

GLEN ARDEN, INC.
FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
DECEMBER 31, 2017

GLEN ARDEN, INC.

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Independent Auditor's Report

**The Board of Directors
Glen Arden, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Glen Arden, Inc., which comprise the balance sheet as of December 31, 2017 and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Glen Arden, Inc. as of December 31, 2017, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Uncertainty Regarding Continuing as a Going Concern

The accompanying financial statements have been prepared assuming Glen Arden, Inc. will continue as a going concern. Glen Arden, Inc. has sustained recurring operating losses, and has a working capital deficiency and a net asset deficit. These factors raise substantial doubt about Glen Arden, Inc.'s ability to continue as a going concern. Management's plans concerning these matters are discussed in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Loeb & Troper LLP

April 30, 2018

GLEN ARDEN, INC.

BALANCE SHEET

DECEMBER 31, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ 445,731
Accounts receivable (net of allowance for doubtful accounts of \$55,000)	461,769
Entrance fees receivable (Note 3)	421,470
Due from third-party payors	136,913
Resident deposits - held in trust	4,137
Assets limited as to use (Note 4)	1,528,966
Prepaid expenses and other current assets	300,926
Total current assets	3,299,912
Assets limited as to use (Note 4)	2,366,711
Fixed assets - net (Note 5)	17,031,651
Total assets	\$ 22,698,274

LIABILITIES AND NET ASSETS

Current liabilities	
Line of credit (Note 6)	\$ 820,000
Refundable fees	1,058,775
Accounts payable and accrued expenses	1,003,614
Accrued salaries and related benefits	537,000
Accrued interest payable	477,141
Pension liability (Note 11)	63,177
Resident deposits - held in trust	4,137
Deferred revenue from advance fees	1,127,822
Due to Elant, Inc. (Note 10)	190,523
Capital leases payable (Note 7)	25,087
Bonds payable (Note 8)	1,005,000
Total current liabilities	6,312,276
Long-term liabilities	
Capital leases payable (Note 7)	31,189
Bonds payable (Note 8)	15,533,214
Refundable fees	17,076,309
Deferred revenue from advance fees	2,342,453
Pension liability (Note 11)	479,318
Total long-term liabilities	35,462,483
Total liabilities	41,774,759
Unrestricted net assets (deficit) (Exhibit B)	(19,076,485)
Total liabilities and net assets	\$ 22,698,274

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B**GLEN ARDEN, INC.****STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS****YEAR ENDED DECEMBER 31, 2017**

Operating revenue	
Resident service revenue (net of contractual allowances and discounts)	\$ 9,060,737
Provision for bad debts	<u>(49,527)</u>
Net resident service revenue less provision for bad debts	9,011,210
Other operating income	111,868
Interest and dividends	64,883
Contributions	<u>1,150</u>
Total operating revenue	<u>9,189,111</u>
Operating expenses	
Salaries	3,857,169
Employee benefits	1,603,473
Supplies and other expenses	3,923,321
Depreciation	1,492,432
Interest	<u>1,049,451</u>
Total operating expenses	<u>11,925,846</u>
Operating loss	<u>(2,736,735)</u>
Other changes in net assets (deficit)	
Unrealized losses on assets limited as to use	(37,922)
Transfer from Elant Foundation, Inc. (Note 10)	1,000,000
Adjustment to minimum pension liability (Note 11)	<u>136,427</u>
Total other changes in net assets (deficit)	<u>1,098,505</u>
Change in unrestricted net assets (deficit) (Exhibit C)	(1,638,230)
Net assets (deficit) - beginning of year	<u>(17,438,255)</u>
Net assets (deficit) - end of year (Exhibit A)	<u>\$ (19,076,485)</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C**GLEN ARDEN, INC.****STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2017**

Cash flows from operating activities	
Change in net assets (deficit) (Exhibit B)	\$ (1,638,230)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Unrealized losses on assets limited as to use	37,922
Depreciation	1,492,432
Amortization of debt issuance costs included in interest expense	33,348
Amortization of deferred revenue from advance fees	(1,258,627)
Decrease (increase) in assets	
Accounts receivable	(137,745)
Entrance fees receivable	240,837
Due from third-party payors	1,747
Due from affiliate	49,216
Prepaid expenses and other current assets	12,807
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	353,465
Accrued salaries and related benefits	(91,164)
Accrued interest payable	(26,864)
Refundable fees	(2,019,188)
Deferred revenue from advance fees	1,756,280
Due to affiliates	183,863
Pension liability	(94,357)
	<hr/>
Net cash used by operating activities	(1,104,258)
Cash flows from investing activities	
Acquisition of fixed assets	(528,163)
Increase in assets limited as to use	(158,432)
	<hr/>
Net cash used by investing activities	(686,595)

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GLEN ARDEN, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

Cash flows from financing activities	
Payments on loan payable	\$ (1,651)
Principal payments on capital leases	(23,455)
Principal payments on bonds	(945,903)
Refunds of refundable fees	(3,105,452)
Additions to refundable fees	4,537,095
	<u>460,634</u>
Net cash provided by financing activities	<u>460,634</u>
Net change in cash and cash equivalents	(1,330,219)
Cash and cash equivalents - beginning of year	<u>1,775,950</u>
Cash and cash equivalents - end of year	<u><u>\$ 445,731</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u><u>\$ 1,042,967</u></u>
Supplemental disclosure of noncash information	
Equipment financed with capital lease	<u><u>\$ 19,580</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - NATURE OF ORGANIZATION

Glen Arden, Inc. (“Glen Arden”) located in Goshen, New York, is a nonprofit organization that operates a continuing care retirement community. Glen Arden is incorporated under the State of New York not-for-profit corporation law and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Glen Arden offers a 40-bed skilled nursing health care center (the “HCC”), 148 independent living units and a 28-bed enriched housing units. The units consist of one and two-bedroom apartments and provide various amenities such as an indoor swimming pool and health club, restaurant-style dining room, pub, cafe, private dining rooms, hair salon, wellness center, billiards room, library, greenhouse, post office, bank and guest suites.

Elant, Inc. (“Elant”) is the sole member of Glen Arden. Elant, Inc. is a healthcare delivery system comprised of Glen Arden, one nursing home and Elant Foundation, Inc. that deliver healthcare services in the Hudson Valley region of New York State. Under New York State Public Health Law Section 2801-a, Elant, Inc. was approved as the active parent of Glen Arden. This approval grants Elant, Inc. authority to approve strategic plans, capital and operating budgets, debt, and the authority to combine and centralize administrative and support functions.

Glen Arden shares certain common board members with Elant, Inc., Elant at Brandywine, Inc. (“Brandywine”), and Elant Foundation, Inc. (“Foundation”). Collectively these entities are known as the Elant affiliates in these financial statements. The financial statements of the affiliated organizations are not included in Glen Arden’s financial statements.

Glen Arden derives its revenues primarily from fees charged to its residents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with maturity dates of three months or less at the time of purchase. Cash balances with financial institutions at times may exceed federally insured limits.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable - Accounts receivable from third-party payor programs, specifically Medicare and Medicaid, for which Glen Arden will receive payment under reimbursement formula are stated at the estimated net amount receivable from such payors. Accounts receivable are recorded based on established rates or contracts for services provided. Interest is not charged on outstanding receivables.

At December 31, the mix of gross accounts receivable for services to residents are as follows:

Medicaid	27%
Medicare	34
Private	<u>39</u>
	<u>100%</u>

Allowance for uncollectible receivables - Glen Arden determines whether an allowance for uncollectibles should be provided for its receivables. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions, subsequent receipts and historical information. Accounts and entrance fees receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Resident deposits - Resident deposits are maintained in a bank account separate from Glen Arden's accounts. Interest earned on resident deposits is credited to the resident accounts.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The 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 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Glen Arden has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Fair Value Measurements (continued)***

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset 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.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 as compared to those used at December 31, 2016 (see Notes 5 and 12).

U.S. Government obligations and equities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held by Glen Arden at year end.

Corporate bonds and government securities - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Glen Arden believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets limited as to use - Assets limited as to use are stated at fair value and include funds held pursuant to bond indenture and third-party agreements, and operating reserve funds. Amounts necessary to meet current principal and interest requirements and the internally designated assets are reported as current assets.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets whose useful lives exceed one year and whose cost exceeds \$100 are capitalized and carried at cost. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

Impairment of long-lived assets - Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Glen Arden records impairment losses on long-lived assets used in operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No impairment charges were recognized in 2017.

Asset retirement obligations - Glen Arden accounts for Asset Retirement Obligations (“ARO”) in accordance with U.S. GAAP guidance, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The fair value of the ARO is recorded on a discounted basis and accreted over time for the change in fair value. At December 31, 2017, Glen Arden did not identify any asset retirement obligations.

Refundable fees and deferred revenue from advance fees - Residents are given the option of three refund plans for their entrance fees; a declining balance refund plan, a 90% refundable plan or a 75% refundable plan. Under all plans, the entrance fee is fully refundable within the first 90 days of occupancy upon either termination or death of a resident, less certain costs of services already provided.

Declining balance refund plan: Within the second 90-day period following occupancy, the entrance fee refunded is reduced 2% for each month of occupancy plus a one-time 4% administrative fee, less any other amounts due Glen Arden. After 51 months, the entrance fee is nonrefundable.

90% and 75% refundable plans: Within the second 90-day period following occupancy, the entrance fee refunded is reduced 2% for each month of occupancy less any other amounts due Glen Arden. After that period, the entrance fee is refundable at 90% or 75% of the original fee paid, less any other amounts due Glen Arden.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***90% and 75% refundable plans (continued)***

Deferred revenue from advance fees include amounts received under the declining balance refund plan and the 10% or 25% nonrefundable portion of the 90% and 75% refundable plans, respectively. These amounts are being amortized over the current average expected life span of the residents, which is 9.5 years. For the year ended December 31, 2017, the amount recognized as revenue and included in net resident service revenue was \$1,258,627.

Upon termination or death of a resident, Glen Arden is required to refund the refundable portion of the resident's entrance fee within 30 days of resale of the unit. In no event will the fee be refunded later than 365 days, as required by New York State Public Health Law.

Reservation deposits, included with refundable fees, are signed residence and care agreements that are fully refundable until such time that the prospective resident takes occupancy of the unit. In the event of cancellation, Glen Arden is required to refund the deposit within 30 days of resale of the unit, or within one year of cancellation.

Obligation to provide future services - Glen Arden annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue. If the present value of the net cost of future services and the uses of the facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of the facilities) with a corresponding charge to income. The discount rate used to calculate the present value of the net cost of future services was 5.5 percent for the year ended December 31, 2017. The present value of the net cost of future services did not exceed deferred revenue. Accordingly, no obligation was recorded at December 31, 2017.

Debt issuance costs - Debt issuance costs are reflected as a reduction of the carrying amount of the related debt and are amortized on the straight-line basis over the term of the associated debt. Amortization of debt issuance costs is included in interest expense.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Resident service revenue - Resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. Laws and regulations governing health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicare and Medicaid programs.

For the year ended December 31, 2017, resident service revenue of \$9,060,737 includes third-party payors of \$2,614,231 and self-pay of \$6,446,506.

Advertising costs - Advertising costs are expensed as incurred. For the year ended December 31, 2017, advertising costs approximated \$23,000.

Operating measure - Glen Arden's operating measure includes all income and expenses except unrealized loss on investments, equity transfer and the adjustment to minimum pension liability.

Functional expenses - The costs of providing Glen Arden's services have been summarized on a functional basis. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

Uncertainty in income taxes - Glen Arden has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through April 30, 2018, which is the date the financial statements were issued.

NOTE 3 - ENTRANCE FEES RECEIVABLE

Entrance fees receivable represents the portion of entrance fees that residents may defer paying until such time as their personal residences have been sold. Interest is accrued at a rate of 1% - 1.5% on the balance of the entrance fee owed and is assessed every six months until paid. Interest income was \$15,562. Entrance fees receivable at December 31, 2017 were \$421,470.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 4 - ASSETS LIMITED AS TO USE

Assets limited as to use consist of the following:

U.S. Government obligations are included in Level 1 on the fair value hierarchy.

	Bond Indenture and Third- Party Agreements	Operating Reserve Funds	Total
Cash and cash equivalents	\$ 1,498,354	\$ 4,782	\$ 1,503,136
U.S. Government obligations	<u>2,350,498</u>	<u>42,043</u>	<u>2,392,541</u>
	<u>\$ 3,848,852</u>	<u>\$ 46,825</u>	<u>3,895,677</u>
Less current portion for:			
Operating reserve			46,825
Bonds payable			1,005,000
Interest payable on bonds			<u>477,141</u>
Assets limited as to use, current portion			<u>1,528,966</u>
Assets limited as to use, noncurrent portion			<u>\$ 2,366,711</u>

The bond indenture and third-party agreement funds consist of the following at December 31:

Operating reserve funds (a)	\$ 46,825
Capital reserve funds (b)	370,880
Debt service reserve funds (c)	1,990,389
Bond funds (d)	<u>1,487,583</u>
	<u>\$ 3,895,677</u>

- (a) The operating reserve funds are designated for future operating cash flow purposes.
- (b) The capital reserve funds are designated for capital improvements.
- (c) The debt service reserve funds are designated for a one-year reserve of debt service payments.
- (d) The bond funds are designated for bond principal and interest when they become due.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 5 - FIXED ASSETS

Land	\$	250,000
Land improvements		429,561
Building		41,794,203
Fixed equipment		1,671,485
Movable equipment		<u>1,888,410</u>
		46,033,659
Accumulated depreciation		<u>(29,002,008)</u>
	\$	<u>17,031,651</u>

NOTE 6 - LINE OF CREDIT

In September 2015, Glen Arden obtained a \$1,000,000 line of credit agreement (the "Line") with a bank. The Line was renewed in January 2017. The Line provides for monthly payments of interest on advances at the Wall Street Journal Prime Rate plus .75% with a minimum rate of 4.25%. The line was set to mature on January 1, 2018 but was extended for two 90-day extensions with a new maturity date of July 1, 2018 and new minimum rate of 3.50%. The interest rate was 5.25% at December 31, 2017. The balance outstanding at December 31, 2017 was \$820,000. Interest expense was \$39,536.

NOTE 7 - CAPITAL LEASES PAYABLE

Glen Arden entered into two capital lease agreements to finance the purchase of a server and other computer equipment. The terms of the leases range between 35 to 60 months maturing in 2022. The cost of the server and other computer equipment of \$82,927 and accumulated amortization of \$14,098 are included in fixed assets on the balance sheet at December 31, 2017. Monthly payments of principal and interest range from \$191 to \$1,822 with interest rates of 12% to 19%. Interest expense was \$3,531 for the year ended December 31, 2017.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 7 - CAPITAL LEASES PAYABLE (continued)

Minimum future lease payments on capital lease obligations at December 31, 2017 are as follows:

2018	\$	29,000
2019		25,164
2020		4,833
2021		4,833
2022		<u>2,014</u>
Total		65,844
Less amount representing interest		<u>(9,568)</u>
Balance	\$	<u>56,276</u>

NOTE 8 - BONDS PAYABLE

Bonds payable consist of Orange County Industrial Development Agencies Series 1998 Revenue Bonds in the amount of \$28,020,000. The bonds consist of serial obligations and term bonds with various interest rates ranging from 4.7% to 5.7% with maturity dates through January 2028. The bond agreements require Glen Arden to maintain a debt service reserve fund, an operating reserve fund and a capital reserve fund. In addition, Glen Arden is required to maintain financial covenants, including a debt service coverage ratio, a reserve ratio and minimum occupancy levels. Glen Arden did not meet the debt service coverage ratio, reserve ratio or occupancy level covenants under the bond agreement as of December 31, 2017. However, these are not considered events of default under the bond agreement, since Glen Arden made the required principal and interest payments. The bonds are collateralized by substantially all of Glen Arden's fixed assets, gross receipts derived from operations and funds classified as assets limited as to use.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 8 - BONDS PAYABLE (continued)

Glen Arden makes monthly deposits to a trustee who administers the bond payments, in amounts sufficient to make principal and interest payments as they come due. Annual aggregate principal payments applicable to the bonds payable at December 31, 2017 are as follows:

2018	\$ 1,005,000
2019	1,060,000
2020	1,120,000
2021	1,190,000
2022	1,255,000
Thereafter	<u>11,119,716</u>
	16,749,716
Less unamortized debt issuance costs	<u>(211,502)</u>
	<u>\$ 16,538,214</u>

The interest expense for the year ended December 31, 2017 was \$996,725, including amortization of debt issuance costs of \$33,348.

NOTE 9 - OPERATING LEASES

Glen Arden leases 35 acres of land on which the facility resides from Orange Regional Medical Center (an unrelated entity). The term of the lease is for a 99-year period expiring in June 2095. The total rent expense under the land lease and various other operating leases for the year ended December 31, 2017 approximated \$180,000. Under the land lease agreement, annual lease adjustments for periods subsequent to 2006 are mutually agreed upon but cannot exceed 105% of the preceding year's rent.

The minimum annual lease payments for the land and various other operating leases for the years ended December 31, are payable as follows:

2018	\$ 171,909
2019	170,000
2020	170,000
2021	170,000
2022	170,000
Thereafter	<u>12,580,000</u>
	<u>\$ 13,431,909</u>

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 9 - OPERATING LEASES (continued)

The table above assumes that future land lease payments are equivalent to the lease payments made for the year ended December 31, 2017. The amount of rent due annually under lease agreements assuming annual land lease payments increase by the maximum amount allowed in the lease of 5% each year through 2095 are as follows:

2018	\$	190,777
2019		198,311
2020		208,227
2021		218,638
2022		229,570
Thereafter		<u>160,843,721</u>
	\$	<u>161,889,244</u>

NOTE 10 - RELATED-PARTY TRANSACTIONS

Glen Arden pays Elant a monthly fee for services which include human resources, information systems, marketing and development and finance and administration. Total fees charged by Elant for the year ended December 31, 2017 were \$446,790. Periodically, Glen Arden may provide services to or purchase services (from) other affiliated organizations as well as provide advances to other affiliates. Amounts due to (from) affiliates are due in the ordinary course of business.

The Foundation made a transfer of \$1,000,000 to Glen Arden.

As of December 31, 2017, Glen Arden, Inc. owes \$190,523 to Elant.

In 2017, Glen Arden conducted business with several members of the Board of Directors. These transactions were in the normal course of business and the board members did not receive any direct compensation for these services. The amount was \$6,512.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLAN

Glen Arden's employees participate in the Elant Inc. Employee Retirement Plan (the "Plan") which is a noncontributory defined benefit plan. The Plan's benefits are based on a percentage of compensation for the years of service provided by employees. Elant's funding policy is to make contributions to the Plan equivalent to the amount necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act ("ERISA"). The assets of the Plan are available to satisfy all obligations of the Plan and all affiliated organizations are jointly responsible for the Plan. The Plan allocates Plan assets and liabilities to the separate Elant affiliated organizations. Pension expense and contributions by Glen Arden are based upon amounts specified by Elant, which approximate the percentage of Glen Arden employees using the Plan. Elant uses a December 31 measurement date for the Plan.

In 2009, the Plan was amended so that no employee hired on or after December 1, 2009 by Elant, Inc. or any affiliated employer be permitted to become an active participant and accrue benefits under the Plan. During 2011, the Plan was amended such that current participants ceased to earn benefits under the Plan.

Information as of and for the years ended December 31, regarding Elant's pension plan and the portion attributed to Glen Arden follows:

	<u>Glen Arden</u>	<u>Plan</u>
Projected benefit obligation	\$ (2,243,998)	\$ (17,389,732)
Fair value of plan assets	<u>1,701,503</u>	<u>13,185,698</u>
Funded status	<u>\$ (542,495)</u>	<u>\$ (4,204,034)</u>
Net periodic pension cost	60,553	462,901
Benefits paid during the year	65,766	509,648
Employer contributions	18,483	309,629
Adjustment to pension liability funded status	136,427	576,582

Employer contributions expected to be paid during 2018 approximate \$489,584 of which the portion attributed to Glen Arden is \$63,177.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLAN (continued)

The following are weighted-average assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended December 31:

	<u>Benefit Obligation</u>	<u>Periodic Benefit Cost</u>
Discount rate	4.03%	4.50%
Expected long-term return on plan assets		5.25%

The following table shows estimated future benefit payments expected to be paid from the Plan for each of the next five years in the period ended December 31 and for the subsequent five years in the aggregate:

	<u>Glen Arden</u>	<u>Plan</u>
2018	\$ 90,800	\$ 703,653
2019	96,782	750,007
2020	98,811	765,730
2021	100,733	780,623
2022	104,707	811,422
2023-2027	577,938	4,463,197

The expected long-term return on Plan assets assumption is based on a periodic review and modeling of the Plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical rates of returns, net of inflation, for the asset classes covered by the investment policy, and (b) projections of inflation over the long-term period during which benefits are payable to Plan participants.

Plan Assets

Elant's overall investment strategy is to achieve a mix of approximately 60% to 70% in equities and 30% to 40% in fixed income securities. The target allocations for Plan assets are 65% equity securities and 35% corporate bonds and Government and Agency obligations.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 11 - DEFINED BENEFIT PENSION PLAN (continued)*Plan Assets (continued)*

The fair values of the Plan assets at December 31, 2017 by asset category categorized according to the fair value hierarchy for those investments measured at fair value are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments reported on the fair value hierarchy			
Equities			
Basic materials	\$ 424,243		\$ 424,243
Communication services	374,264		374,264
Consumer cyclical	859,232		859,232
Consumer defensive	760,244		760,244
Energy	448,296		448,296
Financial services	1,413,298		1,413,298
Healthcare	1,130,432		1,130,432
Industrials	922,291		922,291
Technology	1,619,450		1,619,450
Utilities	84,110		84,110
Mutual funds			
Domestic growth and income	319,425		319,425
International	446,392		446,392
Corporate bonds		\$ 3,741,743	3,741,743
Government securities			
State and local governments	<u> </u>	<u>256,520</u>	<u>256,520</u>
Total investments reported on the fair value hierarchy	<u>\$ 8,801,677</u>	<u>\$ 3,998,263</u>	12,799,940
Certificate of deposits			100,536
Cash			<u>285,222</u>
Total investments			<u>\$ 13,185,698</u>

NOTE 12 - MULTIEMPLOYER PENSION PLAN

Glen Arden contributes to the Local 1199 SEIU Health Care Employees multiemployer defined benefit pension plan (the "1199 Plan") under the terms of a collective bargaining agreement that covers its union-represented employees. The risks of participating in the multiemployer plan are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 12 - MULTIEMPLOYER PENSION PLAN (continued)

- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If an employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Glen Arden's participation in this type of plan for the year ended December 31, 2017 is outlined in the table below. The "EIN Number" column provides the Employer Identification Number ("EIN"). The most recent Pension Protection Act ("PPA") zone status available in 2017 is for the 1199 Plan's year-end at December 31, 2017. The zone status is based on information that Glen Arden received from the 1199 Plan and is certified by the actuaries of the 1199 Plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreement to which the 1199 Plan is subject.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status	FIP/RP Status Pending/ Implemented	Contributions	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
1199 SEIU Health Care Employees Pension Fund	EIN 13-3604862 Plan No. 001	Green	N/A	\$ 189,124	No	September 30, 2018

As of January 1, 2018, the union plan was certified by its actuary to be in "green zone" status - not Endangered, Seriously Endangered or Critical.

Form 5500 is not yet available for the plan year ended December 31, 2017.

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GLEN ARDEN, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 13 - COMMITMENTS AND CONTINGENCIES**

Glen Arden's estimate of professional liabilities and similar liabilities are based upon historical claims experience for Glen Arden and estimates for the payment patterns of future claims. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

Healthcare Revenue and Regulatory Compliance

The healthcare industry is subject to numerous laws and regulations imposed by federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. In addition, certain cost reports, which serve as the basis for final settlement with the Medicare program remain open for audit and settlement, as are New York State Medicaid cost reports for prior years.

Federal government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Furthermore, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Accordingly, there is at least a reasonable possibility that recorded estimates for healthcare revenue will change in the near term and the change could be material to Glen Arden's financial condition, results of operations and cash flows.

In 2016, Elant entered into a five-year corporate integrity agreement ("CIA") with the New York State Office of the Medicaid Inspector General. The CIA acknowledges the existence of Elant's current compliance program and requires that the Elant affiliates continue to maintain a corporate compliance program designed to promote compliance with the statutes, regulations and written directives of Medicare, Medicaid and all Federal healthcare programs. The CIA requires that the Elant affiliates maintain a compliance officer, a compliance committee of the board of directors and a code of conduct, among other requirements. In addition, the CIA requires various training and monitoring procedures and is subject to certain reporting and certification requirements.

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GLEN ARDEN, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)*Universal Settlement*

In February 2016, Glen Arden and a majority of other nursing home providers signed an agreement (the "Universal Settlement") with New York State (the "State") that surrendered most of Glen Arden's rights to pursue pending Medicaid rate lawsuits and rate appeals prior to 2012 and certain future rights to challenge Medicaid reimbursement against the State. In March 2016, the State obtained approval for the federal financial participation in the Universal Settlement from the Centers for Medicare and Medicaid Services, subject to compliance with the upper payment limit requirements. The State has agreed to pay the nursing home providers \$850 million over five years. In accordance with the Universal Settlement, payments for years three, four and five are contingent upon the Governor's appropriation of such funds in the Executive Budget. There was nothing received during 2017.

As a result of the Universal Settlement, the State agreed to pay Glen Arden a total of \$970,000 over a five-year period. A receivable of \$131,969 is included in due from third-party payors at December 31, 2017.

NOTE 14 - FUNCTIONAL EXPENSES

Glen Arden provides various services to residents of apartment units under their residency agreement, including services provided by the HCC that are also provided to the general community. Expenses related to providing these services relate to the following functional categories for the years ended December 31:

Program services	
Residents of apartment units	\$ 4,686,727
HCC	4,334,546
Enriched housing	<u>1,097,647</u>
Total program services	10,118,920
General and administrative	<u>1,806,926</u>
	<u>\$ 11,925,846</u>

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GLEN ARDEN, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 15 - FINANCIAL CONDITION**

Glen Arden has sustained recurring operating losses, has a working capital deficiency of approximately \$3.0 million and an unrestricted net asset deficit of approximately \$19.1 million at December 31, 2017.

The above matters raise substantial doubt about Glen Arden's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 16 - MANAGEMENT'S PLANS - UNAUDITED

Glen Arden has committed itself to, and is executing, the following corrective action steps necessary to restore Glen Arden to a positive net worth position:

Glen Arden's parent company Elant, Inc. owned and operated certain skilled nursing facilities through a portion of 2017. In December 2014, the Board of Elant, Inc. entered into agreements to sell the Fishkill, Goshen and Meadow Hill nursing home operations and certain assets of Elant, Inc. to an unrelated party for \$10 million along with the assumption of the liabilities of the operations, including the Elant Retirement Plan pension obligation, by the purchaser. The purchaser had an opportunity to receive credits of up to \$4 million from the purchase price at closing. In January 2015, the buyer paid Elant \$5 million of the proceeds as a deposit on the acquisition. Glen Arden had access to, and used, approximately \$1.0 million of these proceeds which were held in investments at the Foundation. The closing on the sale of the Fishkill operations occurred April 27, 2017; the closing on the sale of the Goshen and Meadow Hill operations occurred September 1, 2017. The full amount of the allowable purchase price adjustment of \$4 million was credited to the purchasers and a note receivable was executed by the purchaser for the remaining \$1 million.

In May 2016, a previously affiliated company, Elant Choice, Inc. obtained an Order from the New York State Supreme Court, Orange County, which provides that the Trustee of the Universal Settlement discussed in Note 13, shall hold the proceeds of the next installment pending further Order of the Court. In November 2017, Management of Elant entered into an Amended and Modified Stipulation and Order which released the Universal Settlement funds for the purpose of satisfying payment obligations under the settlement agreement.

Lifestyles, Inc. is a for-profit subsidiary of Elant, Inc. and owns 10.4 acres of vacant property adjacent to Glen Arden. In April 2018, Elant, Inc. entered into a listing agreement to sell the Lifestyles, Inc. property and pledged the sale proceeds to further support Glen Arden operations. The property is listed for \$15 million.

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GLEN ARDEN, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 16 - MANAGEMENT'S PLANS - UNAUDITED (continued)**

Glen Arden has implemented several initiatives to improve its results from operations, including:

- increased focus on sales and marketing
- working with a new marketing team
- implementation of new Glen Arden website
- utilizing approved marketing incentives for potential buyers in an effort to increase occupancy
- improving its supply chain by working closely with its vendors to reduce costs and create efficiencies
- working to significantly reduce the cost of support services and employee benefits

Management believes these initiatives will be sufficient to allow Glen Arden to reach financial stability.