Masonicare

2016 Annual Report

Jon-Paul Venoit and Robert F. Polito, Jr.

Dear Friend,

2016 was a very busy year. In addition to all the usual demands – ranging from the fun like Grand Masters / Family Festival Day and the Quality of Life Walk, to the challenging such as state surveys and inadequate reimbursement – it was a year where we spent a great deal of energy preparing for 2017.

On the last day of the fiscal year, September 30, Stephen McPherson retired after 11 years as President & CEO. We are grateful for his service and will endeavor to fulfill his oft-stated mantra "to care for those whom it is a privilege to serve."

Looking back, here are some of the highlights of 2016:

- A yearlong executive search for Steve's successor culminated in August with the selection of Jon-Paul Venoit, Chief Operating Officer and a 26-year employee who started at Masonicare as a waiter while in high school.
- Construction on our new community in Mystic moved forward at a brisk pace. A formal Cornerstone Ceremony on August 2 was a celebratory milestone in the building effort and we welcomed our first Independent Living residents on November 29.
- In what may be a "first" in the nation, two college students moved into our Assisted Living community in Wallingford for the school year. A partnership with Quinnipiac University, the "Students in Residence" program has been a win-win for them and our residents. Victoria Kozar and Joe Huberman were selected from a field of student-candidates interested in healthcare and seniors. Their "move-in day" on August 23 was a lively "meet-and-greet" full of introductions, laughter and excitement. Within a few days, Victoria and Joe were regulars at resident activities and meals.
- We rolled out Assisted Living Services Agency (ALSA) contracts to several more congregate senior residences, bringing our total to 6. This line of business allows us to bring Masonicare's assisted living services into already established buildings and create a revenue source without the capital investment.

Looking ahead, our plans for 2017 will be centered on the following:

- The successful opening of the Assisted Living wings at Masonicare at Mystic and "fill-up" of the community's 179 apartments.
- A renewed commitment to quality as a differentiating measure throughout our entire continuum under the new leadership of Sylvia van Heerden using national and state industry metrics.
- The implementation of a sweeping systems integration across our resident and patient lines. Known internally as *Project Unity*, this multi-year multi-million dollar undertaking will ultimately create an electronic medical record for every individual served within our continuum.
- Continued pursuit of ALSA contracts with additional managed residential communities whose mission and values align with Masonicare's.
- Exploring acquisitions, partnerships, divestitures and organic growth to support our efforts to reduce reliance on government sources of funding.

As always, we are most grateful for the continued generosity of our donors. The Masonic Charity Foundation received almost $3.03 million in restricted and unrestricted giving in 2016. We are also grateful for the over 800 volunteers within our continuum whose service adds so much in our facilities and hospice program.

As the year unfolds, we look forward to updating you on our progress. Thank you for your continued support of Masonicare and our mission.

Sincerely and fraternally,

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Jon-Paul Venoit
President and Chief Executive Officer

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Financial Statement as of September 30, 2016 ($000 omitted)

The financial summary is presented on a consolidated basis to include Masonicare at Ashlar Village, Masonicare at Newtown, Masonicare at Home, Masonicare at Mystic, Masonicare Home Health & Hospice, Corporate Services, Masonicare Health Center, Masonic Management Services and The Masonic Charity Foundation of Connecticut. A complete copy of the audited consolidated financial statement is available upon request.

2016 Financial Performance

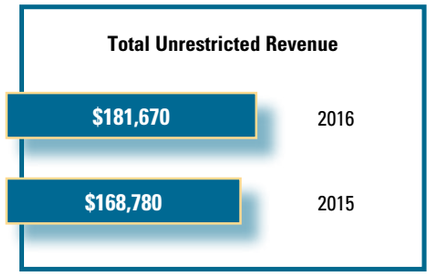
Results of operations at Masonicare for fiscal 2016 reflect operating revenues up 8% over prior year levels with operating expenses up 7% over prior year levels, resulting in improved operating results. At the bottom line, excess of revenues over (under) expenses declined by slightly over $2 million from 2015, including lower levels of investment income based upon investment market conditions.

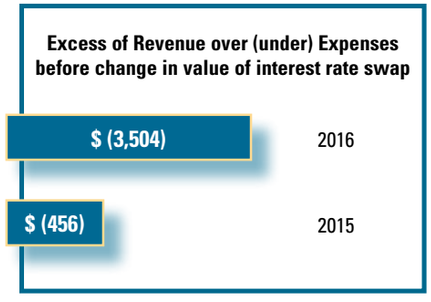
Operating revenues increased by $12.9 million over 2015, reflecting: Masonicare at Newtown increased utilization levels in the skilled nursing operations (beds were out of service for a good portion of the prior fiscal year with a major facility renovation); Masonicare Home Health & Hospice home health skilled nursing & therapy visits increases of 2% and hospice volume increases of 6%; and the provision of incremental Assisted Living Services Agency ("ALSA") services in incremental locations throughout the State of Connecticut. In addition, a refocus on referrals from within the Masonicare continuum increased geriatric hospital admissions.

Operating expense levels increased with the incremental utilization levels, but at a slower rate- providing for an improvement in operating results. Margins were negatively impacted in both fiscal years by startup costs being incurred prior to the opening of the new rental community in Mystic Connecticut.

Unrestricted contributions increased in 2016 over the prior year, while realized investment income declined over the prior year, reflecting volatility in the financial markets. Further declines in the LIBOR rate during both 2016 and 2015 negatively impacted the value of the interest rate swap agreement liability, resulting in non-cash charges to earnings in excess of $2 million for both fiscal 2016 and 2015.

Changes in the financial position of Masonicare at year-end 2016 from the prior year primarily reflect the impact of the ongoing construction of the new rental facility in Mystic. Property and equipment includes $36.8 million of Mystic project additions, funded by incremental borrowing from endowment fund investments ($13.0 million), borrowings on a construction loan credit agreement ($13.5 million) and increases in payables & accruals for construction contract items. Unrestricted cash and investments at year-end 2016 ($92.5 million) approximates prior year-end levels ($93.0 million), and Days Revenue in Receivables of approximately 41 days at year-end 2016 is consistent with the prior year.

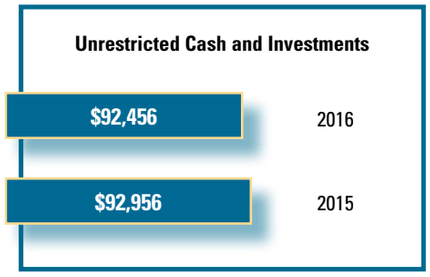


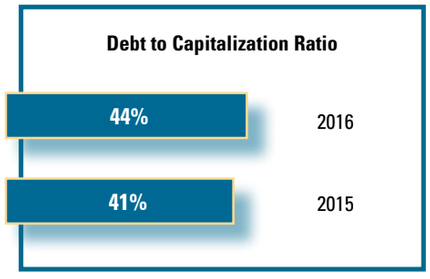


	2016	2015	% Change
OPERATING REVENUE			
Net patient service revenue	$ 147,191	$ 136,119	8%
Resident fees	20,370	19,156	6%
Other revenue	15,978	16,315	-2%
Provision for bad debts	(1,869)	(2,810)	-33%
Total Operating Revenue	**181,670**	**168,780**	**8%**
OPERATING EXPENSES			
Salaries, wages and employee benefits	133,079	124,701	7%
Supplies and other services	27,400	26,297	4%
Professional fees	19,936	18,290	9%
Depreciation and amortization	10,121	9,431	7%
Interest	4,457	4,392	1%
Minority interest	(146)	(564)	NM
Total Operating Expenses	**194,847**	**182,547**	**7%**
NON-OPERATING INCOME (EXPENSE)			
Contributions (unrestricted funds)	2,207	1,728	28%
Investment income	7,466	11,583	-36%
EXCESS OF REVENUE OVER (UNDER) EXPENSES before change in value of interest rate swap	**(3,504)**	**(456)**	
Changes in value of interest rate swap	(2,314)	(2,994)	
EXCESS OF REVENUE OVER (UNDER) EXPENSES	**(5,818)**	**(3,450)**	
Other changes in net assets	6,538	(16,839)	
TOTAL INCREASE IN NET ASSETS	**720**	**(20,289)**	
Total net assets at beginning of year	136,403	156,692	
TOTAL NET ASSETS AT END OF YEAR	**$ 137,123**	**$ 136,403**	

Financial Statement, continued

	2016	2015	% Change
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 5,306	$ 4,143	28%
Restricted cash	768	767	0%
Patient accounts receivable	20,561	18,727	10%
Other	9,880	8,968	10%
Assets whose use is limited or restricted	3,576	3,583	0%
Total Current Assets	**40,091**	**36,188**	**11%**
INVESTMENTS ~ UNRESTRICTED	87,150	88,813	-2%
INVESTMENTS ~ SELF INSURANCE LIABILITIES	14,857	13,461	10%
INVESTMENTS ~ TRUSTED ASSETTS	959	1.005	-5%
INVESTMENTS ~ TEMPORARILY RESTRICTED	3,902	3,577	9%
INVESTMENTS ~ ENDOWMENT FUNDS	41,342	54,200	-24%
LESS current portion investments	(3,576)	(3,583)	0%
OTHER ASSETS	2,029	2,146	-5%
PROPERTY PLANT AND EQUIPMENT	191,380	156,646	22%
TOTAL	**$ 378,134**	**$ 352,453**	**7%**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES	$ 46,639	$ 34,757	34%
LONG-TERM DEBT	106,634	96,082	11%
OTHER LONG-TERM LIABILITIES	87,738	85,211	3%
NET ASSETS	137,123	136,403	1%
TOTAL	**$ 378,134**	**$ 352,453**	**7%**



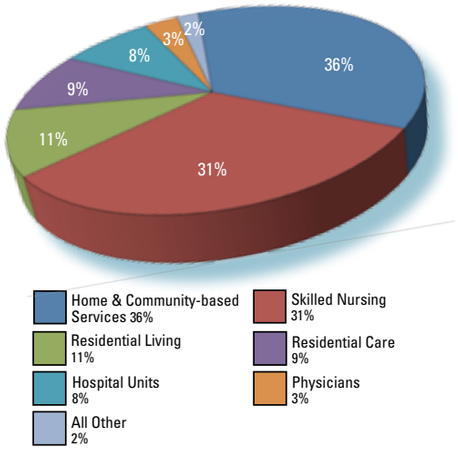


Summary of Activity

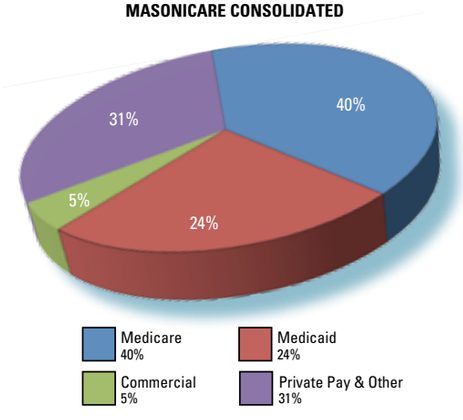
STAFFED OCCUPANCY	2016	2015
Masonicare Health Center (Licensed beds)		
Skilled nursing beds (375)	95.6%	98.1%
Acute medical beds (30)	31.5%	25.9%
Acute psychiatric beds (29)	89.6%	89.3%
Residential care apartments (86)	95.2%	92.1%
Independent apartments (93)	97.5%	96.2%
Masonicare at Newtown		
Skilled nursing beds (154)	91.6%	79.3%
Assisted living apartments (56)	87.1%	87.5%
Masonicare at Ashlar Village		
Independent living units (360)	93.6%	93.8%
Assisted living apartments (137)	83.9%	83.7%

VISITS	2016	2015
Masonicare Home Health & Hospice		
Skilled nursing care	130,044	128,088
Physical, occupational and speech therapy	62,998	61,904
Home health aides and others	84,112	86,289
Total Care of the Sick Visits	**277,154**	**276,281**
Hospice and Palliative Care Days	**130,751**	**123,364**
Masonicare at Home		
PCA/Homemaker Visits	**18,831**	**17,922**
Live-in Days	**9,448**	**8,310**
Masonic Management Services		
Physician Visits	**45,808**	**48,542**

2016 REVENUE BY TYPE OF SERVICE
MASONICARE CONSOLIDATED



2016 REVENUE BY PAYOR
MASONICARE CONSOLIDATED



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The Masonic Charity Foundation *of Connecticut*

During fiscal year 2016, the fundraising efforts of The Masonic Charity Foundation of Connecticut secured $3,026,165 in support of the programs and services of Masonicare and its affiliates. These gifts came in many forms, including bequests, donor advised funds, trust distributions, and charitable gift annuities, as well as donations to the Masonicare Annual Appeal and to The Foundation's special events. Between October 1, 2015 and September 30, 2016, unrestricted contributions totaling $2,207,248 were received, as well as $270,395 in restricted gifts and $548,522 in funds given by perpetual trusts. Of particular significance was the very generous gift of $380,000 from The Eastern Star Charity Foundation of Connecticut.

Fiscal Year 2016 Contributions

Bequests	$ 568,267
Trusts	1,050,991
Major Gifts	441,870
Donor Advised Funds	100,000
Gift Annuity Residuals	41,330
Masonicare Annual Appeal	376,626
Holiday Appeal	22,426
Gifts to Masonicare's Hospice Program	87,492
Tree of Life Program	73,674
Masonicare Golf Classic	189,350
Masonicare Quality of Life Walk	54,809
Tribute Gifts (Memorial and Honorarium)	10,767
Other Gifts	8,563
Total Funds Raised	**$3,026,165**

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