

STATE OF CONNECTICUT
DEPARTMENT OF SOCIAL SERVICES
ANNUAL FILING
PURSUANT TO PUBLIC ACT 86-252
AN ACT CONCERNING MANAGEMENT OF CONTINUING CARE FACILITIES
(C.G.S. 17-535 et seq.)
May 31, 2014

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

Duncaster, Inc.

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1. Facility's Current Rate Schedule:

See Appendix E.

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

Fiscal Year 2013 7.0%
Fiscal Year 2014 17.0%
Fiscal Year 2015 15.0%
Fiscal Year 2016 15.0%
Fiscal Year 2017 15.0%
Fiscal Year 2018 15.0%

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

Fiscal Year 2013 87.0
Fiscal Year 2014 86.0
Fiscal Year 2015 85.0
Fiscal Year 2016 86.0
Fiscal Year 2017 87.0
Fiscal Year 2018 88.0

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

A. HEALTH CARE UTILIZATION RATE

<u>YEAR</u>	<u>CHHC</u>	
	<u>#</u>	<u>%</u>
2013	99	40.0
2014	96	36.0
2015	90	33.8
2016	90	33.8
2017	90	33.8
2018	90	33.8

Rationale: On January 1, 2013 there were 29 transitioned lifecare residents. There were 70 Duncaster lifecare residents admitted over the past year for a total of 99. At year end there were 26 transitioned lifecare residents.

B. ADMISSION RATE

<u>YEAR</u>	<u>CHHC</u>	
	<u>#</u>	<u>%</u>
2013	101	42.1
2014	97	36.5
2015	92	34.6
2016	92	34.6
2017	92	34.6
2018	92	34.6

C. DAYS OF CARE

<u>YEAR</u>	<u>CHHC</u>
2013	4052
2014	4500
2015	4200
2016	4000
2017	4000
2018	4000

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

<u>YEAR</u>	<u>APARTMENTS</u>
2013	91.0%
2014	93.0%
2015	95.0%
2016	94.0%
2017	94.0%
2018	94.0%

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

2013	.....	70
2014	.....	80
2015	.....	75
2016	.....	75
2017	.....	75
2018	.....	75

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

<u>YEAR</u>	<u>CHHC</u>
2013	9,725
2014	10,300
2015	9,900
2016	9,800
2017	9,800
2018	9,800

8. Number of permanent transfers to a facility that provides medical or nursing services or other health-related benefits for the most recently completed fiscal year: 15

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

See Appendix D - Projected Statement of Cash Flow

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

See Appendix A - Actuarial Statement

See Appendix B - Projected Statement of Revenues and Expenses

See Appendix C - 2012 and 2013 Audited Financial Statements

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

Straight line depreciation for the period of useful life.



CCRC
Actuaries, LLC

415 Main Street
Reisterstown, MD 21136-1905

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Email: info@ccrcactuaries.com

April 1, 2014

Betty Anderson
Chief Financial Officer
Duncaster, Inc.
40 Loeffler Road
Bloomfield, CT 06002

Re: **Duncaster, Inc. - Prepaid Healthcare Obligation
As of December 31, 2013**

Dear Betty:

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

Based on our calculations, the Prepaid Healthcare Obligation as of December 31, 2013 was determined to be approximately \$32,320,000 in aggregate and approximately \$133,004 per resident, as shown in the Exhibit E.

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

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

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

Sincerely,

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

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

EXHIBIT E

Duncaster, Inc.

Calculation of Prepaid Healthcare Obligation
As of December 31, 2013

Present Value of Healthcare Operating Expenses	\$49,739,000
<u>Present Value of Healthcare Capital Expenses</u>	<u>5,319,000</u>
Total Healthcare Expenses	\$55,058,000
Present Value of Healthcare Revenue	\$22,738,000
Healthcare Expenses	\$55,058,000
<u>Healthcare Revenue</u>	<u>22,738,000</u>
Total Prepaid Healthcare Obligation	\$32,320,000
<u>Total Number of Residents</u>	<u>243</u>
Total Prepaid Healthcare Obligation per Resident	\$133,004

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

	2014	2015	2016	2017	2018
REVENUES AND OTHER SUPPORT:					
Non-Healthcare Resident Revenue	9,584	10,215	11,042	11,374	11,715
Health center/AL patient revenues	8,104	8,525	9,258	9,350	9,350
Amortization of entrance fees	2,508	2,583	2,608	2,623	2,628
Other income	846	817	773	796	820
Gifts/Duncaster Foundation Dist	363	350	340	330	325
Investment income/Gain Loss	235	240	245	245	240
Net assets released from Restrictions					
Total revenues and other support	21,640	22,730	24,266	24,718	25,078
EXPENSES:					
Medical and other resident care	5,684	5,847	6,065	6,186	6,310
General and administration	5,890	6,008	6,098	6,189	6,282
Depreciation and amortization	3,730	4,073	4,088	4,088	4,088
Dietary	2,322	2,392	2,475	2,537	2,601
Buildings and grounds	2,861	2,961	3,065	3,141	3,220
Housekeeping	856	886	917	944	973
Contributions To Duncaster, Inc.					
Interest	780	877	1,191	1,133	1075
Total expenses	22,123	23,043	23,898	24,219	24,548
INCOME FROM OPERATIONS	(483)	(313)	368	499	531
CHANGE IN UNREALIZED GAIN (LOSS)	-	-	-	-	
Change in Interest Rate Swap Obligation+					
Change in Future Services Obligation +/**					
CHANGE IN NET ASSETS	(483)	(313)	368	499	531
NET ASSETS, beginning of year **	(4,451)	(4,934)	(5,247)	(4,879)	(4,380)
NET ASSETS, end of the period	(4,934)	(5,247)	(4,879)	(4,380)	(3,850)

**2013 actual reflects retroactive change in Net Assets with adoption of Accounting Standards Update
No: 2012-01 December 31, 2012

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

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

DUNCASTER, INC. AND SUBSIDIARY

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BlumShapiro

Accounting | Tax Business Consulting

Independent Auditors' Report

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

We have audited the accompanying consolidating financial statements of Duncaster, Inc. and Subsidiary, which comprise the consolidating statement of financial position as of December 31, 2013 and the related consolidating statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidating financial statements. The prior year summarized comparative financial information has been derived from the Company's 2012 audited financial statements, and, in our report dated March 20, 2013, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidating financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidating financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of Duncaster, Inc. and Subsidiary as of December 31, 2013 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 14 to the financial statements, Duncaster, Inc. and Subsidiary has retrospectively applied the provisions of Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities - Refundable Advance Fees*. Our opinion is not modified with respect to that matter.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
May 7, 2014

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013
WITH CONSOLIDATED TOTALS AS OF DECEMBER 31, 2012

	Duncaster, Inc.	The Duncaster Foundation, Inc.	Eliminations	Total 2013	As Adjusted (Note 14) Total 2012
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 381,984	\$ -	\$ -	\$ 381,984	\$ 1,740,052
Accounts receivable, net	1,129,098	-	(125,297)	1,003,801	826,775
Current portion of assets whose use is limited	2,670,674	-	-	2,670,674	2,603,637
Pledges receivable	376,517	20,000	(376,517)	20,000	42,500
Due from Foundation	125,846	-	-	125,846	-
Prepaid expenses and inventories	4,684,119	20,000	(501,814)	4,202,305	3,329,866
Total current assets	<u>9,837,064</u>	<u>-</u>	<u>-</u>	<u>9,837,064</u>	<u>8,273,819</u>
Unrestricted Investments					
Assets Whose Use is Limited By donor-imposed restrictions	-	11,754,924	-	11,754,924	10,192,107
By indenture agreement or statute	2,670,674	-	-	2,670,674	3,273,438
	<u>2,670,674</u>	<u>11,754,924</u>	<u>-</u>	<u>14,425,598</u>	<u>13,465,545</u>
Less current portion of assets whose use is limited	2,670,674	-	-	2,670,674	2,603,637
Assets whose use is limited, net of current portion	-	11,754,924	-	11,754,924	10,861,908
Property and Equipment, Net	41,991,089	1,398,748	(706,641)	42,683,196	43,330,052
Other Assets					
Deferred costs, net of accumulated amortization	394,262	-	-	394,262	427,583
Pledges receivable, net	-	138,265	-	138,265	145,765
Annuity-related investments	-	94,588	-	94,588	112,136
Total other assets	<u>394,262</u>	<u>232,853</u>	<u>-</u>	<u>627,115</u>	<u>685,484</u>
Total Assets	<u>\$ 56,906,534</u>	<u>\$ 13,406,525</u>	<u>\$ (1,208,455)</u>	<u>\$ 69,104,604</u>	<u>\$ 68,481,129</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Current portion of long-term debt	\$ 1,528,000	\$ -	\$ -	\$ 1,528,000	\$ 1,163,000
Accounts payable and accrued expenses	682,692	125,297	(125,297)	682,692	752,541
Accrued salaries and wages	822,482	-	-	822,482	810,632
Due to Duncaster	-	376,517	(376,517)	-	-
Entrance fee refunds payable	2,130,546	-	-	2,130,546	4,398,029
Accrued interest payable	90,238	-	-	90,238	111,672
Entrants' deposits	104,027	-	-	104,027	88,711
Total current liabilities	<u>5,357,985</u>	<u>501,814</u>	<u>(501,814)</u>	<u>5,357,985</u>	<u>7,324,585</u>
Annuities Payable	-	46,131	-	46,131	71,802
Long-Term Debt, Net of Current Portion and Original Issue Discount	17,769,755	-	-	17,769,755	19,276,769
Interest Rate Swap Obligation	975,925	-	-	975,925	1,834,599
Deferred Gain on Sale of Asset	706,641	-	(706,641)	-	-
Refundable and Nonrefundable Entrance Fees					
Entrance fees refunds payable, net of current portion	14,704,156	-	-	14,704,156	13,523,242
Nonrefundable fees, net	17,875,845	-	-	17,875,845	15,963,466
Total deferred revenue from entrance fees	<u>32,580,001</u>	<u>-</u>	<u>-</u>	<u>32,580,001</u>	<u>29,486,708</u>
Future Service Obligation	3,966,000	-	-	3,966,000	11,115,000
Total liabilities	61,356,307	547,945	(1,208,455)	60,695,797	69,109,463
Net Assets					
Unrestricted	(4,449,773)	-	-	(4,449,773)	(11,970,550)
Temporarily restricted	-	6,692,447	-	6,692,447	5,191,561
Permanently restricted	-	6,166,133	-	6,166,133	6,150,655
Total net assets	<u>(4,449,773)</u>	<u>12,858,580</u>	<u>-</u>	<u>8,408,807</u>	<u>(628,334)</u>
Total Liabilities and Net Assets	<u>\$ 56,906,534</u>	<u>\$ 13,406,525</u>	<u>\$ (1,208,455)</u>	<u>\$ 69,104,604</u>	<u>\$ 68,481,129</u>

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

DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH CONSOLIDATED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012

	Duncaster, Inc. (Unrestricted)	The Duncaster Foundation, Inc. (Unrestricted)	The Duncaster Foundation, Inc. (Temporarily Restricted)	The Duncaster Foundation, Inc. (Permanently Restricted)	Eliminations	Total 2013	As Adjusted (Note 14) Total 2012
Revenues and Other Support							
Net resident service fee revenue	\$ 8,695,233	\$ -	\$ -	\$ -	\$ -	\$ 8,695,233	\$ 8,022,232
Assisted living revenue	1,818,570	-	-	-	-	1,818,570	1,821,595
Health center patient revenue	6,259,921	-	-	-	-	6,259,921	5,708,193
Amortization of entrance fees	2,511,170	-	-	-	-	2,511,170	2,591,305
Other income	842,191	-	-	-	-	842,191	792,847
Gift and grant income	54,112	-	229,242	15,478	-	298,832	74,925
Investment income	12,860	-	769,363	-	-	782,223	551,099
Contributions from The Duncaster Foundation, Inc.	373,550	-	-	-	(373,550)	-	-
Net assets released from restrictions	-	732,474	(732,474)	-	-	-	-
Net revenues and other support	<u>20,567,607</u>	<u>732,474</u>	<u>266,131</u>	<u>15,478</u>	<u>(373,550)</u>	<u>21,208,140</u>	<u>19,562,196</u>
Expenses							
Medical and other resident care	5,836,293	-	-	-	-	5,836,293	5,709,862
General and administrative	5,322,317	358,924	-	-	-	5,681,241	5,129,692
Depreciation and amortization	3,580,247	-	-	-	-	3,580,247	3,466,695
Dietary	2,386,819	-	-	-	-	2,386,819	2,423,570
Buildings and grounds	2,764,152	-	-	-	-	2,764,152	2,565,785
Housekeeping	747,904	-	-	-	-	747,904	773,657
Contributions to Duncaster, Inc.	-	373,550	-	-	(373,550)	-	-
Interest	853,151	-	-	-	-	853,151	930,864
Total expenses	<u>21,490,883</u>	<u>732,474</u>	<u>-</u>	<u>-</u>	<u>(373,550)</u>	<u>21,849,807</u>	<u>20,990,125</u>
Income (Loss) from Operations	(923,276)	-	266,131	15,478	-	(641,667)	(1,427,929)
Change in Net Unrealized Gain on Investments	436,379	-	1,234,755	-	-	1,671,134	932,896
Change in Interest Rate Swap Obligation	858,674	-	-	-	-	858,674	(128,080)
Change in Future Service Obligation	7,149,000	-	-	-	-	7,149,000	(11,115,000)
Change in Net Assets	7,520,777	-	1,500,886	15,478	-	9,037,141	(11,738,113)
Net Assets - Beginning of Year	(11,970,550)	-	5,191,561	6,150,655	-	(628,334)	11,109,779
Net Assets - End of Year	<u>\$ (4,449,773)</u>	<u>\$ -</u>	<u>\$ 6,692,447</u>	<u>\$ 6,166,133</u>	<u>\$ -</u>	<u>\$ 8,408,807</u>	<u>\$ (628,334)</u>

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

**DUNCASTER, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH CONSOLIDATED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Duncaster, Inc.</u>	<u>The Duncaster Foundation, Inc.</u>	<u>Eliminations</u>	<u>Total 2013</u>	<u>As Adjusted (Note 14) Total 2012</u>
Cash Flows from Operating Activities					
Change in net assets	\$ 7,520,777	\$ 1,516,364	\$ -	\$ 9,037,141	\$ (11,738,113)
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Proceeds from entrance fees	7,020,775	-	-	7,020,775	6,094,000
Refunds of entrance fees and entrance fee payable	(3,683,795)	-	-	(3,683,795)	(1,852,134)
Change in future service obligation	(7,149,000)	-	-	(7,149,000)	11,115,000
Amortization of entrance fees	(2,511,170)	-	-	(2,511,170)	(2,591,305)
Depreciation and amortization	3,580,247	-	-	3,580,247	3,466,695
Change in interest rate swap obligation	(858,674)	-	-	(858,674)	128,080
Change in net unrealized gain on investments	(436,379)	(1,234,755)	-	(1,671,134)	(932,896)
(Increase) decrease in operating assets:					
Accounts receivable, net	(208,502)	-	34,830	(173,672)	(19,379)
Pledges receivable	-	30,000	-	30,000	385,490
Due from Foundation	10,254	-	(10,254)	-	-
Prepaid expenses and inventories	(8,944)	-	-	(8,944)	50,403
Annuity-related investments	-	17,548	-	17,548	17,971
Increase (decrease) in operating liabilities:					
Accounts payable and accrued expenses	(61,353)	34,830	(34,830)	(61,353)	294,568
Due to Duncaster	-	(10,254)	10,254	-	-
Accrued interest payable	(21,434)	-	-	(21,434)	(34,359)
Entrants' deposits	15,316	-	-	15,316	10,142
Annuities payable	-	(25,671)	-	(25,671)	(3,900)
Net cash provided by operating activities	<u>3,208,118</u>	<u>328,062</u>	<u>-</u>	<u>3,536,180</u>	<u>4,390,263</u>
Cash Flows from Investing Activities					
Purchases of property and equipment, net	(2,879,084)	-	-	(2,879,084)	(2,429,950)
Net sale (purchase) of unrestricted and restricted investments	(1,126,866)	-	-	(1,126,866)	875,346
Net sale (purchases) of assets whose use is limited	602,764	(328,062)	-	274,702	(278,749)
Net cash used in investing activities	<u>(3,403,186)</u>	<u>(328,062)</u>	<u>-</u>	<u>(3,731,248)</u>	<u>(1,833,353)</u>
Cash Flows from Financing Activities					
Repayment of long-term debt	(1,163,000)	-	-	(1,163,000)	(1,099,000)
Net cash used in financing activities	<u>(1,163,000)</u>	<u>-</u>	<u>-</u>	<u>(1,163,000)</u>	<u>(1,099,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents					
	(1,358,068)	-	-	(1,358,068)	1,457,910
Cash and Cash Equivalents - Beginning of Year	<u>1,740,052</u>	<u>-</u>	<u>-</u>	<u>1,740,052</u>	<u>282,142</u>
Cash and Cash Equivalents - End of Year	<u>\$ 381,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 381,984</u>	<u>\$ 1,740,052</u>
Cash Paid During the Year for Interest	\$ 874,585	\$ -	\$ -	\$ 874,585	\$ 955,223

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

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

Duncaster consisted of 183 independent living units, 18 social assisted living units, 60 skilled nursing beds and 12 nonskilled dementia units as of December 31, 2013. As of December 31, 2012, Duncaster consisted of 185 independent living units, 17 social assisted living units, 60 skilled nursing beds and 12 nonskilled dementia units. Occupancy levels were as follows:

	Average for the Years		As of	
	Ended			
	<u>12/31/13</u>	<u>12/31/12</u>	<u>12/31/13</u>	<u>12/31/12</u>
Independent living	86%	79%	91%	82%
Skilled nursing care	89	87	92	88
Assisted living	95	92	97	100

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Temporarily Restricted - Temporarily restricted net assets are held for specific initiatives including capital projects, resident assistance, employees and other initiatives and operations. They also include accumulated investment earnings on endowment investments that have not been appropriated for expenditure. Details of temporarily restricted net assets are included within Note 11.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the investment return thereon be available for operations. See Note 10 for additional details of permanently restricted net assets.

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

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

Accounts Receivable - Accounts receivable are considered delinquent and written off when all attempts to collect from individuals or other payor sources have been exhausted. Management maintains an allowance for doubtful accounts that is based on a review of significant balances and past experience. The Company extends credit to residents without requiring collateral. Accounts receivable are net of allowance for doubtful accounts of \$171,397 and \$153,851 as of December 31, 2013 and 2012, respectively.

Assets Whose Use is Limited - Assets whose use is limited include assets held by trustees under bond agreements and assets restricted as to use by donors. See Note 5 for more detail on the composition of the investments.

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

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

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation and Income Recognition - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Contributions - Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidating statement of activities and change in net assets as net assets released from restrictions due to satisfaction of restrictions.

Deferred Costs - Deferred costs represent costs incurred in connection with the issuance of the bonds and are being amortized over the term of the bonds. See Note 7 for additional discussion of deferred costs and the amortization thereof.

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

Revenue from Residents - Upon occupancy of an independent living unit at Duncaster, residents pay an entrance fee, a portion of which is refundable and a portion of which is nonrefundable (see Note 13). The nonrefundable portion of the entrance fee is deferred and amortized into income over the estimated remaining lives of the individual residents as determined by Duncaster's actuaries. The accumulated amortization of nonrefundable fees was \$52,949,251 and \$50,438,081 as of December 31, 2013 and 2012, respectively.

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

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Required Reserve - The State of Connecticut Department of Social Services (DSS) monitors Connecticut retirement communities and their compliance with existing state regulations. Among other things, DSS requires that retirement communities maintain an operating reserve equal to approximately one month's cash operating costs. Duncaster maintained an adequate operating reserve at estimated amounts as of December 31, 2013 and 2012, which are recorded as long-term assets whose use is limited.

Income Taxes - Duncaster and the Foundation are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes pursuant to Section 501(a) of the Code. The tax returns for the years ended December 31, 2010 through 2013 are subject to examination by the Internal Revenue Service and the State of Connecticut.

2012 Financial Information - The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Company's consolidating financial statements as of and for the year ended December 31, 2012, from which the summarized information was derived.

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

Subsequent Events - In preparing these consolidating financial statements, management has evaluated subsequent events through May 7, 2014, which represents the date the consolidating financial statements were available to be issued.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 3 - HEALTHCARE INDUSTRY

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

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of the source of fair value measurements for assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013 and 2012:

<u>Description</u>	<u>2013</u>			<u>Total</u>
	<u>Fair Value Measurements Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments	\$ 9,837,064	\$ -	\$ -	\$ 9,837,064
Assets whose use is limited	14,425,598	-	-	14,425,598
Annuity-related investments	94,588	-	-	94,588
Liabilities:				
Interest rate swap obligation	-	975,925	-	975,925

<u>Description</u>	<u>2012</u>			<u>Total</u>
	<u>Fair Value Measurements Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments	\$ 8,273,819	\$ -	\$ -	\$ 8,273,819
Assets whose use is limited	13,465,545	-	-	13,465,545
Annuity-related investments	112,136	-	-	112,136
Liabilities:				
Interest rate swap obligation	-	1,834,599	-	1,834,599

The carrying amounts reflected in the accompanying consolidating statement of financial position for cash and cash equivalents and accounts receivable approximate fair value due to short maturities of those instruments. The 2010 Series bonds are variable rate bonds, and, therefore, the carrying amount as of December 31, 2012 equals fair value. The 1999 Series B bonds have a fair value at December 31, 2013 of \$829,067.

NOTE 5 - INVESTMENTS

Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair value in the accompanying consolidating statement of financial position with realized and unrealized gains and losses on these investments included in the accompanying consolidating statement of activities and change in net assets as increases or decreases in unrestricted net assets unless the gains and losses apply to endowment assets. The Company recognized an increase in net unrealized gain on investments of \$1,671,134 and \$932,896 in 2013 and 2012, respectively.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

The Company has adopted a policy of reviewing all specific investments that have been below cost by at least 25% for at least nine months. Unless specific evidence exists to the contrary, the cost of these investments is reduced to the market at year end. There were no reductions in the cost of investments in 2013 or 2012.

Market values for investments as of December 31, 2013 and 2012, are summarized as follows:

Unrestricted	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 2,957,784	\$ 778,394
Fixed income investments	<u>6,879,280</u>	<u>7,495,425</u>
	<u>\$ 9,837,064</u>	<u>\$ 8,273,819</u>
 Donor-Imposed Restrictions	 <u>2013</u>	 <u>2012</u>
Cash and cash equivalents	\$ 416,501	\$ 426,268
Equity investments	7,829,577	6,534,741
Fixed income investments	<u>3,508,846</u>	<u>3,231,098</u>
	<u>\$ 11,754,924</u>	<u>\$ 10,192,107</u>
 By Indenture Agreement or Statute	 <u>2013</u>	 <u>2012</u>
Cash and cash equivalents	\$ <u>2,670,674</u>	\$ <u>3,273,438</u>
	<u>\$ 2,670,674</u>	<u>\$ 3,273,438</u>
 Annuity-Related Investments	 <u>2013</u>	 <u>2012</u>
Cash and cash equivalents	\$ 3,834	\$ 5,545
Fixed income investments	<u>90,754</u>	<u>106,591</u>
	<u>\$ 94,588</u>	<u>\$ 112,136</u>

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at cost consists of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 2,092,134	\$ 2,079,600
Buildings and improvements	92,995,974	90,513,483
Furniture, fixtures and equipment	4,906,630	4,630,149
Carports	458,191	350,617
Vehicles	<u>515,164</u>	<u>515,164</u>
	100,968,093	98,089,013
Less accumulated depreciation	<u>58,284,897</u>	<u>54,758,961</u>
Net Property and Equipment	<u>\$ 42,683,196</u>	<u>\$ 43,330,052</u>

NOTE 7 - DEFERRED COSTS

Bond issuance costs related to the Series 2010 and Series 1999B bonds have been capitalized. Deferred costs consist of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Deferred bond issuance costs:		
Series 1999B	\$ 226,771	\$ 226,771
Series 2010	<u>414,925</u>	<u>414,925</u>
	641,696	641,696
Less accumulated amortization	<u>247,434</u>	<u>214,113</u>
Net Deferred Costs	<u>\$ 394,262</u>	<u>\$ 427,583</u>

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

2014	\$ 28,926
2015	26,869
2016	27,688
2017	28,687
2018	29,666
Thereafter	<u>252,426</u>
	<u>\$ 394,262</u>

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2013 and 2012:

	2013	2012
1999 Revenue Refunding Bonds:		
Series 1999B - 8% term bonds due 2000 to 2014	\$ 815,000	\$ 1,570,000
2010 Revenue Refunding Bonds:		
Series 2010 - variable rate debt due 8/1/2032 fixed via a swap agreement at 3.96% through 12/1/2020	18,495,000	18,903,000
Total long-term debt	19,310,000	20,473,000
Less unamortized original issue discount	(12,245)	(33,231)
Less current portion	(1,528,000)	(1,163,000)
Long-Term Debt, Net of Current Portion and Original Issue Discount	\$ 17,769,755	\$ 19,276,769

The Series 1999B bonds are insured by an asset guarantee agreement, which guarantees the payment of principal and interest under certain circumstances, as defined.

Principal payments on the Series 1999B and Series 2010 Bonds for the next five years and thereafter are as follows:

	Series 1999B	Series 2010	Total
2014	\$ 815,000	\$ 713,000	\$ 1,528,000
2015	-	1,345,000	1,345,000
2016	-	1,386,000	1,386,000
2017	-	1,436,000	1,436,000
2018	-	1,485,000	1,485,000
Thereafter	-	12,130,000	12,130,000
	\$ 815,000	\$ 18,495,000	\$ 19,310,000

Subsequent to December 31, 2013, the Series 1999B Bonds have been defeased. A bond refunding escrow account was established to redeem the Series 1999B Bonds.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT (Continued)

Under the Series 1999B Bond Agreements, the Company is required to maintain certain reserve funds as follows:

Debt Service Reserve Fund - Duncaster is required to maintain a debt service reserve fund in an amount equal to the maximum annual debt service of the bonds.

Debt Service Fund - Duncaster is required to maintain a debt service fund into which monthly deposits must be made in order to fund principal and interest payments on the portion of the bonds as they come due.

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

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

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

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

The 1999B and 2010 Bond Agreements require the Company to comply with certain financial and nonfinancial covenants. Of those covenants, the Company did not satisfy the requirement to meet the standard for the operating ratio. This was a technical violation that was cured as management performed the actions required under the bond agreement.

NOTE 9 - DEFERRED GAIN ON SALE OF ASSET

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 10 - ENDOWMENT

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

The Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by Connecticut Prudent Management of Institutional Funds Act (CTPMIFA). In accordance with CTPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Foundation and the donor-restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation or deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Foundation, and (vii) the Foundation's investment policies.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2013 and 2012.

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

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

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 10 - ENDOWMENT (Continued)

Changes in endowment investments for the years ended December 31, 2013 and 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment - 12/31/2011	\$ -	\$ 4,692,872	\$ 6,142,780	\$ 10,835,652
Investment gains	-	1,306,744	-	1,306,744
Contributions	-	24,797	7,875	32,672
Expenditures	(584,213)	-	-	(584,213)
Appropriation of endowment assets for expenditure	<u>584,213</u>	<u>(584,213)</u>	<u>-</u>	<u>-</u>
Endowment - 12/31/2012	-	5,440,200	6,150,655	11,590,855
Investment gains	-	2,017,283	-	2,017,283
Contributions	-	222,242	15,478	237,720
Expenditures	(692,186)	-	-	(692,186)
Appropriation of endowment assets for expenditure	<u>732,474</u>	<u>(732,474)</u>	<u>-</u>	<u>-</u>
Endowment - 12/31/2013	<u>\$ 40,288</u>	<u>\$ 6,947,251</u>	<u>\$ 6,166,133</u>	<u>\$ 13,153,672</u>

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 11- TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the years ended December 31, 2013 and 2012, are as follows:

	<u>Resident Assistance Fund</u>	<u>Employees</u>	<u>Other Initiatives</u>	<u>Capital Projects</u>	<u>Endowment Investment Returns</u>	<u>Total</u>
Temporarily restricted net assets - 12/31/2011	\$ 1,025,844	\$ 752,130	\$ 1,790,342	\$ 40,824	\$ 931,073	\$ 4,540,213
Contributions	9,904	-	158,060	(143,167)	-	24,797
Appropriated for expenditure and released from restriction	(93,874)	(36,227)	(95,798)	104,136	(462,450)	(584,213)
Investment return	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210,764</u>	<u>1,210,764</u>
Temporarily restricted net assets - 12/31/2012	941,874	715,903	1,852,604	1,793	1,679,387	5,191,561
Contributions	13,093	-	217,649	(1,500)	-	229,242
Appropriated for expenditure and released from restriction	-	(41,859)	-	3,446	(694,061)	(732,474)
Investment return	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,004,118</u>	<u>2,004,118</u>
Temporarily Restricted Net Assets - 12/31/2013	<u>\$ 954,967</u>	<u>\$ 674,044</u>	<u>\$ 2,070,253</u>	<u>\$ 3,739</u>	<u>\$ 2,989,444</u>	<u>\$ 6,692,447</u>

NOTE 12 - PENSION PLAN

The Company adopted a 401(k) plan on April 1, 2010. The 401(k) plan covers all employees who meet the plan's eligibility requirements. Eligibility requirements are defined as attainment of age 21, 1 year of service and 1,000 hours worked during that year. Under the plan, employees who meet the age requirements can make contributions pursuant to a salary reduction program. The Company will make a discretionary matching contribution equal to a uniform percentage of the salary deferral to employees who meet the length of service and age requirements. For the years ended December 31, 2013 and 2012, the Company matched \$.50 of every dollar up to 4% of employee's gross earnings. The Company may also elect to make a discretionary profit-sharing contribution. Employees are 100% vested in their own contributions to the Plan. Employees will become vested in any contribution Duncaster makes over a five-year vesting period.

Pension expense for the plans for the years ended December 31, 2013 and 2012, was \$288,849 and \$281,641 respectively.

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 13 - RESIDENCY AGREEMENT

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

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

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

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

As of December 31, 2013 and 2012, the numbers of each residency agreement in place are summarized as follows (includes agreements for residents in both independent living and skilled care):

	<u>Declining Refund Plan</u>		<u>Termination Refund Plan</u>			
	<u>1%</u>	<u>2%</u>	<u>67%</u>	<u>80%</u>	<u>90%</u>	<u>100%</u>
2013	12	124	6	57	3	1
2012	13	115	7	53	3	1

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

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

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 13 - RESIDENCY AGREEMENT (Continued)

Annually, Duncaster's actuaries estimate the net cost of future services and use of facilities to be provided to current residents and compare that amount with the estimated future net cash inflows. Should the net cost of future services and use of facilities exceed the estimated future net cash inflows, a liability will be recorded with a corresponding charge to income. As of December 31, 2013, an obligation of \$3,966,000 has been recorded for Duncaster. As of December 31, 2012, an obligation of \$11,115,000 has been recorded for Duncaster. These future service obligations were a result of Duncaster's change in accounting principle (see Note 14).

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE

Duncaster, Inc., has adopted Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities - Refundable Advance Fees* (ASU 2012-01). ASU 2012-01 requires a continuing care retirement community to record a liability for refundable entrance fees payable to residents upon reoccupancy of their independent living units. Under ASU 2012-01, this liability is required to be recorded at the gross refundable amount and amortization of this balance is no longer permitted. The new method of accounting under ASU 2012-01 was adopted by the Company during 2013 and the comparative financial statements have been adjusted to apply the new method retrospectively to 2012. The following financial statement line items for fiscal year 2012 were affected by this change in accounting principle.

Changes in the consolidated statement of activities and changes in net assets for the year ended December 31, 2012 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Unrestricted Revenues:			
Amortization of entrance fees	\$ 3,018,911	\$ 2,591,305	\$ (427,606)
Loss from Operations	(1,000,323)	(1,427,929)	(427,606)
Change in Future Service Obligation	-	(11,115,000)	(11,115,000)
Change in Unrestricted Net Assets	(854,730)	(10,687,876)	(11,542,606)
Change in Net Assets	(195,507)	(11,738,113)	(11,542,606)
Net Assets - Beginning of Year	14,304,990	11,109,779	(3,195,211)
Net Assets - End of Year	14,109,483	(628,334)	(14,737,817)

DUNCASTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Changes in the consolidated statement of financial position as of December 31, 2012 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Deferred Revenue from Entrance Fees	\$ 25,863,891	\$ 15,963,466	\$ (9,900,425)
Entrance Fee Refunds Payable	4,398,029	17,921,271	13,523,242
Future Service Obligation	-	(11,115,000)	(11,115,000)
Net Assets:			
Unrestricted	2,767,267	(11,970,550)	(14,737,817)

Changes in the consolidated statement of cash flows for the year ended December 31, 2012 are as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Change in Net Assets	\$ (195,507)	\$ (11,738,113)	\$ (11,542,606)
Amortization of Entrance Fees	3,018,911	2,591,305	(427,606)
Change in Future Service Obligation	-	11,115,000	11,115,000

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

	2014	2015	2016	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:					
Change in net assets	(483)	(243)	549	733	842
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Net proceeds from entrance fees and EF payable	4,000	8,500	3,500	3,500	3,500
Change in net unrealized (gain) loss on investments					
Change in future services obligation	(3,966)				
Amortization of entrance fees	(2,508)	(2,583)	(2,608)	(2,623)	(2,628)
Depreciation and amortization	3,730	4,073	4,088	4,088	4,088
Change in Interest Rate Swap Obligation					
Change in Unrelaized gain on investments					
(Increase) decrease in operating assets:					
Accounts and other receivables	25	75	50	50	50
Prepaid expenses and other current assets	25	25	25	25	25
Due from Foundation					
Annuity related investments					
Other Long-term assets					
Increase (decrease) in operating liabilities:					
Accounts payable and accrued expenses	500	100	35	35	35
Accrued interest payable					
Refundable EF Liability	15	15	15	15	15
Amortization of long term debt					
Annuities payable					
Net cash provided by operating activities	<u>1,338</u>	<u>9,962</u>	<u>5,654</u>	<u>5,823</u>	<u>5,927</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment, net	(5,000)	(10,000)	(3,000)	(3,000)	(3,000)
(Purchase) sale of investments, net	(100)	(100)	(100)	(100)	(100)
Net (increase) decrease in Assets with Limited Use	436	(550)			
Net cash used in investing activities	<u>(4,664)</u>	<u>(10,650)</u>	<u>(3,100)</u>	<u>(3,100)</u>	<u>(3,100)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of long term debt	(1,528)	(5,420)	(1,941)	(1,991)	(2,040)
Equity Contribution to Expansion Project	1,117				
Proceeds from Tax-Exempt bond sale	9,700				
Proceeds from LOC	2,750	1,325			
Decrease in entrant's deposits					
Net cash provided by financing activities	<u>12,039</u>	<u>(4,095)</u>	<u>(1,941)</u>	<u>(1,991)</u>	<u>(2,040)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	8,713	(4,783)	613	732	787
CASH AND CASH EQUIVALENTS, beginning of year	382	9,095	4,312	4,925	5,657
CASH AND CASH EQUIVALENTS, end of year	<u>9,095</u>	<u>4,312</u>	<u>4,925</u>	<u>5,657</u>	<u>6,444</u>

DUNCASTER INC.

RATE SCHEDULE

Effective

1/1/2014

Life Care Plans

2% Declining

Apartment Home	Square Footage	Single Occupancy Entrance Fee	Single Occupancy Monthly Fee	Double Occupancy Entrance Fee	Double Occupancy Monthly Fee
Avon/Studio	514	\$101,270	\$2,473	N/A	N/A
Bloomfield/One Bedroom	657	\$132,390	\$2,992	\$191,370	\$4,301
Canton/One Bedroom	822	\$184,845	\$3,519	\$246,951	\$4,857
Corwall/Two Bedroom	986	\$199,885	\$3,806	\$260,596	\$5,171
Farmington/Two Bedroom	1,126	\$228,255	\$4,265	\$289,803	\$5,626
Granby/Two Bedroom	1,171	\$265,440	\$4,602	\$324,596	\$5,966
Haddam/One Bedroom, Den	1,171	\$265,440	\$4,602	\$324,596	\$5,966
Hartford/Two Bedroom	1,260	\$274,000	\$4,786	\$331,756	\$6,128
Litchfield/Two Bedroom	1,336	\$275,820	\$4,949	\$337,800	\$6,261
Simsbury/Two Bedroom	1,500	\$332,990	\$5,898	\$378,096	\$7,630
Suffield/Two Bedroom	1,560	\$346,640	\$6,136	\$392,796	\$7,866
Weatogue/Three Bedroom	1,643	\$347,435	\$6,182	\$406,541	\$7,913

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

80% Refundable

Apartment Home	Square Footage	Single Occupancy Entrance Fee	Single Occupancy Monthly Fee	Double Occupancy Entrance Fee	Double Occupancy Monthly Fee
Avon/Studio	514	\$145,860	\$2,941	N/A	N/A
Bloomfield/One Bedroom	657	\$192,900	\$3,366	\$240,180	\$5,096
Canton/One Bedroom	822	\$276,480	\$3,674	\$326,312	\$5,512
Corwall/Two Bedroom	986	\$314,280	\$4,418	\$364,217	\$6,148
Farmington/Two Bedroom	1,126	\$355,755	\$5,054	\$405,587	\$6,783
Granby/Two Bedroom	1,171	\$370,560	\$5,244	\$420,392	\$6,974
Haddam/One Bedroom, Den	1,171	\$370,560	\$5,244	\$420,392	\$6,974
Hartford/Two Bedroom	1,260	\$415,000	\$5,642	\$449,687	\$7,370
Litchfield/Two Bedroom	1,336	\$424,950	\$5,984	\$474,782	\$7,711
Simsbury/Two Bedroom	1,500	\$478,815	\$6,718	\$528,752	\$8,446
Suffield/Two Bedroom	1,560	\$498,660	\$6,988	\$548,492	\$8,716
Weatogue/Three Bedroom	1,643	\$525,960	\$7,358	\$575,897	\$9,090

Entrance fee is 80% refundable as per Residency Agreement

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

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

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Effective: January 1, 2014

