Consolidated Financial Statements, Supplementary Information and Report of Independent Certified Public Accountants

Catholic Health Care Services of the Archdiocese of Philadelphia

June 30, 2013 and 2012

Contents

Grant Thornton

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Report of Independent Certified Public Accountants

Board of Directors
Catholic Health Care Services
of the Archdiocese of Philadelphia

We have audited the accompanying consolidated financial statements of Catholic Health Care Services of the Archdiocese of Philadelphia, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Health Care Services of the Archdiocese of Philadelphia, as of June 30, 2013 and 2012, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheets as of June 30, 2013 and 2012 and the consolidating statements of operations and changes in net assets for the years then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 23, 2013

Catholic Health Care Services of the Archdiocese of Philadelphia

CONSOLIDATED BALANCE SHEETS

June 30,

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,445,223	$ 2,999,942
Short-term investments - temporarily restricted	236	236
Reserve and escrow accounts	446,617	409,398
Patient accounts receivable		
Self-pay	4,993,852	3,985,450
Third-party payors	12,602,729	11,036,986
Allowance for doubtful accounts	(537,689)	(682,743)
Net patient accounts receivable	17,058,892	14,339,693
Other receivables	1,959,794	3,185,131
Related party receivables	1,616,199	1,408,326
Related party loans receivable	888,825	713,971
Inventories	131,956	143,436
Prepaid expenses	683,895	780,632
Total current assets	28,231,637	23,980,765
Investments		
Unrestricted	22,509,907	19,697,601
Temporarily restricted	3,239,137	3,066,565
Permanently restricted	168,274	159,591
Total investments	25,917,318	22,923,757
Property, plant and equipment, net	78,314,601	78,573,902
Funds held by third parties	1,876,723	2,046,782
Resident funds escrow accounts	1,277,341	1,254,481
Deferred financing costs, net	117,644	143,762
Related party loans receivable	47,110,444	47,999,269
Total assets	$ 182,845,708	$ 176,922,718

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

Catholic Health Care Services of the Archdiocese of Philadelphia

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

	2013	2012
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 3,738,674	$ 4,685,140
Accrued salaries	8,644,307	8,106,392
Accrued expenses	7,301,369	4,362,672
Related party payables	842,978	424,765
Deferred revenue	319,879	229,415
Total current liabilities	20,847,207	17,808,384
Resident funds escrow accounts	1,277,341	1,254,481
Loan payable	8,469,984	7,181,119
Mortgage payable	4,960,000	4,960,000
Deferred developers fee	-	630,938
Total liabilities	35,554,532	31,834,922
Net assets		
Unrestricted		
Parent	134,377,063	131,335,303
Non-controlling interest	7,629,742	8,479,319
Total unrestricted	142,006,805	139,814,622
Temporarily restricted	3,239,373	3,066,801
Permanently restricted	2,044,998	2,206,373
Total net assets	147,291,176	145,087,796
Total liabilities and net assets	$ 182,845,708	$ 176,922,718

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended June 30,

	2013	2012
Change in unrestricted net assets		
Operating revenues		
Net resident revenue, net of contractual allowances	$ 125,924,014	$ 123,024,925
Bad debt	(97,332)	(82,376)
Net resident revenue, net of bad debt	125,826,682	122,942,549
Other operating revenue	10,985,405	9,146,333
Net assets released from restrictions	210,748	87,873
Total operating revenues	137,022,835	132,176,755
Operating expenses		
Administration	8,449,195	8,546,086
Auxiliary services	1,212,233	1,181,102
Loan interest and fees	473,330	913,410
CHCS administration	3,630,036	2,814,479
CHCS finance	2,911,711	3,025,688
CHCS community-based services	501,484	590,776
CHCS information technology services	3,394,778	2,511,226
Depreciation and amortization	6,021,256	6,314,198
Dietary	10,388,119	10,463,870
Housekeeping and laundry	4,551,425	4,646,151
Nurse administration	5,797,104	5,826,940
Pastoral care	524,565	544,407
Plant operation and maintenance	8,066,488	8,349,652
Professional care of residents	45,485,498	45,186,910
Recreation	1,808,379	1,827,482
Social services	1,488,124	1,513,328
Therapy services	7,325,561	6,485,041
Fringe benefits	24,132,666	25,427,335
Management agreement expenses	3,452,763	3,733,736
Total operating expenses	139,614,715	139,901,817
Operating loss	(2,591,880)	(7,725,062)

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Year ended June 30,

	2013	2012
Nonoperating revenues		
Contributions and bequests	$ 102,942	$ 1,267,536
Interest and investment income	2,427,217	1,660,087
Realized gain on sale of investments	453,785	3,772,412
Unrealized gains and losses in fair value of investments	1,713,273	(4,001,780)
Change in fair value of interest rate swap	-	(1,082,086)
Net assets released from restrictions	-	900,580
Miscellaneous income	86,846	48,099
Total nonoperating revenues	4,784,063	2,564,848
Excess of (deficiency in) revenues over expenses	2,192,183	(5,160,214)
Deficiency attributable to non-controlling interest	849,577	1,103,585
Excess of (deficiency in) revenues over expenses attributable to parent	3,041,760	(4,056,629)
Other changes in unrestricted net assets		
Change in non-controlling interest	(849,577)	(1,103,585)
Increase (decrease) in unrestricted net assets	2,192,183	(5,160,214)
Change in temporarily restricted net assets		
Interest and investment income	55,027	63,851
Realized gain (loss) on sale of investments	82,002	(57,124)
Unrealized gains (losses) in fair value of investments	243,883	(71,188)
Net assets released from restrictions	(208,340)	(986,281)
Increase (decrease) in temporarily restricted net assets	172,572	(1,050,742)
Change in permanently restricted net assets		
Change in value of permanently restricted funds	(158,967)	526,284
Net assets released from restrictions	(2,408)	(2,172)
(Decrease) increase in permanently restricted net assets	(161,375)	524,112
Increase (decrease) in net assets	2,203,380	(5,686,844)
Net assets		
Beginning of year	145,087,796	150,774,640
End of year	$ 147,291,176	$ 145,087,796

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012
Cash flows from operating activities and gains		
Change in net assets	$ 2,203,380	$ (5,686,844)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Bad debt	97,332	82,376
Unrealized (gains) losses in fair value of investments	(1,968,248)	3,546,684
Realized gain on sale of investments	(535,787)	(3,715,288)
Depreciation and amortization	6,021,256	6,314,198
Change in fair value of interest rate swap	-	1,082,086
Change in funds held by third parties	170,059	(528,300)
Changes in working capital which provided (or used) cash		
Accounts receivable, net	(2,816,531)	(2,620,513)
Short-term investments	-	1,000,280
Reserve and escrow accounts	(37,219)	9,183
Related party receivables	(207,873)	(1,279,066)
Other receivables	1,225,337	862,174
Inventories	11,480	12,799
Prepaid expenses	96,737	363,658
Accounts payable	(946,466)	296,161
Accrued salaries	537,915	807,496
Accrued expenses	2,938,697	(4,846,407)
Related party payable	418,213	424,765
Deferred revenue	90,464	96,484
Net cash provided by (used in) operating activities before trading securities	7,298,746	(3,778,074)
Change in investments trading securities, net	(489,526)	67,648,642
Net cash provided by operating activities	6,809,220	63,870,568
Cash flows from investing activities		
Capital expenditures	(6,366,775)	(7,359,009)
Payments received on related party loan	713,971	(48,713,240)
Net cash used in investing activities	(5,652,804)	(56,072,249)
Cash flows from financing activities		
Settlement of interest rate swap	-	(2,289,000)
Repayment of long-term debt	-	(10,780,250)
Proceeds from loan	1,288,865	2,880,087
Net cash provided by (used in) financing activities	1,288,865	(10,189,163)
Net increase (decrease) in cash and cash equivalents	2,445,281	(2,390,844)
Cash and cash equivalents		
Beginning of year	2,999,942	5,390,786
End of year	$ 5,445,223	$ 2,999,942
Supplemental disclosure of cash flow information		
Cash paid for interest	$ -	$ 314,315

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

NOTE A - NATURE OF OPERATIONS

Catholic Health Care Services of the Archdiocese of Philadelphia is the sole corporate member of the following entities: St. John Neumann Nursing Home, Immaculate Mary Home, St. Mary Manor, St. Martha Manor, St. Francis Country House and St. Monica Manor (collectively the "Facilities"). Each of these long-term care facilities are owned and operated by Catholic Health Care Services. Skilled nursing care is rendered to the sick elderly on a 24-hour basis, regardless of payor source. Each facility is a certified provider under Medicare, Medicaid and certain federally designated Medicare HMO programs in the area. Catholic Health Care Services is also the sole member of Villa Saint Martha. Villa Saint Martha is an independent/assisted living facility, which is owned and operated by Catholic Health Care Services.

Catholic Health Care Services manages Villa Saint Joseph, a personal care facility, which is owned by the Archdiocese of Philadelphia.

Catholic Health Care Services is a non-profit corporation whose members consist of the following: the Archbishop of Philadelphia, the Moderator of the Curia, and the Secretary for Clergy.

Catholic Health Care Services receives an annual fee for administrative support services from all of the Facilities, Villa Saint Joseph, and St. John Vianney Center (an affiliated entity) in exchange for management services rendered. The fees from the Facilities are eliminated in the consolidation.

St. John Neumann Place is a 75-unit facility which provides housing to the elderly community. St. John Neumann Place, a nonprofit corporation, entered into a partnership joint venture (St. John Neumann Place LP) for the project as the general partner and owns 0.01% interest of the partnership. St. John Neumann Place is a controlled entity.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The consolidated financial statements include the accounts of Catholic Health Care Services, the Facilities and its controlled entity and are collectively referred to as "CHCS".

For consolidated for-profit entities in which the ownership is less than 100%, the outside ownership interests are shown as non-controlling interests. All significant intercompany accounts and transactions have been eliminated.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis. Net assets and its revenues, expenses, gains and losses are classified into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted and unrestricted net assets.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, income and gains which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donor or implied by the nature of the gift.

Permanently restricted net assets include the historical dollar amounts of gifts, including trusts and remainder interests, which require by donor restriction that the corpus be invested in perpetuity and only the investment income be made available for operations in accordance with donor restrictions. Capital appreciation, if permanently restricted by the donor, is included in permanently restricted net assets.

Unrestricted net assets are free of donor-imposed restrictions and are all the remaining net assets of CHCS.

3. Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include the allowance for doubtful accounts, useful lives of depreciable assets, and fair values of investments. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

CHCS considers investments in highly liquid securities, authorized by management, purchased with a maturity of three months or less from the date purchased to be cash equivalents. CHCS maintains cash balances with financial institutions that at times may exceed Federal Depository Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

5. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the consolidated statements of operations and changes in net assets. The fair value of certain investments is estimated using the net asset value ("NAV") per share. CHCS has designated its investment portfolio as trading.

6. Inventories

Inventories are stated at the lower of aggregate cost (first-in, first-out) or market.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Donated assets are recorded at fair value at the date of donation. Upon sale, or retirement of depreciable property, the cost and related accumulated depreciation are removed from the related accounts, and resulting gains or losses are retired in operations.

Recovery periods are based on the following ranges of useful lives:

Land improvements	5 - 20 years
Buildings	20 - 40 years
Building improvements	5 - 25 years
Furniture and equipment	3 - 20 years

8. Long-Lived Assets

CHCS continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, CHCS uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets were required at June 30, 2013 and 2012.

9. Deferred Financing Costs

As of June 30, 2013, deferred financing costs consist primarily of costs related to the St. John Neumann Place project development, which are amortized over the lives of the various costs, 10-15 years. Amortization expense was $17,411 and $108,710 for the years ended June 30, 2013 and 2012, respectively.

10. Classification of Gifts

CHCS reports gifts of cash and other assets as restricted support if they are received with donor stipulation that limits the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Resident Service Revenues and Allowances

CHCS reports resident service revenue at the estimated net realizable value of the amounts due from residents and third-party payors.

Each of the nursing facilities of CHCS is reimbursed prospectively using a daily rate based on the acuity level of patients for its Medicare and Medicaid residents.

CHCS provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of residents to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and CHCS ceases collection efforts.

For receivables associated with services provided to residents or patients who have third-party coverage, CHCS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay residents or patients, CHCS records a significant provision for bad debts on the basis of its past experience and on its review of individual receivable accounts to evaluate the ability and willingness of residents and patients to pay amounts due for the portion of their bill for which they are financially responsible.

Net residential fees and net health care revenues for the years ended June 30, 2013 and 2012, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the periods from these major payor sources based on primary insurance designation, are as follows:

Net resident revenue	Third-Party Payors	Self-Pay	Total All Payors
2013	$ 94,027,233	$ 31,896,781	$ 125,924,014
2012	$ 91,337,062	$ 31,687,863	$ 123,024,925

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the residents' responsibility, and CHCS considers these amounts in its determination of the provision for bad debts based on collection experience.

CHCS has not experienced significant changes in write-off trends and has not changed its charity care policy for the years ended June 30, 2013 and 2012.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Nursing Home Assessment and Other Revenue

The Pennsylvania Nursing Facility Assessment Program was finalized in January 2005 and is effective July 1, 2003 through July 1, 2012. The assessment program was reauthorized by Act 80 of 2012 through FY 2013-2016. The program, approved by the Centers for Medicare and Medicaid Services, authorized the collection of an assessment from all non-governmental licensed nursing facilities for the purpose of maintaining Medicaid Assistance ("MA") rates and providing additional reimbursements to MA participating facilities. Quarterly assessment and supplemental calculations are based on resident days by payor type. For the years ended June 30, 2013 and 2012, the net nursing home assessment was $2,430,310 and $2,265,741, respectively, and is recognized within other operating revenue.

13. Pledges/Contributions

Unconditional promises to give (pledges) are recorded as receivables and revenues at fair value at the date the promise is received within the appropriate net asset category. Donor-restricted gifts which are received and either spent or deemed spent within the same year are reported as unrestricted revenues and expenses. Gifts of long-lived assets are reported at fair value as unrestricted revenue. Gifts specified for the acquisition or constructions of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

14. Excess of (Deficiency in) Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of (deficiency in) revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of (deficiency in) revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and change in fair value of funds held by third parties.

NOTE C - COMMUNITY BENEFIT

CHCS maintains records to identify and monitor the level of community care it provides. The level of community benefits provided as identified in accordance with CHCS's accounting policies is as follows for the years ended June 30, 2013 and 2012:

	2013	2012
Charitable services		
Unpaid cost of state programs to the financially disadvantaged (e.g., Medicaid)	$ 21,403,387	$ 16,949,130
Unpaid cost of services to other financially disadvantaged persons	751,444	667,697
Total community care at cost	$ 22,154,831	$ 17,616,827