cash equivalents	\$ 1,900,403	\$ 2,070	\$ 44,062	\$ 1,032	\$ 1,800	\$ 2,950	\$ -	\$ 1,952,317	\$ 599,092	\$ 100	\$ -	\$ 2,551,509
Restricted cash	2,003,590	-	-	-	1,265,968	-	-	3,269,558	-	-	-	3,269,558
Patient accounts receivable, net	-	10,754,834	-	2,852,137	1,637,255	6,744,284	-	21,988,510	-	57,057	-	22,045,567
Other receivables	1,827,757	103,919	1,659,315	6,365	1,675,152	30,682	-	5,303,190	9,758	18,084	-	5,331,032
Inventories	-	184,919	-	82,972	20,956	-	-	288,847	-	-	-	288,847
Prepaid expenses and other current assets	97,032	279,337	36,214	100,377	87,906	252,474	-	853,340	38,559	-	-	891,899
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,280,000	-	405,284	-	-	-	-	3,685,284	-	-	-	3,685,284
<b>Total current assets</b>	<b>9,108,782</b>	<b>11,325,079</b>	<b>2,144,875</b>	<b>3,042,883</b>	<b>4,689,037</b>	<b>7,030,390</b>	<b>-</b>	<b>37,341,046</b>	<b>647,409</b>	<b>75,241</b>	<b>-</b>	<b>38,063,696</b>
Assets whose use is limited or restricted:												
By Board of Trustees	-	-	66,342,051	-	-	1,753,057	(1,753,057)	66,342,051	-	-	-	66,342,051
Under patient asset management, trust agreements and patient escrow accounts	-	437,460	-	33,883	-	-	-	471,343	-	-	-	471,343
Under indenture agreement - held by Trustees	595,887	-	-	-	-	-	-	595,887	-	-	-	595,887
Under trust for estimated self-insurance liabilities	995,741	-	-	-	-	-	-	995,741	8,600,832	-	-	9,596,573
Under trust for interest rate swap obligation	10,546,034	-	-	-	-	-	-	10,546,034	-	-	-	10,546,034
By donors for specific purposes	-	-	2,961,060	-	-	-	-	2,961,060	-	-	-	2,961,060
By donors for permanent endowment funds	-	-	63,844,090	-	-	-	-	63,844,090	-	-	-	63,844,090
<b>Total assets whose use is limited or restricted</b>	<b>12,137,662</b>	<b>437,460</b>	<b>133,147,201</b>	<b>33,883</b>	<b>-</b>	<b>1,753,057</b>	<b>(1,753,057)</b>	<b>145,756,206</b>	<b>8,600,832</b>	<b>-</b>	<b>-</b>	<b>154,357,038</b>
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes												
	(3,280,000)	-	(405,284)	-	-	-	-	(3,685,284)	-	-	-	(3,685,284)
<b>Non-current assets whose use is limited or restricted</b>	<b>8,857,662</b>	<b>437,460</b>	<b>132,741,917</b>	<b>33,883</b>	<b>-</b>	<b>1,753,057</b>	<b>(1,753,057)</b>	<b>142,070,922</b>	<b>8,600,832</b>	<b>-</b>	<b>-</b>	<b>150,671,754</b>
Property and equipment, net	13,407,228	32,385,228	120,652	9,597,274	90,553,367	1,189,270	-	147,253,019	-	158,449	-	147,411,468
Unamortized financing costs	1,742,731	12,893	13,083	9,830	79,007	-	-	1,857,544	-	-	-	1,857,544
Investment in subsidiaries	26,582,019	-	-	-	-	-	(23,441,452)	3,140,567	-	-	(3,140,567)	-
<b>Total assets</b>	<b>\$ 59,698,422</b>	<b>\$ 44,160,660</b>	<b>\$ 135,020,527</b>	<b>\$ 12,683,870</b>	<b>\$ 95,321,411</b>	<b>\$ 9,972,717</b>	<b>\$ (25,194,509)</b>	<b>\$ 331,663,098</b>	<b>\$ 9,248,241</b>	<b>\$ 233,690</b>	<b>\$ (3,140,567)</b>	<b>\$ 338,004,462</b>

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

See accompanying Independent Auditors' Report.

**Masonicare  
Consolidating Balance Sheet (continued)  
September 30, 2011**

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Keystone Indemnity Company, Ltd.	Masonic Management Services, Inc.	Eliminations	Total
Liabilities and Net Assets (Deficit)												
Current liabilities:												
Current maturities of long-term debt	\$ 2,335,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,335,000	\$ -	\$ -	\$ -	\$ 2,335,000
Accounts payable and accrued expenses	738,775	2,249,478	97,842	774,400	1,261,541	2,683,001	-	7,805,037	55,722	143,306	-	8,004,065
Accrued salaries and related expenses	1,276,759	1,681,185	53,235	492,610	328,133	1,557,703	-	5,389,625	-	278,615	-	5,668,240
Accrued pension and postretirement benefits, current portion	2,514,652	795	-	-	-	-	-	2,515,447	-	-	-	2,515,447
Estimated self-insurance liabilities, current portion	1,172,640	3,190	-	-	-	-	-	1,175,830	-	-	-	1,175,830
Estimated settlements due to third-party payers	2,284,999	1,192,902	-	27,955	-	2,121,957	-	5,627,813	-	-	-	5,627,813
Annuities payable, current portion	-	-	405,284	-	-	-	-	405,284	-	-	-	405,284
Refundable entry fees, current portion	-	-	-	-	1,206,873	-	-	1,206,873	-	-	-	1,206,873
Deferred patient service and other revenues	-	72,114	-	-	1,529,995	1,288,412	-	2,890,521	-	-	-	2,890,521
Deposits	1,166	167,354	-	204,177	1,113,400	-	-	1,486,097	-	-	-	1,486,097
<b>Total current liabilities</b>	<b>10,323,991</b>	<b>5,367,018</b>	<b>556,361</b>	<b>1,499,142</b>	<b>5,439,942</b>	<b>7,651,073</b>	<b>-</b>	<b>30,837,527</b>	<b>55,722</b>	<b>421,921</b>	<b>-</b>	<b>31,315,170</b>
Accrued pension and postretirement benefits, net of current portion	17,421,556	-	-	-	-	-	-	17,421,556	-	-	-	17,421,556
Interest rate swap liability	20,902,212	-	-	-	-	-	-	20,902,212	-	-	-	20,902,212
Annuities payable, net of current portion	-	-	2,052,022	-	-	-	-	2,052,022	-	-	-	2,052,022
Refundable entry fees, net of current portion	-	-	-	-	30,522,992	-	-	30,522,992	-	-	-	30,522,992
Deferred entry fee revenues	-	-	-	-	11,532,493	-	-	11,532,493	-	-	-	11,532,493
Assets held for patient asset management, trust agreements and patient escrow accounts	-	421,247	-	37,990	-	-	-	459,237	-	-	-	459,237
Asset retirement obligation	-	631,727	-	75,057	-	-	-	706,784	-	-	-	706,784
Estimated self-insurance liabilities, net of current portion	4,706,109	-	-	-	-	-	-	4,706,109	6,052,952	-	-	10,759,061
Long-term debt, net of current maturities	106,095,000	-	-	-	-	-	-	106,095,000	-	-	-	106,095,000
<b>Total liabilities</b>	<b>159,448,868</b>	<b>6,419,992</b>	<b>2,608,383</b>	<b>1,612,189</b>	<b>47,495,427</b>	<b>7,651,073</b>	<b>-</b>	<b>225,235,932</b>	<b>6,108,674</b>	<b>421,921</b>	<b>-</b>	<b>231,766,527</b>
Net assets (deficit):												
Unrestricted	(99,750,446)	37,740,668	55,129,618	11,071,681	47,825,984	2,681,386	(25,194,509)	29,504,382	3,139,567	(188,231)	(3,140,567)	29,315,151
Non-controlling interest in consolidated subsidiary	-	-	-	-	-	(359,742)	-	(359,742)	-	-	-	(359,742)
Total unrestricted net assets	(99,750,446)	37,740,668	55,129,618	11,071,681	47,825,984	2,321,644	(25,194,509)	29,144,640	3,139,567	(188,231)	(3,140,567)	28,955,409
Temporarily restricted	-	-	2,109,958	-	-	-	-	2,109,958	-	-	-	2,109,958
Permanently restricted	-	-	75,172,568	-	-	-	-	75,172,568	-	-	-	75,172,568
<b>Total net assets (deficit)</b>	<b>(99,750,446)</b>	<b>37,740,668</b>	<b>132,412,144</b>	<b>11,071,681</b>	<b>47,825,984</b>	<b>2,321,644</b>	<b>(25,194,509)</b>	<b>106,427,166</b>	<b>3,139,567</b>	<b>(188,231)</b>	<b>(3,140,567)</b>	<b>106,237,935</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 59,698,422</b>	<b>\$ 44,160,660</b>	<b>\$ 135,020,527</b>	<b>\$ 12,683,870</b>	<b>\$ 95,321,411</b>	<b>\$ 9,972,717</b>	<b>\$ (25,194,509)</b>	<b>\$ 331,663,098</b>	<b>\$ 9,248,241</b>	<b>\$ 233,690</b>	<b>\$ (3,140,567)</b>	<b>\$ 338,004,462</b>

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

See accompanying Independent Auditors' Report.



**Masonicare**  
**Consolidating Statement of Operations**  
**For the Year Ended September 30, 2012**

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Keystone Indemnity Company, Ltd.	Masonic Management Services, Inc.	Eliminations	Total
<b>Operating revenues:</b>												
Net patient service revenues	\$ -	\$ 60,763,079	\$ -	\$ 15,551,776	\$ (469)	\$ 59,982,292	\$ (577,659)	\$ 135,719,019	\$ -	\$ 4,298,053	\$ -	\$ 140,017,072
Resident fees	-	1,962,006	-	-	16,489,308	-	-	18,451,314	-	-	-	18,451,314
Other revenues	1,248,671	1,943,180	80,644	3,987,821	8,628,371	480,140	(1,547,370)	14,821,457	871,273	766,666	(2,151,812)	14,307,584
<b>Total operating revenues</b>	<b>1,248,671</b>	<b>64,668,265</b>	<b>80,644</b>	<b>19,539,597</b>	<b>25,117,210</b>	<b>60,462,432</b>	<b>(2,125,029)</b>	<b>168,991,790</b>	<b>871,273</b>	<b>5,064,719</b>	<b>(2,151,812)</b>	<b>172,775,970</b>
<b>Operating expenses:</b>												
Salaries and wages	9,013,883	30,916,107	503,963	9,418,753	4,817,584	33,399,254	-	88,069,544	-	4,800,225	-	92,869,769
Employee benefits	2,450,856	11,067,016	118,628	3,182,485	1,371,819	8,376,938	-	26,567,742	-	819,762	-	27,387,504
Supplies and other services	2,129,599	9,433,804	1,450,522	3,043,066	2,876,309	5,942,757	(2,027,259)	22,848,798	(140,651)	520,094	(1,261,142)	21,967,099
Professional fees	1,006,677	5,526,126	164,149	2,781,687	3,287,193	5,512,971	(97,770)	18,181,033	165,968	897,458	(890,670)	18,353,789
Depreciation and amortization	1,254,532	2,787,239	59,958	1,150,097	4,576,848	254,506	-	10,083,180	-	32,072	-	10,115,252
Interest	175,059	701,959	226,040	253,281	2,503,548	-	-	3,859,887	-	-	-	3,859,887
Provision for bad debts	(800,000)	1,268,984	-	100,984	-	198,085	-	768,053	-	-	-	768,053
Management fee	(7,469,945)	2,859,324	47,507	927,584	613,267	2,671,500	-	(350,763)	-	350,763	-	-
<b>Total operating expenses</b>	<b>7,760,661</b>	<b>64,560,559</b>	<b>2,570,767</b>	<b>20,857,937</b>	<b>20,046,568</b>	<b>56,356,011</b>	<b>(2,125,029)</b>	<b>170,027,474</b>	<b>25,317</b>	<b>7,420,374</b>	<b>(2,151,812)</b>	<b>175,321,353</b>
<b>(Loss) income from operations</b>	<b>(6,511,990)</b>	<b>107,706</b>	<b>(2,490,123)</b>	<b>(1,318,340)</b>	<b>5,070,642</b>	<b>4,106,421</b>	<b>-</b>	<b>(1,035,684)</b>	<b>845,956</b>	<b>(2,355,655)</b>	<b>-</b>	<b>(2,545,383)</b>
<b>Non-operating income:</b>												
Contributions	-	-	3,203,974	-	-	-	-	3,203,974	-	-	-	3,203,974
Investment income	2,851	-	5,084,070	-	1,556,565	-	-	6,643,486	285,551	-	-	6,929,037
Changes in fair value of interest rate swap agreement	17,945	-	-	-	-	-	-	17,945	-	-	-	17,945
<b>Total non-operating income</b>	<b>20,796</b>	<b>-</b>	<b>8,288,044</b>	<b>-</b>	<b>1,556,565</b>	<b>-</b>	<b>-</b>	<b>9,865,405</b>	<b>285,551</b>	<b>-</b>	<b>-</b>	<b>10,150,956</b>
<b>Excess of revenues (under) over expenses</b>	<b>(6,491,194)</b>	<b>107,706</b>	<b>5,797,921</b>	<b>(1,318,340)</b>	<b>6,627,207</b>	<b>4,106,421</b>	<b>-</b>	<b>8,829,721</b>	<b>1,131,507</b>	<b>(2,355,655)</b>	<b>-</b>	<b>7,605,573</b>
Loss attributable to non-controlling interest in consolidated subsidiary	-	-	-	-	-	43,125	-	43,125	-	-	-	43,125
<b>Excess of revenues (under) over expenses of Masonicare</b>	<b>\$ (6,491,194)</b>	<b>\$ 107,706</b>	<b>\$ 5,797,921</b>	<b>\$ (1,318,340)</b>	<b>\$ 6,627,207</b>	<b>\$ 4,149,546</b>	<b>\$ -</b>	<b>\$ 8,872,846</b>	<b>\$ 1,131,507</b>	<b>\$ (2,355,655)</b>	<b>\$ -</b>	<b>\$ 7,648,698</b>

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

See accompanying Independent Auditors' Report.

**Masonicare**  
**Consolidating Statement of Operations**  
**For the Year Ended September 30, 2011**

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Keystone Indemnity Company, Ltd.	Masonic Management Services, Inc.	Eliminations	Total
<b>Operating revenues:</b>												
Net patient service revenues	\$ -	\$ 60,668,018	\$ -	\$ 15,861,921	\$ (31)	\$ 56,816,348	\$ (547,561)	\$ 132,798,695	\$ -	\$ 4,155,779	\$ -	\$ 136,954,474
Resident fees	-	1,915,214	-	-	16,326,588	-	-	18,241,802	-	-	-	18,241,802
Other revenues	8,408,829	1,369,977	119,970	3,843,180	8,158,795	559,472	(9,683,806)	12,776,417	1,100,000	719,938	(810,603)	13,785,752
<b>Total operating revenues</b>	<b>8,408,829</b>	<b>63,953,209</b>	<b>119,970</b>	<b>19,705,101</b>	<b>24,485,352</b>	<b>57,375,820</b>	<b>(10,231,367)</b>	<b>163,816,914</b>	<b>1,100,000</b>	<b>4,875,717</b>	<b>(810,603)</b>	<b>168,982,028</b>
<b>Operating expenses:</b>												
Salaries and wages	8,613,851	30,091,383	442,387	9,610,485	4,798,225	31,992,791	-	85,549,122	-	4,107,695	-	89,656,817
Employee benefits	1,803,455	9,915,239	87,583	2,820,396	1,245,044	7,881,429	-	23,753,146	-	695,054	-	24,448,200
Supplies and other services	1,925,804	9,001,013	1,461,855	2,793,302	2,865,092	5,277,204	(1,156,257)	22,168,013	887,022	430,752	(8,243)	23,477,544
Professional fees	1,189,621	5,806,808	173,886	2,971,241	3,523,674	5,437,402	(2,181,643)	16,920,989	157,935	889,460	(498,069)	17,470,315
Depreciation and amortization	1,248,460	2,732,987	26,350	1,162,736	4,208,018	296,647	-	9,675,198	-	12,606	-	9,687,804
Interest	135,511	559,904	170,731	189,177	1,873,363	-	-	2,928,686	-	403	-	2,929,089
Provision for bad debts	-	711,270	-	171,219	-	144,267	-	1,026,756	-	44,517	-	1,071,273
Management fee	-	2,776,286	40,494	918,332	619,726	2,538,629	(6,893,467)	-	-	304,291	(304,291)	-
<b>Total operating expenses</b>	<b>14,916,702</b>	<b>61,594,890</b>	<b>2,403,286</b>	<b>20,636,888</b>	<b>19,133,142</b>	<b>53,568,369</b>	<b>(10,231,367)</b>	<b>162,021,910</b>	<b>1,044,957</b>	<b>6,484,778</b>	<b>(810,603)</b>	<b>168,741,042</b>
<b>(Loss) income from operations</b>	<b>(6,507,873)</b>	<b>2,358,319</b>	<b>(2,283,316)</b>	<b>(931,787)</b>	<b>5,352,210</b>	<b>3,807,451</b>	<b>-</b>	<b>1,795,004</b>	<b>55,043</b>	<b>(1,609,061)</b>	<b>-</b>	<b>240,986</b>
<b>Non-operating income (expense):</b>												
Contributions	-	-	2,052,994	-	-	-	-	2,052,994	-	-	-	2,052,994
Investment income	1,180	162	8,182,003	-	1,551,784	-	-	9,735,129	669,339	-	-	10,404,468
Changes in fair value of interest rate swap agreement	(3,306,094)	-	-	-	-	-	-	(3,306,094)	-	-	-	(3,306,094)
<b>Total non-operating income (expense)</b>	<b>(3,304,914)</b>	<b>162</b>	<b>10,234,997</b>	<b>-</b>	<b>1,551,784</b>	<b>-</b>	<b>-</b>	<b>8,482,029</b>	<b>669,339</b>	<b>-</b>	<b>-</b>	<b>9,151,368</b>
Excess of revenues (under) over expenses	(9,812,787)	2,358,481	7,951,681	(931,787)	6,903,994	3,807,451	-	10,277,033	724,382	(1,609,061)	-	9,392,354
Gain attributable to non-controlling interest in consolidated subsidiary	-	-	-	-	-	(198,865)	-	(198,865)	-	-	-	(198,865)
<b>Excess of revenues (under) over expenses of Masonicare</b>	<b>\$ (9,812,787)</b>	<b>\$ 2,358,481</b>	<b>\$ 7,951,681</b>	<b>\$ (931,787)</b>	<b>\$ 6,903,994</b>	<b>\$ 3,608,586</b>	<b>\$ -</b>	<b>\$ 10,078,168</b>	<b>\$ 724,382</b>	<b>\$ (1,609,061)</b>	<b>\$ -</b>	<b>\$ 9,193,489</b>

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

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