THE BOSTON HOME, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

THE BOSTON HOME, INC.
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Boston Home, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of The Boston Home, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations and changes in net assets, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
The Boston Home, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Boston Home, Inc., as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, The Boston Home, Inc. adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
May 24, 2017

THE BOSTON HOME, INC.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$ 2,932,661	$ 1,598,899
Assets Limited as to Use - Resident Funds Held in Trust	53,737	120,254
Accounts Receivable, Net	876,120	808,811
Prepaid Expenses and Other Current Assets	261,382	230,439
Total Current Assets	4,123,900	2,758,403
PROPERTY, PLANT, AND EQUIPMENT, NET	11,225,777	11,423,111
OTHER ASSETS		
Investments	51,062,385	52,290,081
Beneficial Interest in Perpetual Trusts	543,426	535,150
Development Costs	768,809	203,728
Total Other Assets	52,374,620	53,028,959
Total Assets	$ 67,724,297	$ 67,210,473
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 284,530	$ 182,011
Accrued Expenses and Other Current Liabilities	1,933,599	1,472,687
Accounts Held in Trust for Residents	53,417	119,460
Note Payable	-	17,419
Current Maturities of Bonds Payable	550,000	530,000
Total Current Liabilities	2,821,546	2,321,577
OTHER LIABILITIES		
Liability Under Swap Agreement	1,545,621	1,884,250
Bonds Payable, Net	10,783,571	11,317,391
Total Other Liabilities	12,329,192	13,201,641
Total Liabilities	15,150,738	15,523,218
NET ASSETS		
Unrestricted	46,141,707	44,274,596
Temporarily Restricted	5,282,401	6,277,484
Permanently Restricted	1,149,451	1,135,175
Total Net Assets	52,573,559	51,687,255
Total Liabilities and Net Assets	$ 67,724,297	$ 67,210,473

See accompanying Notes to Financial Statements.

THE BOSTON HOME, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Net Patient Service Revenue	$ 10,807,014	$ -	$ -	$ 10,807,014	$ 10,645,929
Contributions, Gifts, and Bequests	472,343	85,636	-	557,979	541,588
Utilization of Board Approved Spending Policy	2,900,000	-	-	2,900,000	2,100,000
Other Income	9,607	-	-	9,607	6,938
Net Assets Released from Restrictions	123,098	(123,098)	-	-	-
Total Revenue and Support	14,312,062	(37,462)	-	14,274,600	13,294,455
EXPENSES					
Nursing	6,409,508	-	-	6,409,508	6,166,360
General and Administrative	1,786,405	-	-	1,786,405	1,430,376
Plant Operations	1,004,843	-	-	1,004,843	924,294
Restorative and Recreational Therapy	732,588	-	-	732,588	729,043
Dietary	886,213	-	-	886,213	856,701
Housekeeping and Laundry	582,955	-	-	582,955	575,486
Medical Services and Supplies	481,040	-	-	481,040	493,661
Mission Related and Social Services	370,778	-	-	370,778	379,451
Fundraising	154,606	-	-	154,606	161,179
Depreciation and Amortization	875,345	-	-	875,345	831,038
Bad Debt Expense (Recovery)	(5,876)	-	-	(5,876)	38,422
Interest	605,728	-	-	605,728	632,528
Total Expenses	13,884,133	-	-	13,884,133	13,218,539
OPERATING GAIN (LOSS)	427,929	(37,462)	-	390,467	75,916
NONOPERATING GAIN (LOSS)					
Net Realized Gains on Investments	2,240,955	388,798	5,834	2,635,587	2,071,702
Investment Income	254,462	35,777	536	290,775	612,043
Investment Fees	(108,074)	(16,540)	(248)	(124,862)	(114,220)
Gain on Swap Agreement	338,629	-	-	338,629	153,587
Board Approved Spending Policy	(1,592,492)	(1,307,508)	-	(2,900,000)	(2,100,000)
Total Nonoperating Gain (Loss)	1,133,480	(899,473)	6,122	240,129	623,112
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES AND NONOPERATING GAIN (LOSS)	1,561,409	(936,935)	6,122	630,596	699,028
NET ASSETS RELEASED FROM RESTRICTIONS FOR PROPERTY, PLANT, AND EQUIPMENT	50,000	(50,000)	-	-	-
NET UNREALIZED GAINS (LOSSES) ON INVESTMENTS	255,702	(8,148)	8,154	255,708	(4,090,488)
CHANGE IN NET ASSETS	1,867,111	(995,083)	14,276	886,304	(3,391,460)
Net Assets - Beginning of Year	44,274,596	6,277,484	1,135,175	51,687,255	55,078,715
NET ASSETS - END OF YEAR	$ 46,141,707	$ 5,282,401	$ 1,149,451	$ 52,573,559	$ 51,687,255

See accompanying Notes to Financial Statements.

THE BOSTON HOME, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Net Resident Service Revenue	$ 10,645,929	$ -	$ -	$ 10,645,929
Contributions, Gifts, and Bequests	424,698	116,890	-	541,588
Utilization of Board Approved Spending Policy	2,100,000	-	-	2,100,000
Other Income	6,938	-	-	6,938
Net Assets Released from Restrictions	42,428	(42,428)	-	-
Total Revenue and Support	13,219,993	74,462	-	13,294,455
EXPENSES				
Nursing	6,166,360	-	-	6,166,360
General and Administrative	1,430,376	-	-	1,430,376
Plant Operations	924,294	-	-	924,294
Restorative and Recreational Therapy	729,043	-	-	729,043
Dietary	856,701	-	-	856,701
Housekeeping and Laundry	575,486	-	-	575,486
Medical Services and Supplies	493,661	-	-	493,661
Mission Related and Social Services	379,451	-	-	379,451
Fundraising	161,179	-	-	161,179
Depreciation and Amortization	831,038	-	-	831,038
Bad Debt Expense	38,422	-	-	38,422
Interest	632,528	-	-	632,528
Total Expenses	13,218,539	-	-	13,218,539
OPERATING GAIN	1,454	74,462	-	75,916
NONOPERATING GAIN (LOSS)				
Net Realized Gains on Investments	1,791,369	276,413	3,920	2,071,702
Investment Income	533,403	77,540	1,100	612,043
Investment Fees	(98,766)	(15,238)	(216)	(114,220)
Gain on Swap Agreement	153,587	-	-	153,587
Board Approved Spending Policy	(1,790,499)	(309,501)	-	(2,100,000)
Total Nonoperating Gain (Loss)	589,094	29,214	4,804	623,112
EXCESS OF REVENUE OVER EXPENSES AND NONOPERATING GAIN (LOSS)	590,548	103,676	4,804	699,028
NET ASSETS RELEASED FROM RESTRICTIONS FOR PROPERTY, PLANT, AND EQUIPMENT	55,775	(55,775)	-	-
NET UNREALIZED LOSSES ON INVESTMENTS	(3,495,044)	(540,663)	(54,781)	(4,090,488)
CHANGE IN NET ASSETS	(2,848,721)	(492,762)	(49,977)	(3,391,460)
Net Assets - Beginning of Year	47,123,317	6,770,246	1,185,152	55,078,715
NET ASSETS - END OF YEAR	$ 44,274,596	$ 6,277,484	$ 1,135,175	$ 51,687,255

See accompanying Notes to Financial Statements.

THE BOSTON HOME, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 886,304	$ (3,391,460)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
(Gain) on Swap Agreement	(338,629)	(153,587)
Depreciation and Amortization	875,345	831,038
Amortization Deferred Financing Costs	16,183	16,183
Net Realized Gains from Investment	(2,635,587)	(2,071,702)
Net Unrealized (Gains) Losses on Investments	(255,708)	4,090,488
Provision for Bad Debts	(5,876)	38,422
(Increase) Decrease in:		
Accounts Receivable	(61,433)	(34,190)
Prepaid Expenses and Other Current Assets	35,574	52,111
Increase (Decrease) in:		
Accounts Payable	2,484	54,770
Accrued Expenses and Other Current Liabilities	394,867	59,598
Net Cash Used by Operating Activities	(1,086,476)	(508,329)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant, and Equipment	(639,023)	(480,687)
Purchase of Investments	(4,585,000)	(3,485,000)
Purchase of Development Costs	(504,034)	(148,809)
Proceeds from Sale or Maturity of Investments	8,695,714	4,317,812
Net Cash Provided by Investing Activities	2,967,657	203,316
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Note Payable	(17,419)	(40,399)
Principal Payments on Bonds Payable	(530,000)	(515,000)
Proceeds from Note Payable	-	52,258
Net Cash Used by Financing Activities	(547,419)	(503,141)
NET INCREASE (DECREASE) IN CASH	1,333,762	(808,154)
Cash - Beginning of Year	1,598,899	2,407,053
CASH - END OF YEAR	$ 2,932,661	$ 1,598,899

See accompanying Notes to Financial Statements.

THE BOSTON HOME, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016		2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid for Interest	$	558,940	$	654,345
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES				
Change in Property, Plant, and Equipment	$	(678,011)	$	(480,687)
Less: Accounts Payable - Property, Plant, and Equipment		38,988		-
Cash Paid for Property, Plant, and Equipment	$	(639,023)	$	(480,687)
Change in Development Costs	$	(565,081)	$	(148,809)
Less: Accounts Payable - Construction		61,047		-
Cash Paid for Development Costs	$	(504,034)	$	(148,809)

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Founded in 1881, The Boston Home, Inc. (TBH) is a nonprofit, specialized residence and center for care for adults with advanced multiple sclerosis and other progressive neurological diseases. TBH owns and operates a 96-bed skilled nursing facility located in Boston, Massachusetts.

A summary of TBH's significant accounting policies follows:

Classification and Reporting of Net Assets

The financial statements of TBH have been prepared on the accrual basis of accounting.

TBH's financial statement presentation follows U.S. generally accepted accounting standards which require that TBH report information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the net asset classes follows:

Unrestricted Net Assets – represent the portion of net assets of TBH that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – represent contributions and other inflows of assets whose use by TBH is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of TBH pursuant to those stipulations.

Temporarily restricted net assets also include, under Massachusetts law, cumulative appreciation and reinvested gains on permanently restricted endowment funds that are subject to prudent appropriation by the board of trustees of TBH (the board).

Permanently Restricted Net Assets – represent contributions and other inflows of assets whose use by TBH is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of TBH.

Cash

TBH maintains cash in bank deposit accounts that at times may exceed federally insured limits. TBH monitors its exposure associated with cash and has not experienced losses in such accounts.

Cash held by investment managers are considered part of investments given the expectation of near term reinvestment.

Assets Limited as to Use

Assets limited as to use that are required to meet current liabilities are reported as current assets and represent assets held in trust for residents.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are recorded net of an allowance for uncollectible accounts. The allowance is estimated from historical performance and projections of trends. Credit is extended to patients and collateral is not required. TBH determines delinquent accounts based on individual facts and circumstances. Historically, TBH has not charged interest on accounts that are deemed to be delinquent.

User Fee Assessment

Effective October 1, 2016, Massachusetts' Executive Office of Health and Human Services reclassified TBH's Nursing Facility User Fee Group designation from Group 4 to Group 1. Prior to this reclassification, TBH had been exempted from paying user fees or from receiving a user fee add-on to its Medicaid rate. The financial effect of this change was a net cost to TBH of approximately $38,000 in 2016. Included in accrued liabilities at December 31, 2016 is user fees payable in the amount of $180,426.

Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost, or if received by donation, at estimated fair market value at the time such assets were received. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Buildings	24 to 50 Years
Building Improvements	3 to 40 Years
Equipment and Software	3 to 20 Years
Land Improvements	3 to 20 Years
Motor Vehicles	5 Years

Expenditures for major renewals and improvements are capitalized while expenditures for maintenance and repairs are expensed as incurred.

Investments and Investment Income

Investments are carried at fair value. Fair value is determined as per the fair value policies described later in this section. Investment income (interest and dividends) and realized gains and losses are included within excess (deficiency) of revenues over expenses and nonoperating gain (loss). Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenue over expenses and nonoperating gain (loss), and reported as a separate change in net assets. Notwithstanding the foregoing, declines in fair value that are judged to be other-than-temporary are reported as realized losses.

Realized and unrealized gains and losses on investments relating to permanently restricted investments, along with donor-imposed restricted income, are added to or deducted from temporarily restricted net assets or permanently restricted net assets, depending on the type of restriction.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interpretation of Relevant Law and Spending Policy

The board of trustees of TBH (the board) has interpreted Massachusetts general law as requiring investment returns on permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the board and expended. Massachusetts general law allows the board to appropriate as much of net appreciation of permanently restricted net assets as is prudent considering TBH's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

The spending rate of TBH's endowment fund is 70% of prior year spending, adjusted for inflation, plus 30% of the long-term annual rate of spending applied to the then current market value of the fund subject to the limitation that in any given year, the amount of such spending is not to exceed 5% of the rolling five-year average of the market value of the fund at the end of the prior year. The board may also, at their discretion, authorize spending greater than the spending methodology allows in order to meet operational or capital needs of the organization or as other special circumstances dictate. TBH's investment policy was revised in February 2015 to allow retroactive application to January 1, 2014 of a new policy to track cumulative over and under-spending for informational purposes.

For the years ended December 31, 2016 and 2015, the board approved the transfer of $2,900,000, and $2,100,000, respectively, from the endowment fund to support operations and to construct Harmon Apartments (Harmon), a 36-unit, accessible and supportive, independent, apartment. A portion of net realized gains and net appreciation is allocated to operations in accordance with TBH's investment policies and procedures.

The investment objective of TBH is to provide a stable supply of funds for operations and capital improvements consistent with the preservation of purchasing power for the endowment. TBH has adopted the following asset allocation policy:

	Allocation Policy Targets
Diversified Growth	70.00%
Inflation Sensitive	15.00%
Deflation Hedge	15.00%

The board engages an investment consulting firm to recommend asset allocation policy and rebalancing moves; provide comparative data; analyze spending policy; and monitor managers for the endowment fund.

Other-Than-Temporary Impairment of Investments

TBH reviews its investments to identify those for which fair value is below cost. TBH then makes a determination as to whether the investment should be considered other-than-temporary impaired based on guidelines established in accordance with U.S. generally accepted accounting principles. In 2016, TBH recorded other-than-temporary impairments of $300,000 on certain investments (see Note 6). No impairments were recorded in 2015.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs

Debt issuance costs are amortized over the period the obligation is outstanding using the straight-line method, which is equivalent to the effective interest method, and is reflected as a component of interest expense.

Obligation Under Interest Rate Swap Agreement

TBH reports the value of its interest rate swap at fair value. Fair value is determined as per the fair value policies as described later in this section.

Statement of Operations

The statement of operations includes operating income (loss), and nonoperating gain (loss) including investment fees, the nonoperating portion of investment income and net realized gains and losses on investments. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses and nonoperating gain (loss) include unrealized gains (losses) on investments and net assets released from restrictions for property, plant, and equipment.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts. Third-party revenues are recorded as indicated in Note 2.

Contributions, Gifts, and Bequests

Contributions, including unconditional promises to give, are recognized as revenue in the period received or promised. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved.

Contributions received with donor-imposed restrictions are reported as revenues of the temporarily restricted net asset class when they are received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported at fair value as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class, and the restrictions are considered to be released at the time of acquisition of such long-lived assets.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, Gifts, and Bequests (Continued)

Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the services received only if the services create or enhance a non-financial asset or would typically need to be purchased by TBH, if they had not been provided by individuals with those skills. Contributions of goods to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods are received.

Advertising

TBH expenses advertising costs as incurred. No amounts were expended on advertising in 2016 or 2015.

Tax Status and Uncertain Tax Positions

TBH is qualified under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from federal and state income taxes on related income. Given the limited taxable activities of TBH, management concluded that disclosures relative to tax provisions are not necessary.

TBH accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense.

TBH has identified its tax status as a tax exempt entity as its only significant tax position and has determined that such tax position does not result in an uncertainty requiring recognition. TBH is not currently under examination by any taxing jurisdiction. TBH’s federal and state income tax returns are generally open for examination for the three years following the date filed.

Fair Value Measurements

TBH reports required types of financial instruments in accordance with the fair value accounting standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, TBH reports certain investments using the net asset value per share as determined by investment managers under the so called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require TBH to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemptions of 90 days or less.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest, and credit risk. Instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of TBH's financial instruments, see Note 6 – Fair Value of Financial Instruments.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Significant management estimates included in the financial statements relate to the allowance for doubtful accounts, estimated useful lives of depreciable assets, fair value of certain investments, fair value of interest rate swap contract, and the validity and completeness of satisfaction of donor restrictions.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insurance

TBH participates as a member of a partially self-insured plan for employee healthcare benefits under a retrospectively-rated policy whose ultimate annual premium is based primarily on the collective experience of participating members. These costs are accounted for on an accrual basis. Due to the nature of the estimated health insurance expense, it is reasonably possible that a change in the estimate will occur in the short term.

New Accounting Pronouncements

TBH has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effects of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by $201,429 and $217,609 as of December 31, 2016 and 2015, respectively. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied.

Subsequent Events

In preparing these financial statements, TBH has evaluated events and transactions for potential recognition or disclosure through May 24, 2017, the date the financial statements were available for issuance.

NOTE 2 PATIENT SERVICE REVENUES FROM THIRD-PARTY PAYERS

Summary of the Payment Arrangements with Third-Party Payers

Medicaid – Standard Payments to Nursing Facilities

TBH receives reimbursement from the Commonwealth of Massachusetts under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided patients pursuant to regulations promulgated by the Center for Health Information and Analysis. Under the regulations, current year rates are a combination of actual base year costs blended with industry standards adjusted for inflation. The base year costs are subject to audit and may result in a retroactive rate adjustment for the current year.

NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTIES (CONTINUED)

Summary of the Payment Arrangements with Third-Party Payers (Continued)

Medicare – Prospective Payment System

TBH receives reimbursement for the care of certain patients under the federally sponsored Medicare Prospective Payment System (PPS), through an insurance intermediary. The federal rates utilize facility case-mix assessment data, completed by the Skilled Nursing Facility (SNF), to assign patients into Resource Utilization Groups (RUGS). SNFs must complete the assessments according to a specific time schedule designed for Medicare payment. SNFs that do not comply with this requirement will be paid at a default payment (the lowest of the federal rates) for the days of a patient's care for which the SNF is not in compliance.

The PPS program mandates the implementation of fee schedules for SNF therapy services to residents not in a covered Part A stay and to nonresidents who receive outpatient rehabilitation services from the SNF. The Centers for Medicare and Medicaid Services imposed a limit for both physical therapy (including speech therapy) and occupational therapy services, except for certain medical conditions.

NOTE 3 CONCENTRATION OF CREDIT RISK

Accounts Receivable

TBH grants credit without collateral to its patients, most of who are insured under third-party payer agreements. The mix of receivables from patients and third-party payers as of December 31 is as follows:

	2016	2015
Medicaid	$ 766,931	$ 732,325
Medicare	68,158	66,109
Private and Other Third-Party Payers	90,376	71,080
Less: Allowance for Doubtful Accounts	(49,345)	(60,703)
Accounts Receivable, Net	$ 876,120	$ 808,811

Patient Service Revenue

Approximately 87% of patient service revenue is received from Medicaid funding sources as third-party reimbursement of costs for each of the years ended December 31, 2016 and 2015.

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at December 31:

2016	Cost	Accumulated Depreciation	Depreciated Cost
Land	$ 50,200	$ -	$ 50,200
Land Improvements	717,795	394,707	323,088
Building	13,358,903	6,979,078	6,379,825
Building Improvements	8,156,068	4,546,723	3,609,345
Equipment and Software	2,494,263	1,630,944	863,319
Motor Vehicles	27,135	27,135	-
Property and Equipment, Net	$ 24,804,364	$ 13,578,587	$ 11,225,777

2015	Cost	Accumulated Depreciation	Depreciated Cost
Land	$ 50,200	$ -	$ 50,200
Land Improvements	717,795	359,753	358,042
Building	13,358,903	6,657,960	6,700,943
Building Improvements	7,626,838	4,194,251	3,432,587
Equipment and Software	2,345,476	1,464,137	881,339
Motor Vehicles	27,135	27,135	-
Property and Equipment, Net	$ 24,126,347	$ 12,703,236	$ 11,423,111

Depreciation expense, including amortization of software, amounted to $875,345 and $831,038 for the years ended December 31, 2016 and 2015, respectively.

NOTE 5 INVESTMENTS

Investments stated at fair value at December 31 include:

	2016	2015
U.S. Equity Securities	$ 12,373	$ 6,230
Mutual Funds:		
Money Market	37,756	38,529
Fixed Income	6,465,487	6,249,274
Global Equity and Blended	7,927,539	9,353,584
Global Natural Resources	1,289,308	897,006
Commingled Funds, Limited Partnerships, and Offshore Funds:		
Global Equity	20,693,527	19,512,601
Offshore Long/Short	8,700,253	9,775,666
Distressed Opportunity	644,791	877,871
U.S. Real Estate	2,600,333	3,258,734
Global Natural Resources	2,681,018	2,310,586
Other	10,000	10,000
Total Investments at Fair Value	$ 51,062,385	$ 52,290,081

NOTE 5 INVESTMENTS (CONTINUED)

Included in total investments at December 31, 2016 and 2015 is approximately $463,000 and $405,000, respectively, of investments related to TBH's 457(b) plan (see Note 14 for additional details).

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents TBH's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31:

	2016			
	Level 1	Level 2	Level 3	Total
U.S. Equity Securities	$ 12,371	$ -	$ -	$ 12,371
Mutual Funds:				
Money Market	37,756	-	-	37,756
Fixed Income	6,465,487	-	-	6,465,487
Global Equity and Blended	1,289,310	-	-	1,289,310
Global Natural Resources	7,927,539	-	-	7,927,539
Commingled Funds, Limited Partnerships, and Offshore Funds:				
Global Equity	-	20,693,527		20,693,527
Offshore Long/Short	-	-	8,700,253	8,700,253
Distressed Opportunity	-	-	644,791	644,791
U.S. Real Estate	-	-	2,600,333	2,600,333
Global Natural Resources	-	-	2,681,018	2,681,018
Other	-	-	10,000	10,000
Total Investments at Fair Value	15,732,463	20,693,527	14,636,395	51,062,385
Beneficial Interest in Perpetual Trusts	-	-	543,426	543,426
Total Assets at Fair Value	$ 15,732,463	$ 20,693,527	$ 15,179,821	$ 51,605,811
Interest Rate Swap Contract	$ -	$ (1,545,621)	$ -	$ (1,545,621)
Total Liabilities at Fair Value	$ -	$ (1,545,621)	$ -	$ (1,545,621)

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2015			
	Level 1	Level 2	Level 3	Total
U.S. Equity Securities	$ 6,230	$ -	$ -	$ 6,230
Mutual Funds:				
Money Market	26,563	-	-	26,563
Fixed Income	6,249,275	-	-	6,249,275
Global Equity and Blended	9,365,549	-	-	9,365,549
Global Natural Resources	897,006	-	-	897,006
Commingled Funds, Limited Partnerships, and Offshore Funds:				
Global Equity	-	19,512,601		19,512,601
Offshore Long/Short	-	-	9,775,666	9,775,666
Distressed Opportunity	-	-	877,871	877,871
U.S. Real Estate	-	-	3,258,734	3,258,734
Global Natural Resources	-	-	2,310,586	2,310,586
Other	-	-	10,000	10,000
Total Investments at Fair Value	16,544,623	19,512,601	16,232,857	52,290,081
Beneficial Interest in Perpetual Trusts	-	-	535,150	535,150
Total Assets at Fair Value	$ 16,544,623	$ 19,512,601	$ 16,768,007	$ 52,825,231
Interest Rate Swap Contract	$ -	$ (1,884,250)	$ -	$ (1,884,250)
Total Liabilities at Fair Value	$ -	$ (1,884,250)	$ -	$ (1,884,250)

The changes in investments measured at fair value for which TBH has used Level 3 inputs to determine fair value are as follows:

	Offshore Long/Short	Distressed Opportunity	U.S. Real Estate	Global Natural Resources	Other	Beneficial Interest in Perpetual Trusts	Total
Balance - December 31, 2014	$ 10,189,994	$ 1,111,702	$ 3,277,881	$ 2,209,216	$ 10,000	$ 582,263	$ 17,381,056
Net Realized/Unrealized Gains (Losses)	85,672	(139,875)	138,390	(345,629)	-	(16,500)	(277,942)
Reinvested Distributions	-	60,000	-	-	-	-	60,000
Purchases of Investments	-	-	-	485,000	-	-	485,000
Withdrawals of Investments	(500,000)	(153,956)	(157,537)	(38,001)	-	(30,613)	(880,107)
Balance - December 31, 2015	9,775,666	877,871	3,258,734	2,310,586	10,000	535,150	16,768,007
Net Realized/Unrealized Gains (Losses)	(75,413)	(99,937)	1,852	(10,861)	-	8,276	(176,083)
Purchases of Investments	-	-	-	585,000	-	-	585,000
Withdrawals of Investments	(1,000,000)	(133,143)	(660,253)	(203,707)	-	-	(1,997,103)
Balance - December 31, 2016	$ 8,700,253	$ 644,791	$ 2,600,333	$ 2,681,018	$ 10,000	$ 543,426	$ 15,179,821

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

A summary of the significant categories of Level 2 and 3 investments utilizing the net asset value practical expedient and their attributes are as follows:

2016

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled Funds, Limited Partnerships, and Offshore Funds:				
Global Equity	$ 20,693,527	$ -	Monthly, Semi-Monthly, or Daily	0 - 61 Days
Offshore Long/Short	8,700,253	-	Quarterly	60-65 Days
Distressed Opportunity	644,791	60,000	N/A	N/A
U.S. Real Estate	2,600,333	-	N/A	N/A
Global Natural Resources	2,681,018	1,582,501	N/A	N/A
Other	10,000	-	N/A	N/A
Beneficial Interest in Perpetual Trusts	543,426	-	N/A	N/A
Total	$ 35,873,348	$ 1,642,501		

2015

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled Funds, Limited Partnerships, and Offshore Funds:				
Global Equity	$ 19,512,601	$ -	Monthly, Semi-Monthly, or Daily	0 - 61 Days
Offshore Long/Short	9,775,666	-	Quarterly	60-65 Days
Distressed Opportunity	877,871	60,000	N/A	N/A
U.S. Real Estate	3,258,734	-	N/A	N/A
Global Natural Resources	2,310,586	2,167,500	N/A	N/A
Other	10,000	-	N/A	N/A
Beneficial Interest in Perpetual Trusts	535,150	-	N/A	N/A
Total	$ 36,280,608	$ 2,227,500		

Global Equity Funds – The funds are primarily commingled funds invested in registered equities of domestic and foreign companies in a wide range of industries.

Offshore Long/Short Funds – The funds are invested in fund of hedge funds that offer long and short exposure using a variety of investment strategies.

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Distressed Opportunity Funds – Funds are invested in securities of companies undergoing financial distress, operating difficulties, or restructuring.

U.S. Real Estate Funds – Funds are invested in small to medium sized office, industrial, multifamily, and retail property types purchased at or below replacement cost.

Global Natural Resources Fund – Funds invest primarily in private partnerships in the oil and natural gas, farmland, timberland, and mining sectors.

Other Investments – Consist of an operating joint venture.

Beneficial Interest in Perpetual Trust – The fair value of beneficial interests in perpetual trusts are determined based on TBH's beneficial portion of the fair market value of the underlying assets in each respective trust. The underlying assets for the beneficial interests in perpetual trusts consist of marketable securities.

Fair value of financial instruments for which TBH did not elect the fair value option are as follows: cash, assets limited as to use, accounts receivable, certain contributions, accounts payable and other liabilities, accrued expenses, notes payable, and bonds payable. The fair values of such instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented at December 31, 2016 and 2015. In addition, the estimates are only indicative of the value of the individual financial instruments and should not be considered an indication of the fair value of TBH.

Management has determined that fair value approximates carrying value for cash, assets limited as to use, accounts receivable, certain contributions, accounts payable and other liabilities, and accrued expenses given the short-term nature of these instruments. In addition, management has not assessed the fair value of its debt instruments as some of these instruments have special features that make them inherently costly or impractical to assess fair values. Management did not believe the cost of obtaining such information justified the benefit of such data; however, if such analysis was done, management does not believe that any significant change in fair value has taken place based on its credit position or the current interest rate climate compared to the time when issued.

TBH reviews its investments to identify those for which fair value is below cost. The organization then makes a determination as to whether the investment should be considered other-than-temporary impaired based on guidelines established in accordance with U.S. generally accepted accounting principles. In 2015, TBH recognized no losses related to declines in value that were other-than-temporary in nature on certain of our investments. In 2016, TBH recognized losses of $300,000 related to declines in value that were other than temporary in nature on certain investments; no such losses were recorded in 2015. These losses are treated as realized losses in the statements of operations.

NOTE 7 SPLIT-INTEREST AGREEMENTS

TBH has received as contributions split-interest agreements in the form of perpetual trusts. In accounting for these arrangements, TBH has recorded the asset and has recognized permanently restricted contribution revenue at the fair market value of TBH's beneficial interest in the trust assets. Distributions received on the trust assets are recorded as unrestricted revenue in the statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses. As of December 31, 2016 and 2015, TBH's proportionate share of the fair market value of the assets in these trusts amounted to $543,426 and $535,150, respectively.

NOTE 8 ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets. The total of $53,737 and $120,254 at December 31, 2016 and 2015, respectively, represents the accounts held in trust for residents. The funds are not available for use in operations.

NOTE 9 BONDS PAYABLE

A summary of bonds payable at December 31:

	2016	2015
2002 Tax-Exempt Variable Rate Demand Revenue Bonds due June 2032 issued via the Massachusetts Health and Educational Facilities Authority, principal payments due annually on June 1st.	$ 11,535,000	$ 12,065,000
Total	11,535,000	12,065,000
Less: Unamortized Debt Issuance Costs	201,429	217,609
Long-Term Debt, Net of Unamortized Debt Issuance Costs	11,333,571	11,847,391
Less: Current Maturities	550,000	530,000
Bonds Payable, Net	$ 10,783,571	$ 11,317,391

On March 1, 2012, TBH modified its variable rate demand bonds which were secured by a letter of credit issued by a bank and wrapped by a Federal Home Loan Bank of Boston letter of credit. The modification converted the existing variable rate demand bonds to a new interest mode (Bank Purchase Mode) bearing interest at 67% of the sum of the one-month LIBOR rate plus 2% and secured by all business assets and general revenues of TBH excluding its endowment investments and Medicare receivables.

NOTE 9 BONDS PAYABLE (CONTINUED)

TBH has provided the bank with a negative pledge on its real estate whereby its real estate cannot be sold or mortgaged without the permission of the bank. The term of the Bank Purchase Mode is 12 years. The two existing letters of credit were retired at the time of modification.

The unamortized balance of debt issuance costs of $201,429 and $217,609 at December 31, 2016 and 2015, respectively, represents various costs incurred relative to the issuance and refinancing of the bonds. These costs are being amortized over the life of the related debt and charged to interest expense. Amortization expense was $16,183 for each of the years ended December 31, 2016 and 2015.

Annual maturities of bonds payable for the next five years and in the aggregate are as follows:

Year Ending December 31,	Amount
2017	$ 550,000
2018	570,000
2019	590,000
2020	610,000
2021	630,000
Thereafter	8,585,000
Total	$ 11,535,000

Total interest costs, including amortization of debt issuance costs, amounted to $605,728 and $632,528 for the years ended December 31, 2016 and 2015, respectively.

NOTE 10 NOTES PAYABLE

In 2014, TBH agreed with a utility to install energy efficient lighting with a cost to TBH of $52,258 financed through a 12-month interest-free loan. The agreement calls for principal payments of $4,355 per month once the project is completed. The project was completed in 2015 and the balance of the loan was $17,419 at December 31, 2015. The loan was fully paid in 2016.

In 2014, TBH entered into an agreement with a utility to install an environmental management system. TBH's portion of the cost was $15,530 which was financed through a 12-month interest-free loan. The agreement calls for principal payments of $1,294 per month. The loan was fully paid in 2015.

In 2013, TBH entered into an agreement to finance $11,087 of equipment. The agreement bears no interest and calls for principal payments of $462 per month. The loan was fully paid in 2015.

NOTE 11 LINE OF CREDIT

TBH has a $500,000 line of credit with Citizens Bank. The line of credit does not have a maturity date; however, it is reviewed by the bank annually. The line of credit bears interest at the bank's prime rate, 3.75% and 3.50% at December 31, 2016 and 2015, respectively, and is secured by all accounts receivable. As of December 31, 2016 and 2015, TBH had no outstanding advances against this line of credit.

NOTE 12 DERIVATIVE INSTRUMENT

TBH uses an interest rate swap to manage interest rate risk exposure. TBH's interest rate swap effectively mitigates exposure to interest rate risk, primarily through converting portions of floating rate debt under the bond agreement to a fixed rate basis. This agreement involves the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of the underlying principal amounts. TBH does not enter into derivative instruments for trading or speculative purposes.

TBH's interest rate swap has been recorded as a liability in the balance sheet at fair value. Changes in fair value are recorded as gains or losses on interest rate swap in the period incurred.

As a result of the use of a derivative instrument, TBH is exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate the counterparty risk, TBH only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. At December 31, 2016 and 2015, the counterparty to TBH's interest rate swap has investment grade ratings. To date, the counterparty has performed in accordance with its contractual obligation. The swap contains no credit risk-related contingent features in TBH's interest rate swap nor does the swap contain provisions under which TBH has, or would be required, to post collateral.

The fair value of TBH's swap outstanding at December 31, 2016 and 2015 was as follows:

2016

Notional Amount	Termination Date	Interest Rate Received	Interest Rate Paid	Fair Value
$11,535,000	June 1, 2024	67% of the One-Month LIBOR (0.77% at 12/31/2016)	3.66%	$ 1,545,621

2015

Notional Amount	Termination Date	Interest Rate Received	Interest Rate Paid	Fair Value
$12,065,000	June 1, 2024	67% of the One-Month LIBOR (0.43% at 12/31/2015)	3.66%	$ 1,884,250

NOTE 13 EMPLOYEE BENEFIT PLANS

TBH maintains an Employer Contributory Tax Deferred Annuity Plan (or TDA) as described in IRC Section 403(b). The plan allows an employee to contribute up to a maximum percentage as computed by federal law based upon salary. In 2013, the TDA was amended to allow discretionary matching contributions to be made in the year following the plan year and, in 2013, the board approved a matching contribution of 50% of an employee's contribution up to 2% of the employee's gross wages. Prior to 2013, TBH matched 50% of an employee's contribution up to 1% of the employee's gross wages every month. Employer contributions are fully vested in the TDA after five years of continuous service to TBH. TDA expense for the years ended December 31, 2016 and 2015 totaled $89,321 and $91,964, respectively.

TBH also maintains Supplemental Executive Retirement Arrangements (or SERAs) as described in IRC Section 457(b) for its four officers. These SERAs, which are approved by board vote, provide for additional compensation of 5% to 15% to each officer on the condition the funds are contributed to a qualified SERA account or, in the event the contribution exceeds annual limitations established by the IRS, to the employee's TDA account. SERA expense for the years ended December 31, 2016 and 2015 totaled $52,959 and $50,877, respectively. Included in investments at December 31, 2016 and 2015 is $462,585 and $404,922, respectively; of investments related to TBH's 457(b) plan; the corresponding liability is recorded in accrued expenses.

NOTE 14 NET ASSETS AND ENDOWMENT MATTERS

Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of December 31:

	2016	2015
Contributions Restricted by Time	$ -	$ 100,000
Contributions Restricted by Various Purposes	97,637	85,099
Cumulative Appreciation and Reinvested Gains on Permanently Restricted Assets	5,184,764	6,092,385
Total	$ 5,282,401	$ 6,277,484

At December 31, 2016 and 2015, TBH has no pledges receivable. In 2014, a bequest of $100,000 to TBH, proceeding through probate, was recorded as a temporarily restricted donation. This bequest was received in 2016.

NOTE 14 NET ASSETS AND ENDOWMENT MATTERS (CONTINUED)

Restricted Net Assets

Permanently restricted net assets consists of investments restricted in perpetuity, the income from which is expendable for operations, except for the Charles Tidd Baker Fund, of which half of the investment return generated increases the permanently restricted fund and beneficial interest in third-party trusts. The Charles Tidd Baker Fund was increased by $6,000 in 2016 and reduced by $2,864 in 2015 by investment returns.

The following is a summary of permanently restricted net assets as of December 31:

Endowment Funds:	2016	2015
Charles Tidd Baker	$ 209,342	$ 203,342
Annie Norton Ward	67,069	67,069
Jeremiah and Mary A. Crowley	55,716	55,716
Marshall H. Gould	50,000	50,000
Philip Lockwood	50,000	50,000
Temple R. Fay	48,039	48,039
Ruth M. Gardner Memorial	30,521	30,521
Benjamin Leeds	25,000	25,000
Frank Boles	10,000	10,000
Elsa Loring	10,000	10,000
Anne A. Ramsey	10,000	10,000
Other	40,338	40,338
Subtotal	606,025	600,025
Beneficial Interest in Perpetual Trusts:		
Duncan & Gennie B. Robinson Trust	424,602	418,410
Robert Brigham Trust	118,824	116,740
Subtotal	543,426	535,150
Total Permanently Restricted Net Assets	$ 1,149,451	$ 1,135,175

Net Assets Released from Restrictions

Net assets are released by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors or law. During 2016 and 2015, net assets of $173,098 and $98,203, respectively, were released from restrictions.

NOTE 14 NET ASSETS AND ENDOWMENT MATTERS (CONTINUED)

The following is a summary of endowment net asset composition by type of fund as of December 31:

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds Functioning as Endowment	$ 47,252,122	$ -	$ -	$ 47,252,122
Donor-Restricted Endowment Funds	-	5,184,764	606,025	5,790,789
Beneficial Interest in Perpetual Trusts	-	-	543,426	543,426
Total Funds	$ 47,252,122	$ 5,184,764	$ 1,149,451	$ 53,586,337

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as Endowment	$ 46,236,462	$ -	$ -	$ 46,236,462
Donor-Restricted Endowment Funds	-	6,092,385	600,025	6,692,410
Beneficial Interest in Perpetual Trusts	-	-	535,150	535,150
Total Funds	$ 46,236,462	$ 6,092,385	$ 1,135,175	$ 53,464,022

The following is a summary of changes in the endowment assets and those functioning as endowment for the years ended December 31, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets and those functioning as Endowment, January 1, 2015	$ 49,327,847	$ 6,603,834	$ 1,185,152	$ 57,116,833
Investment Return:				
Investment Income	502,606	77,540	1,100	581,246
Investment Fees	(98,767)	(15,237)	(216)	(114,220)
Net Depreciation (Realized and Unrealized)	(1,712,833)	(264,251)	(50,861)	(2,027,945)
Total Investment Return	(1,308,994)	(201,948)	(49,977)	(1,560,919)
Board Approved Spending Policy	(1,790,499)	(309,501)	-	(2,100,000)
Other Additions/Deletions	8,108	-	-	8,108
Endowment Assets and those functioning as Endowment, December 31, 2015	46,236,462	6,092,385	1,135,175	53,464,022
Investment Return:				
Investment Income	233,774	35,777	536	270,087
Investment Fees	(108,074)	(16,540)	(248)	(124,862)
Net Appreciation (Realized and Unrealized)	2,487,231	380,650	13,988	2,881,869
Total Investment Return	2,612,931	399,887	14,276	3,027,094
Board Approved Spending Policy	(1,592,492)	(1,307,508)	-	(2,900,000)
Other Additions/Deletions	(4,779)	-	-	(4,779)
Endowment Assets and those functioning as Endowment, December 31, 2016	$ 47,252,122	$ 5,184,764	$ 1,149,451	$ 53,586,337

NOTE 14 NET ASSETS AND ENDOWMENT MATTERS (CONTINUED)

TBH's endowment assets consist of donor-restricted and board-designated funds, managed by the organization, and of interests in trusts managed by third parties. The value of endowment funds equals investments (less any nonendowment investment holdings), beneficial interests in perpetual trusts, and endowment funds held in cash. Net assets of temporarily restricted endowment funds exclude pledges receivable and amounts expected to be expended in the next year to meet donor restrictions.

NOTE 15 SELF-INSURED HEALTH INSURANCE

TBH is a participating employer in the Aurum Network, LLC Partially Self-Funded Employee Health Benefits Plan (the Plan), whereby health insurance coverage is provided for some of its employees and administered through a third-party administrator and Tufts Health Plan. The Plan covers the health costs of enrolled participants up to a maximum of $250,000 per medical occurrence, after which a stop loss health insurance policy covers the excess. The administrative costs of the Plan are shared by the participating employers based upon employee enrollment. TBH's share of the plan's costs amounted to approximately $16,000 and $65,000 for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, the third-party administrator could not determine an estimate for material asserted or unasserted claims; therefore, no provision for such additional expenses has been reflected in the financial statements.

NOTE 16 MEDICAL MALPRACTICE CLAIMS

TBH purchases professional and general liability insurance to cover medical malpractice claims. Through December 31, 2016, TBH was covered by a claims-made policy. TBH is not aware of any known claims and incidents, nor any claims from unknown incidents, that have been or may be asserted arising from services provided to patients. Based on historical evidence, TBH believes that a reserve for claims from unknown incidents is not necessary and, as such, no reserve has been accrued in the financial statements as of December 31, 2016 and 2015.

NOTE 17 CONTINGENCIES

A significant portion of TBH's net revenues and accounts receivable are derived from services reimbursable under the Medicaid and the Medicare programs. There are numerous healthcare reform proposals being considered on the federal and state levels. TBH cannot predict at this time whether any of these proposals will be adopted, or if adopted and implemented, what effect such proposals would have on TBH.

NOTE 17 CONTINGENCIES (CONTINUED)

A significant portion of TBH's revenues are derived from services reimbursable under the Medicaid program (see Note 2). The base year costs utilized in calculating the Medicaid prospective rates are subject to audit which could result in a retroactive rate adjustment for all years in which that base year's costs are utilized in calculating the prospective rate. It is not possible at this time to determine whether TBH will be audited or if a retroactive rate adjustment would result.

Effective October 1, 2016, the TBH's Medicaid rate includes a direct-care add-on (DCA) component where the organizations must spend the additional funding on eligible staff as compared to its base period. If the organizations do not comply with the requirements, all unspent or impermissibly spent funds plus a 25% penalty will be due back to the Medicaid program. The DCA reporting period is from July 1, 2016 through June 30, 2017. Management believes as of December 31, 2016, the organization is in compliance with the requirements.

A portion of TBH's revenues are derived from services under the Medicare program (see Note 2). Under the program, cost reports are subject to audit for a period of three years from the date of issuance of a Notification of Provider Reimbursement by the fiscal intermediary. It is not possible at this time to determine whether TBH will be audited or if a retroactive rate adjustment would result.

NOTE 18 DEVELOPMENT COSTS

In August 2015, TBH gained approval from the Boston Redevelopment Authority to build a 36-unit apartment building serving persons with disabilities on a parcel of land owned by TBH at 2045 Dorchester Avenue in Boston, Massachusetts. In September 2016, the board approved funding of $3,600,000 for the construction of Harmon and related site work at TBH. TBH has incurred predevelopment costs related to the project totaling approximately $861,000 consisting of consulting, architect and engineer services. As of December 31, 2016 and 2015, $768,809 and $203,728 of these costs have been capitalized. TBH has several cancellable agreements with consultants, architects and engineers related to this development. TBH has entered into a development and finance agreement. As part of this agreement, TBH will pay a development fee totaling $765,000 in stages upon completion of certain milestones as defined in the agreement. At this time it is uncertain whether the apartments will be built, and if so when construction would occur.