Consolidated Financial Statements and Report of Independent Certified Public Accountants

Catholic Health Care Services of the Archdiocese of Philadelphia

June 30, 2017 and 2016

Contents

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Report of Independent Certified Public Accountants

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

Report on the financial statements

We have audited the accompanying consolidated financial statements of Catholic Health Care Services of the Archdiocese of Philadelphia (the "Entity"), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is 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 audits 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. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

July 27, 2018

Catholic Health Care Services of the Archdiocese of Philadelphia

CONSOLIDATED BALANCE SHEETS

June 30,

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,809,094	$ 20,717,573
Accounts receivable	29,682	172,245
Other receivables	703,842	604,107
Related party receivables	2,043,988	2,278,214
Prepaid expenses	512,541	297,335
Related party loans receivable - current portion	804,568	751,176
Total current assets	13,903,715	24,820,650
Investments		
Unrestricted	19,877	24,132,216
Temporarily restricted	3,656,394	3,153,851
Permanently restricted	196,475	179,488
Total investments	3,872,746	27,465,555
Property, plant and equipment, net	47,166,253	36,328,103
Beneficial interest in trusts	1,669,839	1,773,430
Reserve and escrow accounts	1,685,258	565,207
Amortizable costs	158,115	197,061
Related party loans receivable	42,419,124	44,234,593
Total assets	$ 110,875,050	$ 135,384,599

Continued on next page

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

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 2,654,731	$ 1,863,444
Accrued salaries	490,348	751,027
Accrued expenses	4,833,283	3,579,161
Benevolent care liability - current portion	259,876	342,173
Related party payables	4,751,908	5,895,806
Mortgages payable - current	14,848,819	-
Deferred revenue	139,179	78,308
Total current liabilities	27,978,144	12,509,919
Related party payables	-	2,800,000
Benevolent care liability	554,690	820,503
Resident funds escrow accounts	69,321	57,017
Mortgages payable	9,546,857	16,009,216
Total liabilities	38,149,012	32,196,655
Net assets		
Unrestricted		
Parent	51,074,178	83,006,232
Non-controlling interest	5,917,952	5,729,129
Total unrestricted	56,992,130	88,735,361
Temporarily restricted	13,867,594	12,499,665
Permanently restricted	1,866,314	1,952,918
Total net assets	72,726,038	103,187,944
Total liabilities and net assets	$ 110,875,050	$ 135,384,599

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

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Housing programs	$ 1,470,062	$ -	$ -	$ 1,470,062
Management fees	4,422,949	-	-	4,422,949
Community programs	3,188,048	-	-	3,188,048
Other operating revenue	101,292	-	-	101,292
Distributions from beneficial interest in trusts	66,837	-	-	66,837
Total operating revenues	9,249,188	-	-	9,249,188
Operating expenses				
Administration	841,620	-	-	841,620
Adult day services	242,551	-	-	242,551
Loan interest and fees	854,481	-	-	854,481
CHCS administration	1,644,033	-	-	1,644,033
CHCS finance	1,228,910	-	-	1,228,910
CHCS community-based services	2,912,607	-	-	2,912,607
CHCS information technology services	2,465,926	-	-	2,465,926
Depreciation and amortization	1,298,198	-	-	1,298,198
Plant operation and maintenance	386,193	-	-	386,193
Social services	125,547	-	-	125,547
Fringe benefits	1,630,058	-	-	1,630,058
Total operating expenses	13,630,124	-	-	13,630,124
Operating loss	(4,380,936)	-	-	(4,380,936)
Nonoperating revenues (expenses)				
Contributions and bequests	21,749	-	-	21,749
Distribution to Archdiocese of Philadelphia	(32,000,000)	-	-	(32,000,000)
Interest and investment income	1,911,618	54,661	1,848	1,968,127
Realized (loss) gain on sale of investments	(212,300)	1,130	38	(211,132)
Unrealized gains in fair value of investments	1,101,215	446,752	15,101	1,563,068
Change in fair value of beneficial interest in trusts	-	-	(103,591)	(103,591)
Total nonoperating revenues (expenses)	(29,177,718)	502,543	(86,604)	(28,761,779)
(Deficiency in) excess of revenues over expenses	(33,558,654)	502,543	(86,604)	(33,142,715)
Loss attributable to non-controlling interest	(1,626,600)	-	-	(1,626,600)
(Deficiency in) excess of revenues over expenses attributable to parent	(31,932,054)	502,543	(86,604)	(31,516,115)
Other changes in net assets				
Capital contributions from limited partners	1,815,423	-	-	1,815,423
HUD Section 202 capital contribution	-	865,386	-	865,386
Change in non-controlling interest	(1,626,600)	-	-	(1,626,600)
Change in net assets	(31,743,231)	1,367,929	(86,604)	(30,461,906)
Net assets				
Beginning of year	88,735,361	12,499,665	1,952,918	103,187,944
End of year	$ 56,992,130	$ 13,867,594	$ 1,866,314	$ 72,726,038

The accompanying notes are an integral part of this consolidated financial statement.

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues				
Housing programs	$ 871,147	$ -	$ -	$ 871,147
Management fees	4,237,048	-	-	4,237,048
Community programs	2,660,435	-	-	2,660,435
Other operating revenue	92,971	-	-	92,971
Distributions from beneficial interest in trusts	108,973	-	-	108,973
Total operating revenues	7,970,574	-	-	7,970,574
Operating expenses				
Administration	483,996	-	-	483,996
Adult day services	239,843	-	-	239,843
Loan interest and fees	435,842	-	-	435,842
CHCS administration	1,875,552	-	-	1,875,552
CHCS finance	1,349,153	-	-	1,349,153
CHCS community-based services	2,743,103	-	-	2,743,103
CHCS information technology services	2,655,834	-	-	2,655,834
Depreciation and amortization	871,769	-	-	871,769
Plant operation and maintenance	248,941	-	-	248,941
Social services	86,577	-	-	86,577
Fringe benefits	1,671,019	-	-	1,671,019
Total operating expenses	12,661,629	-	-	12,661,629
Operating loss	(4,691,055)	-	-	(4,691,055)
Nonoperating revenues (expenses)				
Contributions and bequests	20,917	-	-	20,917
Interest and investment income	2,165,024	38,798	1,311	2,205,133
Realized loss on sale of investments	(14,529)	(1,297)	(3,425)	(19,251)
Unrealized losses in fair value of investments	(689,818)	(100,051)	-	(789,869)
Change in fair value of beneficial interest in trusts	-	-	(156,883)	(156,883)
Change in fair value of benevolent care liability	2,032,308	-	-	2,032,308
Total nonoperating revenues (expenses)	3,513,902	(62,550)	(158,997)	3,292,355
Deficiency in revenues over expenses	(1,177,153)	(62,550)	(158,997)	(1,398,700)
Loss attributable to non-controlling interest	(887,390)	-	-	(887,390)
Deficiency in revenues over expenses attributable to parent	(289,763)	(62,550)	(158,997)	(511,310)
Other changes in net assets				
HUD Section 202 capital contribution	-	2,312,439	-	2,312,439
Change in non-controlling interest	(887,390)	-	-	(887,390)
Change in net assets	(1,177,153)	2,249,889	(158,997)	913,739
Net assets				
Beginning of year	89,912,514	10,249,776	2,111,915	102,274,205
End of year	$ 88,735,361	$ 12,499,665	$ 1,952,918	$ 103,187,944

The accompanying notes are an integral part of this consolidated financial statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (30,461,906)	$ 913,739
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized (gains) losses on investments	(1,351,936)	809,120
Depreciation and amortization	1,298,198	871,769
Capital contributions from limited partners	(1,815,423)	-
Section 202 Capital Advance from HUD	(865,386)	(2,312,439)
Change in fair value of benevolent care liability	-	(2,032,308)
Change in fair value of beneficial interest in trusts	36,754	47,910
Distributions from beneficial interest in trusts	66,837	108,973
Changes in assets and liabilities		
Accounts receivable, net	142,563	(168,891)
Reserve and escrow accounts	(1,120,051)	264,478
Related party receivables	234,226	309,384
Other receivables	(99,735)	(7,636)
Prepaid expenses	(215,206)	(104,691)
Accounts payable	142,038	(37,300)
Accrued salaries	(260,679)	(277,021)
Accrued expenses	737,631	(1,529,356)
Amortizable costs	(34,866)	(91,337)
Related party payables	(3,943,898)	2,410,660
Resident funds escrow accounts	12,304	18,328
Benevolent care liability	(348,110)	(505,016)
Deferred revenue	60,871	(23,224)
Net cash used in operating activities	(37,785,774)	(1,334,858)
Cash flows from investing activities		
Capital expenditures	(10,896,796)	(11,108,460)
Purchase of investment securities	(25,175,993)	(1,005,496)
Proceeds from sale of investment securities	50,120,738	1,793,157
Payments received on related party loan	1,762,077	967,315
Net cash provided by (used in) investing activities	15,810,026	(9,353,484)
Cash flows from financing activities		
Section 202 Capital Advance from HUD	865,386	2,312,439
Capital contributions from limited partners	1,815,423	-
Proceeds from mortgages payable	8,386,460	8,962,268
Net cash provided by financing activities	11,067,269	11,274,707
Net (decrease) increase in cash and cash equivalents	(10,908,479)	586,365
Cash and cash equivalents		
Beginning of year	20,717,573	20,131,208
End of year	$ 9,809,094	$ 20,717,573
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	$ 171,730	$ -
Accounts payable and accrued expenses related to construction in progress	$ 2,665,774	$ 86,764

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 ("Catholic Health Care Services") is a nonprofit 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 provides support and services for seniors in Philadelphia and surrounding counties. These services include in-home support, parish-based support programs, geriatric care management, adult day care and senior housing communities.

Catholic Health Care Services is the developer of the following entities under the Pennsylvania Housing Finance Agency's Low-Income Housing Tax Credit ("LIHTC") program:

- St. John Neumann Place LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors. The project consists of 75 units of rehabilitated housing located in Philadelphia, Pennsylvania. The project qualifies for the low-income tax credit established by the Tax Reform Act of 1986. St. John Neumann Place Inc., 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 LP is a controlled entity.

- St. Francis Villa Senior Housing LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors. The project consists of 40 units of housing located in Philadelphia, Pennsylvania. The project qualifies for the low-income credit established by the Tax Reform Act of 1986. St. Francis Villa Inc., a nonprofit corporation, entered into a partnership joint venture (St. Francis Villa Senior Housing LP) for the project as the general partner and owns 0.01% interest of the partnership. St. Francis Villa Senior Housing LP is a controlled entity.

- St. John Neumann Place II LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors. The project consists of 52 units of rehabilitated housing located in Philadelphia, Pennsylvania. The project qualifies for the low-income tax credit established by the Tax Reform Act of 1986. St. John Neumann Place II Inc., a nonprofit corporation, entered into a partnership joint venture (St. John Neumann Place II LP) for the project as the general partner and owns 0.01% interest of the partnership. St. John Neumann Place II LP is a controlled entity.

- St. Rita Place Senior Housing LP was organized as a for-profit limited partnership under the laws of the Commonwealth of Pennsylvania to develop, construct, and maintain rental housing for low-income seniors.

In addition, Catholic Health Care Services is the sponsor of the following organization under the United States Department of Housing and Urban Development ("HUD") Section 202 Supportive Housing for the Elderly program:

- Nativity BVM Place ("Nativity") was organized as a nonprofit corporation under the laws of the Commonwealth of Pennsylvania to develop, construct and maintain housing facilities for elderly persons. Nativity consists of 63 units located in Philadelphia, Pennsylvania. Tenants began moving into the units in December 2015. Nativity is operating under Section 202 of the National Housing Act of 1959,

(Continued)

NOTE A - NATURE OF OPERATIONS - Continued

which provides housing for elderly and disabled persons. Nativity is primarily financed under HUD's Section 202 capital advance program. The project is regulated by HUD with respect to rental charges, operating expenses and operating methods. The by-laws of Nativity require the directors to be either members of Catholic Health Care Services or nonmembers who have the approval of the Board of Directors of Catholic Health Care Services. For this reason, the entity is considered to be controlled by Catholic Health Care Services.

Catholic Health Care Services manages Villa Saint Joseph, a personal care facility, and St. John Vianney Center, a residential facility providing behavioral health treatment and outpatient behavioral health management and clinical services, both of which are owned by the Archdiocese of Philadelphia. Catholic Health Care Services receives an annual fee for administrative support services from these entities in exchange for management services rendered.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The consolidated financial statements include the accounts of Catholic Health Care Services and its controlled entities, which 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.

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 held in perpetuity, which are required 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, and the fair value of the beneficial interest in trusts. 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.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, allocation of functional expenses, benevolent care liability and the fair values of investments, including those investments held in beneficial interest in trusts. 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. Reserve and Escrow Accounts

Reserve and escrow accounts represent cash separately restricted for operational reserves or restricted pursuant to terms of debt agreements.

6. Investments

SEI, a provider of institutional asset management services, created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund ("Catholic Values Funds"), which provide Catholic institutions with high quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops ("USCCB"). The Archdiocese of Philadelphia appointed SEI Private Trust Company to act as custodian (the "Custodian") of the investments, which consist of certain cash and securities and are more fully described in Notes D and P. Investment allocation decisions are the responsibility of CHCS's finance committee.

Investments are reported at fair value. Realized gains and losses are reported to the participant monthly. Gains and losses created at the participant level due to sales are recorded in the specific participant accounts. Unrealized gains and losses are included in the consolidated statements of operations and changes in net assets as net appreciation or depreciation in the fair value of investments.

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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, 2017 and 2016.

9. Amortizable Costs

Amortizable costs consist of costs related to the St. John Neumann Place LP project development, the St. Francis Villa Senior Housing LP project development, and the Nativity BVM Place loan closing, and are being amortized using the straight-line method over their related useful lives. Amortization expense was $73,813 and $43,450 for the years ended June 30, 2017 and 2016, respectively.

10. Pledges/Contributions

CHCS reports gifts of cash and other assets as restricted support if they are received with a 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

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.

11. (Deficiency in) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the (deficiency in) excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the (deficiency in) excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, non-controlling interest and capital contributions.

12. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

13. Developer Fee Income

As the general partner of the LIHTC partnerships and as the sponsor of Nativity BVM Place, CHCS provides development and management services to the entities in exchange for a specified developer fee. The developer fee income and related capital asset are eliminated in consolidation. Below is a summary of developer fees by entity:

- St. John Neumann Place LP - This developer fee totaled $1,395,573, $630,938 of which is deferred and will be paid to CHCS as cash flow permits. The deferred developer's fee will accrue interest at 8% per annum, and shall be paid no later than the 15th anniversary of completion of construction.
- St. Francis Villa Senior Housing LP - This developer fee totaled $1,231,356, $227,707 of which is deferred and will be paid to CHCS as cash flow permits. The deferred developer's fee will accrue interest at 6% per annum, and shall be paid no later than the 13th anniversary of completion of construction.
- St. John Neumann Place II LP - This developer fee totaled $1,401,181. Any portion of the developer fee that remains unpaid will accrue interest at 8% per annum.
- Nativity BVM Place - This developer fee totaled $196,224.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. ASU 2014-09 is effective for periods beginning after December 15, 2018. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. CHCS has not determined the impact of ASU 2014-09 at this time.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. CHCS has not determined the impact of the new standard at this time.

NOTE C - BENEVOLENT CARE LIABILITY

On November 3, 2014, Center Management Group acquired the operating assets and real property of the CHCS long-term care facilities. The agreement of sale stipulated that CHCS pay 50% of the monthly unpaid charges for the St. Mary Manor personal care residents, up to a total of $1.5 million for each of the 7 years following the closing date. At June 30, 2017 and 2016, the consolidated financial statements reflect an estimated future liability of $814,566 and $1,162,676, respectively.

NOTE D - INVESTMENTS

Investments held at SEI are reported at fair value and consist of the following:

Catholic Values Equity Fund (or "fund") - Invests in common stocks and is managed by SEI. The fund is valued at the closing price of the traded fund.

Catholic Values Fixed Income Fund (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fund is valued at the closing price of the traded fund.

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and invested in short-duration U.S. government bonds.

(Continued)

NOTE D - INVESTMENTS - Continued

Account holders have the option of six asset classifications in which to invest. The options include a short-duration U.S. government bond fund, a 100% fixed income bond fund and four equity funds with varying fixed income to equity mixes of 30/70, 50/50, 60/40 or 70/30. The Investment Committee of the Archdiocese of Philadelphia ("Investment Committee") has primary responsibility for determining fixed income to equity mix. The asset mix of the mutual funds is SEI's responsibility.

At June 30, 2017, CHCS's investments are summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Catholic Values Equity Fund	$ -	$ 2,612,681	$ 140,392	$ 2,753,073
Catholic Values Fixed Income Fund	-	1,043,713	56,083	1,099,796
Liquidity Sub-Account	19,877	-	-	19,877
Investment in SEI Catholic Values Funds	$ 19,877	$ 3,656,394	$ 196,475	$ 3,872,746

At June 30, 2016, CHCS's investments are summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Catholic Values Equity Fund	$ 16,010,024	$ 2,215,061	$ 126,061	$ 18,351,146
Catholic Values Fixed Income Fund	6,785,389	938,790	53,427	7,777,606
Liquidity Sub-Account	1,336,803	-	-	1,336,803
Investment in SEI Catholic Values Funds	$ 24,132,216	$ 3,153,851	$ 179,488	$ 27,465,555

NOTE E - BENEFICIAL INTEREST IN TRUSTS

CHCS is the beneficiary of individual trusts held in perpetuity by third parties. The beneficial interest in the trusts is recorded at the fair value of the assets underlying the trusts. At June 30, 2017 and 2016, the allocable fair value of these trusts was $1,669,839 and $1,773,430, respectively, and is recorded as beneficial interest in trusts in the accompanying consolidated balance sheets.

Jeremiah J. Harrigan Trust

During November 2016, PNC Bank, the trustee for the Jeremiah J. Harrigan Trust, questioned the interpretation of provisions in the Will of Jeremiah J. Harrigan concerning income shares for certain beneficiaries that have ceased to exist or no longer provide services. Two such beneficiaries include St. Francis' Country House for Convalescents ("St. Francis") and St. Mary's Institute for the Blind ("St. Mary"), both of which were nursing homes owned and operated by CHCS until they were sold to Center Management Group LLC during November 2014.

(Continued)

NOTE E - BENEFICIAL INTEREST IN TRUSTS - Continued

In June 2018, the Court of Common Pleas of Philadelphia Orphans' Court Division, granted PNC Bank's request to redistribute the income payable to St. Francis and St. Mary to the remaining beneficiaries. Accordingly, CHCS recorded a loss of approximately $184,105 within the change in fair value of beneficial interest in trusts to reflect the removal of such beneficiary interests in trust.

NOTE F - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation at June 30, 2017 and 2016 consist of:

	2017	2016
Land	$ 1,702,992	$ 1,702,992
Land improvements	10,700	10,700
Buildings and improvements	36,889,343	36,995,494
Furniture and equipment	4,623,907	3,900,592
Construction in progress	12,278,419	748,528
	55,505,361	43,358,306
Accumulated depreciation	(8,339,108)	(7,030,203)
Property, plant and equipment, net	$ 47,166,253	$ 36,328,103

Depreciation expense was $1,224,385 and $828,319 for the years ended June 30, 2017 and 2016, respectively.

NOTE G - EMPLOYEE BENEFIT PLANS

1. Lay Employees' Retirement Plan - frozen effective June 30, 2014

Through June 30, 2014, the eligible lay employees of CHCS were covered under the Lay Employees' Retirement Plan of the Archdiocese of Philadelphia (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. CHCS made annual contributions to the Plan at an average rate of 4.95% and 4.00% of the salaries of eligible employees for the years ended June 30, 2017 and 2016. The amount expensed by CHCS for contributions to the Plan was $267,104 and $239,067 for the years ended June 30, 2017 and 2016, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

2. Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan. Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

(Continued)

NOTE G - EMPLOYEE BENEFIT PLANS - Continued

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contributions:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after July 1, 2014. A grandfathered 10-month employee will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contribution beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000 hour service requirement will shift to the calendar year beginning January 1, 2016.

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In fiscal years 2017 and 2016, the employer contribution rate was 4.5% of base salary for eligible employees. The contributions by CHCS into the 403(b) plan totaled $253,441 and $268,304 for the years ended June 30, 2017 and 2016, respectively.

NOTE H - DEBT

Mortgages Payable - St. John Neumann Place LP

St. John Neumann Place LP obtained a loan from the Archdiocese of Philadelphia, in the principal amount of $2,860,000, with a term of 30 years and an interest rate of 6.25%, compounded annually. Principal and interest are payable in monthly installments as cash flow permits with any balance due in full on the 30th anniversary of the closing, December 4, 2036. At both June 30, 2017 and 2016, the outstanding balance was $2,860,000.

The Philadelphia Redevelopment Authority ("PRA"), an agency of the City of Philadelphia, approved St. John Neumann Place LP a $1,765,000 loan through the Federal HOME program. As a condition of the loan, the project is required to meet certain rental and occupancy requirements for a period of 20 years or until the loan is paid in full. The loan will bear interest at the greater of 4.9% or a composite rate, as defined in the Mortgage Note. Interest will accrue from the date of the closing, and principal and interest are payable in full on the 30th anniversary of the closing, December 4, 2036. The loan is secured by a first mortgage on substantially all assets of St. John Neumann Place LP. At both June 30, 2017 and 2016, the outstanding balance was $1,765,000.

(Continued)

NOTE H - DEBT - Continued

St. John Neumann Place LP received funding of $335,000 under the Federal Home Loan Bank's Affordable Housing Program ("AHP"). The program provides a forgivable loan that will not require repayment if the project is maintained in accordance with AHP regulations for the 15-year retention period. Should the partnership not meet these terms, repayment of principal plus interest will be required. The loan is secured by a second mortgage on substantially all assets of St. John Neumann Place LP. At both June 30, 2017 and 2016, the outstanding balance was $335,000.

Mortgages Payable - St. Francis Villa Senior Housing LP

PNC Bank, a national banking association, has approved financing for St. Francis Villa Senior Housing LP in the amount of $8,350,000 as a first mortgage. The loan will bear interest at a variable rate, as defined in the Mortgage Note, currently 2.521%. Interest is due monthly, and the entire balance of principal and any unpaid interest will be payable in full on the maturity date of the note, October 17, 2017. The loan is secured by a security interest in substantially all assets of St. Francis Villa Senior Housing LP. At June 30, 2017 and 2016, the outstanding balance was $8,350,000 and $7,461,362, respectively. During September 2017, this loan was paid in full using equity contributions received from the limited partner in accordance with the terms of the limited partnership agreement.

The Philadelphia Housing Authority ("PHA"), a public body, has approved financing for St Francis Villa Senior Housing LP in the amount of $1,800,000 as a second mortgage. As a condition of the loan, the project is required to meet certain covenants and conditions for a period of 40 years from the date the project becomes available for occupancy and for a period of 10 years after the end of the last PHA fiscal year for which operating assistance is provided by PHA. The loan will bear simple interest at 8.00% per annum once construction has been completed. Principal and accrued interest are payable in full on the 45th anniversary of the note. The loan is secured by a first mortgage on substantially all assets of St. Francis Villa Senior Housing LP. At June 30, 2017 and 2016, the outstanding balance was $1,800,000 and $1,618,362, respectively.

St. Francis Villa Senior Housing LP has received funding of $443,991 under the Federal Home Loan Bank's AHP. The program provides a forgivable loan that will not require repayment if the project is maintained in accordance with AHP regulations for the 15-year retention period. Should the partnership not meet these terms, repayment of principal plus interest will be required. The loan is secured by the second mortgage on substantially all assets of St. Francis Villa Senior Housing LP. At both June 30, 2017 and 2016, the outstanding balance was $443,991.

Mortgages Payable - St. John Neumann Place II Senior Housing LP

Capital One, National Association, a national banking association, has approved financing for St. John Neumann Place II Senior Housing LP in the amount of $10,757,259 as a first mortgage. The loan will bear interest at a variable rate, as defined in the Mortgage Note. Interest is due monthly, and the entire balance of principal and any unpaid interest will be payable in full on the maturity date of the note, October 28, 2017. At June 30, 2017, the outstanding balance was $6,498,819. During October 2017, this loan was paid in full using equity contributions received from the limited partner in accordance with the terms of the limited partnership agreement.

(Continued)

NOTE H - DEBT - Continued

Manufacturers and Traders Trust Company, a banking organization, has approved a direct subsidy of $250,000 to the project's sponsor through the Federal Home Loan Bank's AHP. The sponsor, in turn, has funded a loan in the amount of $250,000 to the project, effective July 28, 2016, with interest of 6.5% per year compounded annually. Provided the project is maintained in accordance with AHP regulations for the 15-year retention period, the loan will be considered satisfied and no repayment will be required. Should the partnership not meet these terms, payment of principal plus interest will be required. No payments are due until the loan matures on August 30, 2047. At June 30, 2017, the outstanding balance was $250,000.

Capital One, National Association, a national banking organization, has approved a direct subsidy of $397,866 to the project's sponsor through the Federal Home Loan Bank's AHP. The sponsor, in turn, has funded a loan in the amount of $397,866 to the project, effective November 3, 2016, with interest of 6.5% per year compounded annually. Provided the project is maintained in accordance with AHP regulations for the 15-year retention period, the loan will be considered satisfied and no repayment will be required. Should the partnership not meet these terms, payment of principal plus interest will be required. No payments are due until the loan matures on August 30, 2047. At June 30, 2017, the outstanding balance was $397,866.

Mortgages Payable - Nativity BVM Place

The PRA approved Nativity BVM Place a $1,695,000 loan through the Federal HOME program. As a condition of the loan, the project is required to meet certain rental and occupancy requirements for a period of 20 years or until the loan is paid in full. Except upon the occurrence of an event of default as defined in the loan documents, the loan will not bear interest and the entire principal balance will be due and payable on the 45th anniversary of the loan closing. The loan is secured by the second mortgage on substantially all assets of Nativity. At June 30, 2017 and 2016, the balance due was $1,695,000 and $1,525,501, respectively.

Future Maturities of Debt

Principal repayments under the loans and mortgages are as follows:

Year ending June 30,	
2018	$ 14,848,819
2019	-
2020	-
2021	-
2022	-
Thereafter	9,546,857
	$ 24,395,676

NOTE I - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016 are restricted to:

	2017	2016
Residential services	$ 1,595,042	$ 1,379,963
Maintenance of the facilities	2,061,352	1,773,888
HUD Section 202 Capital Advance and Grant	10,211,200	9,345,814
	$ 13,867,594	$ 12,499,665

Permanently restricted net assets at June 30, 2017 and 2016 are restricted to:

	2017	2016
Beneficial interest in trusts	$ 1,669,839	$ 1,773,430
Endowments	196,475	179,488
	$ 1,866,314	$ 1,952,918

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of residential services and maintenance of the facilities in the amount of $-0-.

NOTE J - HUD SECTION 202 CAPITAL ADVANCE AND GRANT

The temporarily restricted net assets of Nativity BVM Place include a capital advance of $9,811,200, of which $9,811,200 and $8,945,814 have been received as of June 30, 2017 and 2016, respectively, from HUD under the Section 202 Capital Advance program of the Act, with a mortgage note which requires no repayment and bears no interest so long as housing remains available for very low-income elderly persons for a minimum of 40 years. Failure to keep the housing available for elderly persons would result in the repayment of the entire note plus interest since the date of the first advances. The capital advance grants HUD a security interest in substantially all property and equipment and gross revenues.

The temporarily restricted net asset balance for Nativity also includes a Section 202 Demonstration Pre-Development Grant from HUD for $400,000, of which the full amount has been received at both June 30, 2017 and 2016.

NOTE K - ENDOWMENTS

CHCS's endowments consist of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

For some of the endowments, the donor has directed how the earnings are to be used. When documentation does not provide specific direction, CHCS follows the Commonwealth of Pennsylvania Act 141.

1. Interpretation of Relevant Law

In accordance with Commonwealth of Pennsylvania Act 141, and unless directed otherwise by the donor, CHCS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor-gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CHCS in a manner consistent with the standard of prudence prescribed by relevant law. CHCS does not release any portion of the permanently restricted funds. Pennsylvania law permits the Archdiocese of Philadelphia to release a percentage, which is elected annually, of the market value of its endowment funds into unrestricted income. The spending rate percentage, between 2% and 7%, is applied to the three-year average of the market value of the endowment funds' assets.

2. Return Objectives and Risk Parameters

CHCS has adopted investment policies established by the Archdiocese of Philadelphia's Investment Committee and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of plus-3% over the consumer price index while assuming a moderate level of investment risk. CHCS expects their endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from that amount.

3. Spending Policy

In accordance with state law, net realized and unrealized gains on permanently restricted investments are included as temporarily restricted net assets, unless subject to donor restrictions for the corpus. Commonwealth of Pennsylvania law permits CHCS to adopt a spending policy for endowment earnings, subject to certain limitations. CHCS follows the total return concept of endowment investment and spending. Under this concept, a prudent amount of appreciation earned on the investments may be spent in the event that the interest and dividends earned are insufficient to meet that period's spending rate. The Archdiocese of Philadelphia's spending policy for the years ended June 30, 2017 and 2016 allowed for a 3% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor. CHCS did not allocate a draw for the years ended June 30, 2017 or 2016.

(Continued)

NOTE K - ENDOWMENTS - Continued

4. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. At both June 30, 2017 and 2016, there were no deficiencies of this nature.

5. Endowment Balances

As of June 30, 2017 and 2016, $196,475 and $179,488, respectively, in donor-restricted endowment funds were recorded within permanently restricted net assets.

CHCS had the following endowment activities during the years ended June 30, 2017 and 2016, delineated by net asset class. All endowment activities were donor-restricted.

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$ 3,216,401	$ 181,602	$ 3,398,003
Investment income	38,798	1,311	40,109
Net depreciation (realized and unrealized losses)	(101,348)	(3,425)	(104,773)
Total investment return	(62,550)	(2,114)	(64,664)
Endowment net assets, June 30, 2016	3,153,851	179,488	3,333,339
Investment income	54,661	1,848	56,509
Net appreciation (realized and unrealized gains)	447,882	15,139	463,021
Total investment return	502,543	16,987	519,530
Endowment net assets, June 30, 2017	$ 3,656,394	$ 196,475	$ 3,852,869

NOTE L - INCOME TAXES

Catholic Health Care Services and Nativity BVM Place are nonprofit corporations which have been granted exempt status from federal and state taxation under Section 501(c)(3) of the Internal Revenue Code.

CHCS has not recorded any provision or benefit for federal or state income taxes related to the for-profit partnerships which are included in the consolidated financial statements since taxable income or loss passes through to and is reportable by the partners. The partnerships are subject to City of Philadelphia Gross Receipts Tax, which will be expensed as paid.

(Continued)

NOTE L - INCOME TAXES - Continued

CHCS follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. CHCS does not believe its consolidated financial statements include material uncertain tax positions. As of June 30, 2017, the CHCS tax years ended June 30, 2014 through June 30, 2017 for federal tax jurisdiction remain open to examination.

NOTE M - CONTINGENCIES

CHCS is from time to time subject to routine litigation incidental to its business. In the opinion of management, after consulting with legal counsel, the settlement of litigation and claims, in the aggregate, will not have a material adverse effect on CHCS's consolidated balance sheets.

On June 24, 2016, CHCS agreed to settle potential violations of the Health Insurance Portability Accountability Act Security Rule with the Office for Civil Rights. The settlement included a monetary payment of $650,000 and a corrective action plan, which was paid during the year ended June 30, 2016.

NOTE N - CONCENTRATION OF CREDIT RISK

Two funding sources account for approximately 75% and 74% of CHCS's total accounts receivable and other receivable balances as of June 30, 2017 and 2016, respectively. Additionally, two funding sources account for 67% and 72% of CHCS's total operating revenue for the years ended June 30, 2017 and 2016, respectively.

NOTE O - RELATED PARTY TRANSACTIONS

1. Loans Receivable

In June 2012, the Archdiocese of Philadelphia and related entities entered into several Term Loan Agreements with participating Archdiocesan entities to retire outstanding external debt obligations. These retired obligations include the Variable Rate Revenue Bonds Series of 2008 issued through the Montgomery County Industrial Development Authority totaling $47,007,923; the Variable Rate Revenue Bonds Series of 2001 through the Chester County Industrial Development Authority totaling $50,708,547; and the various interest rate swap transactions associated with these debts totaling $15,750,000. The transactions resulted in the inter-diocesan Term Loan Receivables and Term Loans Payables totaling $71,357,582 at participating Archdiocesan entities, which included a loan receivable of $48,713,240 recorded by CHCS. The loan receivable was refinanced on July 1, 2014, with terms as described below.

The loans are collateralized by first priority mortgage liens encumbering the following Archdiocesan high school premises: Bonner-Prendergrast High School, Pope John Paul II High School, Bishop Shanahan High School and Archbishop Wood High School. In addition, the Archdiocese of Philadelphia pledges the High School Revenue associated with these specific schools. The loans carry a fixed interest rate of 4% amortized over 28 years, maturing on June 1, 2042.

(Continued)

NOTE O - RELATED PARTY TRANSACTIONS - Continued

The future principal amounts receivable on the loans at June 30, 2017 are as follows:

2018	$ 804,568
2019	1,110,808
2020	1,155,912
2021	1,202,846
2022	1,251,687
Thereafter	37,697,871
Total	$ 43,223,692

2. Other

CHCS is covered under various insurance, retirement and other plans of the Archdiocese of Philadelphia. The transactions with the Archdiocese of Philadelphia and affiliates recorded as revenue or charged to expense for the fiscal years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Revenues		
Management fees	$ 4,422,949	$ 4,237,048
Engineering consulting	101,292	92,971
	$ 4,524,241	$ 4,330,019
Expenses		
Distribution to Archdiocese of Philadelphia	$ 32,000,000	$ -
Administrative expenses	-	145,797
Pension	520,545	507,371
Insurance	126,248	104,219
	$ 32,646,793	$ 757,387

The Board of Directors of Catholic Health Care Services adopted a resolution at a special meeting held on October 19, 2016, approving the contribution and authorizing the transfer of $32 million in cash and securities from the assets of CHCS to the Archdiocese of Philadelphia, to be used for the purpose of funding the Lay Employees' Retirement Plan of the Archdiocese of Philadelphia and the Priests' Pension Plan and Ancillary Retirement Benefits Trusts of the Archdiocese of Philadelphia.

(Continued)

NOTE O - RELATED PARTY TRANSACTIONS - Continued

CHCS, as lender, has entered into a loan agreement with the Office of Nutritional Development Services for a revolving line of credit of $500,000, which expired on June 30, 2016.

CHCS has receivables due from related parties of $2,043,988 and payables of $4,751,908 at June 30, 2017. Receivables include $504,759 due from Archdiocese of Philadelphia related entities at June 30, 2017. The remaining related party balances are the result of cash management arrangements between CHCS and other related entities.

CHCS has receivables due from related parties of $2,278,214 and payables of $8,695,806 at June 30, 2016. Receivables include $352,691 due from Archdiocese of Philadelphia related entities at June 30, 2016. Payables include $3,150,000 due to Archdiocese of Philadelphia related entities at June 30, 2016. The remaining related party balances are the result of cash management arrangements between CHCS and other related entities.

NOTE P - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. 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 under ASC 820 are described as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities as of the measurement date.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although CHCS 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.

(Continued)

NOTE P - FAIR VALUE MEASUREMENTS - Continued

The following tables present the fair values of the investments held by CHCS by level within the fair value hierarchy, as of June 30, 2017 and 2016:

2017	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investment in SEI	$ 3,872,746	$ -	$ -	$ 3,872,746
Beneficial interest in trusts	-	-	1,669,839	1,669,839
Total of assets at June 30, 2017	$ 3,872,746	$ -	$ 1,669,839	$ 5,542,585

2016	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investment in SEI	$ 27,465,555	$ -	$ -	$ 27,465,555
Beneficial interest in trusts	-	-	1,773,430	1,773,430
Total of assets at June 30, 2016	$ 27,465,555	$ -	$ 1,773,430	$ 29,238,985

The table below sets forth a summary of changes in the fair value of CHCS's Level 3 assets for the years ended June 30, 2017 and 2016:

	2017	2016
Balance at beginning of year	$ 1,773,430	$ 1,930,313
Distributions received from trusts	(66,837)	(108,973)
Net appreciation (depreciation)	147,351	(47,910)
Reduction in fair value due to change in beneficiaries (Note E)	(184,105)	-
Net change in fair value	(36,754)	(47,910)
Balance at end of year	$ 1,669,839	$ 1,773,430

NOTE Q - FUNCTIONAL EXPENSES

CHCS provides a variety of services, as described in Note A. Expenses related to providing these services are as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Housing programs	$ 2,444,936	$ 1,419,354
Community programs	3,831,989	3,677,718
Administrative	7,353,199	7,564,557
	$ 13,630,124	$ 12,661,629

NOTE R - LEASES

CHCS has entered into lease agreements for real estate with various affiliated and non-affiliated entities. The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30,	
2018	$ 256,623
2019	174,003
2020	103,825
2021	50,289
2022	51,797
Thereafter	13,212
	$ 649,749

Rental expense for the years ended June 30, 2017 and 2016, totaled approximately $494,000 and $378,000, respectively.

NOTE S - LESSOR

CHCS leases its building space to unaffiliated tenants. Rental income on the leases totaled approximately $110,000 during both of the years ended June 30, 2017 and 2016.

Future minimum rents to be received on the leases during the year ending June 30, 2018 total approximately $110,000.

NOTE T - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2017, the date of the consolidated financial statements, through July 27, 2018, which is the date the consolidated financial statements were available to be issued. Pursuant to the requirements, there were no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the consolidated financial statements, except as follows:

In June 2018, CHCS received notice that it is no longer the beneficiary of a perpetual trust included in the beneficial interest in trust balance on the consolidated balance sheet. As a result, the June 30, 2017 balance has been adjusted to reflect the removal of this interest, with the offsetting loss included as part of the change in fair value of beneficial interest in trusts. Refer to Note E and Note P for further detail regarding the adjustment recorded.

In September and October 2017, CHCS repaid the St. Francis Villa Senior Housing LP loan with PNC Bank and the St. John Neumann Place II Senior Housing LP loan with Capital One, National Association, respectively, using equity contributions received from the limited partner associated with each entity.

SUPPLEMENTARY INFORMATION

Catholic Health Care Services of the Archdiocese of Philadelphia

CONSOLIDATING BALANCE SHEET

June 30, 2017

ASSETS	Community Based Services	CHCS	St. John Neumann Place LP	St. John Neumann Place II LP	St. Francis Villa Senior Housing LP	Nativity BVM Place	St. Rita Place Senior Housing LP	Eliminations	Total
Current assets									
Cash and cash equivalents	$ 1,350	$ 9,153,361	$ 56,916	$ 397,866	$ 133,150	$ 66,451	$ -	$ -	$ 9,809,094
Accounts receivable	28,700	-	-	-	2	980	-	-	29,682
Other receivables	547,337	156,505	-	-	-	-	-	-	703,842
Related party receivables	951	2,043,037	-	-	-	-	-	-	2,043,988
Due from consolidated entities	-	6,140,674	-	-	-	-	-	(6,140,674)	-
Prepaid expenses	64,319	438,736	4,156	-	2,465	2,865	-	-	512,541
Related party loans receivable - current portion	-	804,568	-	-	-	-	-	-	804,568
Total current assets	642,657	18,736,881	61,072	397,866	135,617	70,296	-	(6,140,674)	13,903,715
Investments									
Unrestricted	-	19,877	-	-	-	-	-	-	19,877
Temporarily restricted	-	3,656,394	-	-	-	-	-	-	3,656,394
Permanently restricted	-	196,475	-	-	-	-	-	-	196,475
Total investments	-	3,872,746	-	-	-	-	-	-	3,872,746
Property, plant and equipment, net	820,193	751,293	13,118,436	12,037,710	11,479,474	11,443,413	240,709	(2,724,975)	47,166,253
Developer fee receivable	-	1,825,643	-	-	-	-	-	(1,825,643)	-
Beneficial interest in trusts	-	1,669,839	-	-	-	-	-	-	1,669,839
Reserve and escrow accounts	-	-	559,645	287,446	642,265	195,902	-	-	1,685,258
Amortizable costs	-	-	47,998	-	110,117	-	-	-	158,115
Related party note receivable	-	1,500,000	-	-	-	-	-	(1,500,000)	-
Related party loans receivable	-	42,419,124	-	-	-	-	-	-	42,419,124
Total assets	$ 1,462,850	$ 70,775,526	$ 13,787,151	$ 12,723,022	$ 12,367,473	$ 11,709,611	$ 240,709	$ (12,191,292)	$ 110,875,050

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Catholic Health Care Services of the Archdiocese of Philadelphia

CONSOLIDATING BALANCE SHEET - CONTINUED

June 30, 2017

LIABILITIES AND NET ASSETS	Community Based Services	CHCS	St. John Neumann Place LP	St. John Neumann Place II LP	St. Francis Villa Senior Housing LP	Nativity BVM Place	St. Rita Place Senior Housing LP	Eliminations	Total
Current liabilities									
Accounts payable	$ 63,029	$ 300,568	$ 11,699	$ 2,269,875	$ 4,272	$ 5,288	$ -	$ -	$ 2,654,731
Accrued salaries	116,456	357,797	-	-	5,767	10,328	-	-	490,348
Accrued expenses	71,312	158,592	3,809,570	516,491	251,246	26,072	-	-	4,833,283
Benevolent care liability - current portion	-	259,876	-	-	-	-	-	-	259,876
Due to consolidated entities	5,874,536	25,429	-	-	-	-	240,709	(6,140,674)	-
Related party payables	-	4,670,455	-	-	81,453	-	-	-	4,751,908
Mortgages payable - current	-	-	-	6,498,819	8,350,000	-	-	-	14,848,819
Deferred revenue	130,679	8,500	-	-	-	-	-	-	139,179
Total current liabilities	6,256,012	5,781,217	3,821,269	9,285,185	8,692,738	41,688	240,709	(6,140,674)	27,978,144
Developer fee payable	-	-	1,030,532	-	729,532	65,579	-	(1,825,643)	-
Benevolent care liability	-	554,690	-	-	-	-	-	-	554,690
Resident funds escrow accounts	-	-	37,684	-	10,897	20,740	-	-	69,321
Mortgages payable	-	-	4,960,000	2,147,866	2,243,991	1,695,000	-	(1,500,000)	9,546,857
Total liabilities	6,256,012	6,335,907	9,849,485	11,433,051	11,677,158	1,823,007	240,709	(9,466,317)	38,149,012
Net assets									
Unrestricted									
Parent	(4,793,162)	58,916,911	-	-	-	(324,596)	-	(2,724,975)	51,074,178
Non-controlling interest	-	-	3,937,666	1,289,971	690,315	-	-	-	5,917,952
Total unrestricted	(4,793,162)	58,916,911	3,937,666	1,289,971	690,315	(324,596)	-	(2,724,975)	56,992,130
Temporarily restricted	-	3,656,394	-	-	-	10,211,200	-	-	13,867,594
Permanently restricted	-	1,866,314	-	-	-	-	-	-	1,866,314
Total net assets	(4,793,162)	64,439,619	3,937,666	1,289,971	690,315	9,886,604	-	(2,724,975)	72,726,038
Total liabilities and net assets	$ 1,462,850	$ 70,775,526	$ 13,787,151	$ 12,723,022	$ 12,367,473	$ 11,709,611	$ 240,709	$ (12,191,292)	$ 110,875,050

Catholic Health Care Services of the Archdiocese of Philadelphia

CONSOLIDATING STATEMENT OF OPERATIONS
AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	Unrestricted									Temporarily restricted			Permanently restricted	
	Community Based Services	CHCS	St. John Neumann Place LP	St. John Neumann Place II LP	St. Francis Villa Senior Housing LP	Nativity BVM Place	St. Rita Place Senior Housing LP	Eliminations	Subtotal	CHCS	Nativity BVM Place	Subtotal	CHCS	Total
Operating revenues														
Housing programs	$ -	$ -	$ 507,833	$ -	$ 336,181	$ 626,048	$ -	$ -	$ 1,470,062	$ -	$ -	$ -	$ -	$ 1,470,062
Management fees	-	4,767,215	-	-	-	-	-	(344,266)	4,422,949	-	-	-	-	4,422,949
Developer fee revenue	-	1,242,275	-	-	-	-	-	(1,242,275)	-	-	-	-	-	-
Community programs	3,188,048	-	-	-	-	-	-	-	3,188,048	-	-	-	-	3,188,048
Other operating revenue	-	101,292	-	-	-	-	-	-	101,292	-	-	-	-	101,292
Distributions from beneficial interest in trusts	-	66,837	-	-	-	-	-	-	66,837	-	-	-	-	66,837
Total operating revenues	3,188,048	6,177,619	507,833	-	336,181	626,048	-	(1,586,541)	9,249,188	-	-	-	-	9,249,188
Operating expenses														
Administration	426,021	-	301,340	-	142,296	316,229	-	(344,266)	841,620	-	-	-	-	841,620
Adult day services	242,551	-	-	-	-	-	-	-	242,551	-	-	-	-	242,551
Loan interest and fees	-	-	511,445	-	393,511	-	-	(50,475)	854,481	-	-	-	-	854,481
CHCS administration	-	1,644,033	-	-	-	-	-	-	1,644,033	-	-	-	-	1,644,033
CHCS finance	-	1,228,910	-	-	-	-	-	-	1,228,910	-	-	-	-	1,228,910
CHCS community-based services	2,912,607	-	-	-	-	-	-	-	2,912,607	-	-	-	-	2,912,607
CHCS information technology services	-	2,465,926	-	-	-	-	-	-	2,465,926	-	-	-	-	2,465,926
Depreciation and amortization	65,168	154,315	420,637	-	367,243	363,053	-	(72,218)	1,298,198	-	-	-	-	1,298,198
Plant operation and maintenance	-	-	160,551	-	86,158	139,484	-	-	386,193	-	-	-	-	386,193
Social services	-	-	64,776	-	22,657	38,114	-	-	125,547	-	-	-	-	125,547
Fringe benefits	611,663	1,018,395	-	-	-	-	-	-	1,630,058	-	-	-	-	1,630,058
Total operating expenses	4,258,010	6,511,579	1,458,749	-	1,011,865	856,880	-	(466,959)	13,630,124	-	-	-	-	13,630,124
Operating loss	(1,069,962)	(333,960)	(950,916)	-	(675,684)	(230,832)	-	(1,119,582)	(4,380,936)	-	-	-	-	(4,380,936)
Nonoperating revenues (expenses)														
Contributions and bequests	-	21,749	-	-	-	-	-	-	21,749	-	-	-	-	21,749
Distribution to Archdiocese of Philadelphia	-	(32,000,000)	-	-	-	-	-	-	(32,000,000)	-	-	-	-	(32,000,000)
Interest and investment income	-	1,961,861	-	-	-	232	-	(50,475)	1,911,618	54,661	-	54,661	1,848	1,968,127
Realized (loss) gain on sale of investments	-	(212,300)	-	-	-	-	-	-	(212,300)	1,130	-	1,130	38	(211,132)
Unrealized gains in fair value of investments	-	1,101,215	-	-	-	-	-	-	1,101,215	446,752	-	446,752	15,101	1,563,068
Change in fair value of beneficial interest in trusts	-	-	-	-	-	-	-	-	-	-	-	-	(103,591)	(103,591)
Total nonoperating revenues (expenses)	-	(29,127,475)	-	-	-	232	-	(50,475)	(29,177,718)	502,543	-	502,543	(86,604)	(28,761,779)
(Deficiency in) excess of revenues over expenses	(1,069,962)	(29,461,435)	(950,916)	-	(675,684)	(230,600)	-	(1,170,057)	(33,558,654)	502,543	-	502,543	(86,604)	(33,142,715)
Loss attributable to non-controlling interest	-	-	(950,916)	-	(675,684)	-	-	-	(1,626,600)	-	-	-	-	(1,626,600)
(Deficiency in) excess of revenues over expenses attributable to parent	(1,069,962)	(29,461,435)	-	-	-	(230,600)	-	(1,170,057)	(31,932,054)	502,543	-	502,543	(86,604)	(31,516,115)
Other changes in net assets														
Capital contributions from limited partners	-	-	-	1,289,971	525,452	-	-	-	1,815,423	-	-	-	-	1,815,423
HUD Section 202 capital contribution	-	-	-	-	-	-	-	-	-	-	865,386	865,386	-	865,386
Change in non-controlling interest	-	-	(950,916)	-	(675,684)	-	-	-	(1,626,600)	-	-	-	-	(1,626,600)
Change in net assets	(1,069,962)	(29,461,435)	(950,916)	1,289,971	(150,232)	(230,600)	-	(1,170,057)	(31,743,231)	502,543	865,386	1,367,929	(86,604)	(30,461,906)
Net assets														
Beginning of year	(3,723,200)	88,378,346	4,888,582	-	840,547	(93,996)	-	(1,554,918)	88,735,361	3,153,851	9,345,814	12,499,665	1,952,918	103,187,944
End of year	$ (4,793,162)	$ 58,916,911	$ 3,937,666	$ 1,289,971	$ 690,315	$ (324,596)	$ -	$ (2,724,975)	$ 56,992,130	$ 3,656,394	$ 10,211,200	$ 13,867,594	$ 1,866,314	$ 72,726,038