

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

**Catholic Health Care Services of the
Archdiocese of Philadelphia**

June 30, 2014 and 2013

Contents

| | Page |
|--|-------------|
| Report of Independent Certified Public Accountants | 3 |
| Consolidated financial statements | |
| Consolidated balance sheets | 5 |
| Consolidated statements of operations and changes in net assets | 7 |
| Consolidated statements of cash flows | 9 |
| Notes to consolidated financial statements | 10 |
| Supplementary information | |
| Consolidating balance sheets | 28 |
| Consolidating statements of operations and changes in net assets | 30 |



Grant Thornton

Grant Thornton LLP

2001 Market Street, Suite 700
Philadelphia, PA 19103-7080

T 215.561.4200

F 215.561.1066

GrantThornton.com

[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/GrantThorntonUS)

twitter.com/GrantThorntonUS

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013 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.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

November 14, 2014

CONSOLIDATED BALANCE SHEETS

June 30,

| | 2014 | 2013 |
|---|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 12,119,250 | \$ 5,445,223 |
| Short-term investments - temporarily restricted | 236 | 236 |
| Reserve and escrow accounts | 489,157 | 446,617 |
| Patient accounts receivable | | |
| Self-pay | 13,887 | 4,993,852 |
| Third-party payors | - | 12,602,729 |
| Allowance for doubtful accounts | - | (537,689) |
| Net patient accounts receivable | 13,887 | 17,058,892 |
| Other receivables | 795,095 | 1,959,794 |
| Related party receivables | 685,252 | 1,616,199 |
| Related party loans receivable | 693,698 | 888,825 |
| Inventories | - | 131,956 |
| Prepaid expenses | 425,235 | 683,895 |
| Assets held for sale | | |
| Patient accounts receivable | | |
| Self-pay | 5,555,836 | - |
| Third-party payors | 9,802,911 | - |
| Allowance for doubtful accounts | (434,078) | - |
| Net patient accounts receivable | 14,924,669 | - |
| Other receivables | 734,977 | - |
| Inventories | 150,177 | - |
| Prepaid expenses | 2,085,545 | - |
| Property, plant and equipment, net | 58,249,061 | - |
| Resident funds escrow | 1,174,916 | - |
| Total current assets | 92,541,155 | 28,231,637 |
| Investments | | |
| Unrestricted | 25,650,385 | 22,509,907 |
| Temporarily restricted | 3,375,848 | 3,239,137 |
| Permanently restricted | 181,529 | 168,274 |
| Total investments | 29,207,762 | 25,917,318 |
| Property, plant and equipment, net | 15,175,330 | 78,314,601 |
| Funds held by third parties | 1,993,868 | 1,876,723 |
| Resident funds escrow accounts | 38,545 | 1,277,341 |
| Deferred financing costs, net | 100,233 | 117,644 |
| Related party loans receivable | 46,188,957 | 47,110,444 |
| Total assets | \$ 185,245,850 | \$ 182,845,708 |

Continued on next page

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

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|-----------------------|-----------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 4,048,304 | \$ 3,738,674 |
| Accrued salaries | 8,984,852 | 8,644,307 |
| Accrued expenses | 4,330,394 | 7,301,369 |
| Related party payables | 5,787 | 842,978 |
| Deferred revenue | 349,047 | 319,879 |
| Current portion of loan payable | <u>177,818</u> | <u>169,873</u> |
| Total current liabilities | <u>17,896,202</u> | <u>21,017,080</u> |
| Resident funds escrow accounts | 1,213,461 | 1,277,341 |
| Loan payable | 8,105,981 | 8,300,111 |
| Mortgage payable | <u>4,960,000</u> | <u>4,960,000</u> |
| Total liabilities | <u>32,175,644</u> | <u>35,554,532</u> |
| Net assets | | |
| Unrestricted | | |
| Parent | 140,772,758 | 134,377,063 |
| Non-controlling interest | <u>6,746,203</u> | <u>7,629,742</u> |
| Total unrestricted | 147,518,961 | 142,006,805 |
| Temporarily restricted | 3,375,848 | 3,239,373 |
| Permanently restricted | <u>2,175,397</u> | <u>2,044,998</u> |
| Total net assets | <u>153,070,206</u> | <u>147,291,176</u> |
| Total liabilities and net assets | <u>\$ 185,245,850</u> | <u>\$ 182,845,708</u> |

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,

| | <u>2014</u> | <u>2013</u> |
|---|--------------------|--------------------|
| Change in unrestricted net assets | | |
| Operating revenues | | |
| Net resident revenue, net of contractual allowances | \$ 130,257,274 | \$ 125,924,014 |
| Bad debt expense | <u>(108,932)</u> | <u>(97,332)</u> |
| Net resident revenue, net of bad debt | 130,148,342 | 125,826,682 |
| Other operating revenue | 11,526,772 | 10,985,405 |
| Net assets released from restrictions | <u>374,738</u> | <u>210,748</u> |
| Total operating revenues | <u>142,049,852</u> | <u>137,022,835</u> |
| Operating expenses | | |
| Administration | 8,519,097 | 8,449,195 |
| Auxiliary services | 1,570,051 | 1,212,233 |
| Loan interest and fees | 847,399 | 473,330 |
| CHCS administration | 4,936,469 | 3,630,036 |
| CHCS finance | 2,787,670 | 2,911,711 |
| CHCS community-based services | 872,583 | 501,484 |
| CHCS information technology services | 3,522,095 | 3,394,778 |
| Depreciation and amortization | 6,812,799 | 6,021,256 |
| Dietary | 10,493,004 | 10,388,119 |
| Housekeeping and laundry | 4,463,447 | 4,551,425 |
| Nurse administration | 6,104,624 | 5,797,104 |
| Pastoral care | 492,877 | 524,565 |
| Plant operation and maintenance | 8,148,723 | 8,066,488 |
| Professional care of residents | 45,319,597 | 45,485,498 |
| Recreation | 1,795,129 | 1,808,379 |
| Social services | 1,700,182 | 1,488,124 |
| Therapy services | 8,033,137 | 7,325,561 |
| Fringe benefits | 22,831,297 | 24,132,666 |
| Management agreement expenses | <u>3,361,471</u> | <u>3,452,763</u> |
| Total operating expenses | <u>142,611,651</u> | <u>139,614,715</u> |
| Operating loss | <u>(561,799)</u> | <u>(2,591,880)</u> |

Continued on next page

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,

| | 2014 | 2013 |
|--|-----------------------|-----------------------|
| Nonoperating revenues | | |
| Contributions and bequests | \$ 420,838 | \$ 102,942 |
| Interest and investment income | 2,314,906 | 2,427,217 |
| Realized gain on sale of investments | 1,676,858 | 453,785 |
| Unrealized gains in fair value of investments | 1,576,182 | 1,713,273 |
| Miscellaneous income | 85,171 | 86,846 |
| Total nonoperating revenues | <u>6,073,955</u> | <u>4,784,063</u> |
| Excess of revenues over expenses | 5,512,156 | 2,192,183 |
| Excess attributable to non-controlling interest | <u>883,539</u> | <u>849,577</u> |
| Excess of revenues over expenses attributable to parent | 6,395,695 | 3,041,760 |
| Other changes in unrestricted net assets | | |
| Change in non-controlling interest | <u>(883,539)</u> | <u>(849,577)</u> |
| Increase in unrestricted net assets | <u>5,512,156</u> | <u>2,192,183</u> |
| Change in temporarily restricted net assets | | |
| Interest and investment income | 45,171 | 55,027 |
| Realized gain on sale of investments | 301,268 | 82,002 |
| Unrealized gains in fair value of investments | 162,481 | 243,883 |
| Net assets released from restrictions | <u>(372,445)</u> | <u>(208,340)</u> |
| Increase in temporarily restricted net assets | <u>136,475</u> | <u>172,572</u> |
| Change in permanently restricted net assets | | |
| Unrealized gains (losses) in fair value of investments | 132,692 | (158,967) |
| Net assets released from restrictions | <u>(2,293)</u> | <u>(2,408)</u> |
| Increase (decrease) in permanently restricted net assets | <u>130,399</u> | <u>(161,375)</u> |
| Increase in net assets | 5,779,030 | 2,203,380 |
| Net assets | | |
| Beginning of year | <u>147,291,176</u> | <u>145,087,796</u> |
| End of year | <u>\$ 153,070,206</u> | <u>\$ 147,291,176</u> |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

| | 2014 | 2013 |
|--|---------------|--------------|
| Cash flows from operating activities and gains | | |
| Change in net assets | \$ 5,779,030 | \$ 2,203,380 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Provision for bad debt | 108,932 | 97,332 |
| Unrealized gains in fair value of investments | (1,871,355) | (1,968,248) |
| Realized gain on sale of investments | (1,978,126) | (535,787) |
| Depreciation and amortization | 6,812,799 | 6,021,256 |
| Change in funds held by third parties | (117,145) | 170,059 |
| Changes in working capital which provided (or used) cash | | |
| Accounts receivable, net | 2,011,404 | (2,816,531) |
| Reserve and escrow accounts | (42,540) | (37,219) |
| Related party receivables | 930,947 | (207,873) |
| Other receivables | 429,722 | 1,225,337 |
| Inventories | (18,221) | 11,480 |
| Prepaid expenses | (1,826,885) | 96,737 |
| Accounts payable | 309,630 | (946,466) |
| Accrued salaries | 340,545 | 537,915 |
| Accrued expenses | (2,970,975) | 2,938,697 |
| Related party payable | (837,191) | 418,213 |
| Deferred revenue | 29,168 | 90,464 |
| Net cash provided by operating activities before trading securities | 7,089,739 | 7,298,746 |
| Change in investments trading securities, net | 559,037 | (489,526) |
| Net cash provided by operating activities | 7,648,776 | 6,809,220 |
| Cash flows from investing activities | | |
| Capital expenditures | (1,905,178) | (6,366,775) |
| Payments received on related party loan | 1,116,614 | 713,971 |
| Net cash used in investing activities | (788,564) | (5,652,804) |
| Cash flows from financing activities | | |
| Proceeds from loan | - | 1,288,865 |
| Repayment of loan | (186,185) | - |
| Net cash (used in) provided by financing activities | (186,185) | 1,288,865 |
| Net increase in cash and cash equivalents | 6,674,027 | 2,445,281 |
| Cash and cash equivalents | | |
| Beginning of year | 5,445,223 | 2,999,942 |
| End of year | \$ 12,119,250 | \$ 5,445,223 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ 386,773 | \$ 347,467 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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/personal care 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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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, 2014 and 2013.

9. Deferred Financing Costs

As of June 30, 2014, 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 \$17,412 and \$17,411 for the years ended June 30, 2014 and 2013, 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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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 debt, 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 debt 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, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debt), recognized in the periods from these major payor sources based on primary insurance designation, are as follows:

| <u>Net resident revenue</u> | <u>Third-Party Payors</u> | <u>Self-Pay</u> | <u>Total All Payors</u> |
|-----------------------------|-------------------------------|-----------------|-----------------------------|
| 2014 | \$ 101,732,440 | \$ 28,524,834 | \$ 130,257,274 |
| 2013 | \$ 94,027,233 | \$ 31,896,781 | \$ 125,924,014 |

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 debt 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, 2014 and 2013.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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, 2014 and 2013, the net nursing home assessment was \$2,708,079 and \$2,430,310, 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 Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the 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 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. These records include the amount of charges forgone based on established rates for services and supplies furnished under its charity care policies, the estimated cost of those services, and the number of residents receiving services under these policies. The level of community benefits provided as identified in accordance with CHCS's accounting policies is as follows for the years ended June 30:

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Charitable services | | |
| Unpaid cost of state programs to the financially disadvantaged (e.g., Medicaid) | \$ 21,079,253 | \$ 21,403,387 |
| Unpaid cost of services to other financially disadvantaged persons | <u>1,082,787</u> | <u>751,444</u> |
| Total community care at cost | <u>\$ 22,162,040</u> | <u>\$ 22,154,831</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE D - INVESTMENTS

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

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>2014</u> | | | | |
| Archdiocese of Philadelphia Non-Pension Assets Portfolio | \$ 22,957,662 | \$ 3,375,848 | \$ 181,529 | \$ 26,515,039 |
| Unemployment insurance fund | <u>2,692,723</u> | <u>-</u> | <u>-</u> | <u>2,692,723</u> |
| | <u>\$ 25,650,385</u> | <u>\$ 3,375,848</u> | <u>\$ 181,529</u> | <u>\$ 29,207,762</u> |
| <u>2013</u> | | | | |
| Archdiocese of Philadelphia Non-Pension Assets Portfolio | \$ 19,788,469 | \$ 3,239,137 | \$ 168,274 | \$ 23,195,880 |
| Unemployment insurance fund | <u>2,721,438</u> | <u>-</u> | <u>-</u> | <u>2,721,438</u> |
| | <u>\$ 22,509,907</u> | <u>\$ 3,239,137</u> | <u>\$ 168,274</u> | <u>\$ 25,917,318</u> |

For administrative and other needs, the Archdiocese of Philadelphia formed the Non-Pension Assets Portfolio (the "NPAP") to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese of Philadelphia. The investments in the NPAP are held by a custodian and are managed based on sub-accounts as follows:

Equity Sub-Account (or "fund") - Invests in common stocks and is managed by multiple investment managers.

Fixed Income Sub-Account (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by multiple investment managers.

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and are used to buy and sell units of the Equity and Fixed Income funds.

The NPAP is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. The Archdiocese of Philadelphia's investment in the NPAP is stated at unit value.

The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining the allocation of amounts to be invested among the funds. Management is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE D - INVESTMENTS - Continued

At June 30, 2014 and 2013, CHCS held the following categories of investments within the NPAP:

| | Ownership | |
|--------------------------|----------------------|----------------------|
| | 2014 | 2013 |
| Equity sub-account | \$ 16,496,060 | \$ 17,544,228 |
| Fixed income sub-account | <u>12,711,702</u> | <u>8,373,090</u> |
| Total ownership | <u>\$ 29,207,762</u> | <u>\$ 25,917,318</u> |

NOTE E - FUNDS HELD BY THIRD PARTIES

CHCS is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2014 and 2013, the allocable fair value of these trusts was \$1,993,868 and \$1,876,723, respectively, and is recorded as funds held by third parties in the accompanying consolidated balance sheets. During fiscal year 2014, CHCS recognized unrestricted income of \$93,973 and permanently restricted appreciation of \$117,146 related to these trusts. During fiscal year 2013, CHCS recognized unrestricted income of \$63,902 and permanently restricted depreciation of \$170,059 related to these trusts.

NOTE F - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation at June 30, 2014 and 2013 consist of:

| | 2014 | 2013 |
|------------------------------------|----------------------|----------------------|
| Land | \$ 1,650,825 | \$ 1,650,825 |
| Land improvements | 4,030,355 | 3,984,034 |
| Buildings and improvements | 135,458,610 | 134,315,470 |
| Furniture and equipment | 23,363,024 | 23,103,603 |
| Construction in progress | <u>1,099,259</u> | <u>617,720</u> |
| | 165,602,073 | 163,671,652 |
| Accumulated depreciation | <u>(92,177,682)</u> | <u>(85,357,051)</u> |
| Property, plant and equipment, net | <u>\$ 73,424,391</u> | <u>\$ 78,314,601</u> |

Depreciation expense was \$6,795,387 and \$6,003,845 for the years ended June 30, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE G - PENSIONS

The eligible lay employees of CHCS are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan that covers substantially all lay employees, once age and service requirements are met, of the Archdiocese of Philadelphia, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan. CHCS made annual contributions to the Plan at an average rate of 6.25% and 5.00% of the salaries of eligible employees for the years ended June 30, 2014 and 2013, respectively. The amount expensed by CHCS for contributions to the Plan was \$3,359,447 and \$2,691,701 for the years ended June 30, 2014 and 2013, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE H - DEBT

Loan Payable

St. Monica Manor obtained a loan from Beneficial Mutual Savings Bank in order to renovate and redesign the St. Monica Manor property. On July 1, 2013, the loan converted to a term of 25 years with required monthly payments of principal and interest. The loan will bear interest equal to the rate announced as the Federal Home Loan Bank of Pittsburgh's Amortizing 5 Year Long Term Fixed Rate plus 300 basis points, approximately 4.5% as of June 30, 2014 and 2013. The obligation is secured by the grant of security interest in gross revenues and other accounts of St. Monica Manor. CHCS is a guarantor on this loan. The amount outstanding at June 30, 2014 is \$8,283,799.

Mortgage Payable

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.

The Redevelopment Authority ("RDA"), an agency of the City of Philadelphia, approved a St. John Neumann Place LP \$1,765,000 loan through the Federal HOME program. 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.

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 self-amortizing 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE I - RESIDENT FUND ESCROW ACCOUNTS

CHCS acts as trustee over funds held for its residents. Expenditures of resident funds are authorized by the residents or their families. Generally, the funds are used to cover the costs of personal items which are not covered by the daily general service charge or special charges. These funds are returned to the resident, family, or estate upon discharge or death.

NOTE J - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Residential services | \$ 1,474,757 | \$ 1,354,623 |
| Maintenance of the facilities | 1,901,091 | 1,740,011 |
| Acquisition of nursing facilities in South Philadelphia | <u>-</u> | <u>144,739</u> |
| | <u>\$ 3,375,848</u> | <u>\$ 3,239,373</u> |

Permanently restricted net assets at June 30, 2014 and 2013 are restricted to:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Investments to be held in perpetuity, the income from which is expendable to support operations of the organization (reported as other operating income) | <u>\$ 2,175,397</u> | <u>\$ 2,044,998</u> |
| | <u>\$ 2,175,397</u> | <u>\$ 2,044,998</u> |

During 2014 and 2013, 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 \$374,738 and \$210,748, respectively.

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.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE K - ENDOWMENTS - Continued

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, 2014 and 2013 allowed for a 3% draw of the three-year average market value of the permanently restricted endowments, unless directed otherwise by the donor.

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. As of June 30, 2014 and 2013, there were no deficiencies of this nature.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE K - ENDOWMENTS - Continued

As of June 30, 2014 and 2013, \$181,529 and \$168,274, respectively, in donor-restricted endowment funds were recorded within permanently restricted net assets.

CHCS had the following endowment activities during the year ended June 30, 2014, delineated by net asset class. All endowment activities were donor-restricted.

| | Temporarily restricted | Permanently restricted | Total |
|--|---------------------------|---------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 3,239,137 | \$ 168,274 | \$ 3,407,411 |
| Investment income | 45,171 | 1,296 | 46,467 |
| Net appreciation (realized and unrealized gains) | <u>463,985</u> | <u>14,252</u> | <u>478,237</u> |
| Total investment return | 509,156 | 15,548 | 524,704 |
| Distributions | <u>(372,445)</u> | <u>(2,293)</u> | <u>(374,738)</u> |
| Endowment net assets, June 30, 2014 | <u>\$ 3,375,848</u> | <u>\$ 181,529</u> | <u>\$ 3,557,377</u> |

NOTE L - INCOME TAXES

CHCS is a nonprofit corporation which has been granted exempt status from federal and state taxation under Section 501(c)(3) of the Internal Revenue Code.

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, 2014, the CHCS tax years ended June 30, 2011 through June 30, 2013 for federal tax jurisdiction remain open to examination.

NOTE M - MEDICAL MALPRACTICE INSURANCE

CHCS insures against the risks of malpractice losses resulting from claims against any of its facilities, by participating in the Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). With respect to the primary malpractice insurance risk not covered by the MCARE Fund, CHCS participates in the Archdiocese of Philadelphia Institutions' general professional liability insurance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE N - CONCENTRATION OF CREDIT RISK

CHCS grants credit without collateral to its residents, some of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013 was as follows:

| | <u>2014</u> | <u>2013</u> |
|---------------------|-------------|-------------|
| Private pay | 37% | 29% |
| Medical Assistance | 38 | 53 |
| Medicare | 13 | 10 |
| Insurance and other | <u>12</u> | <u>8</u> |
| | <u>100%</u> | <u>100%</u> |

NOTE O - RELATED PARTY TRANSACTIONS

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 transaction 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. Several payments were received in 2013 and 2014, and 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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE O - RELATED PARTY TRANSACTIONS - Continued

The future principal amounts receivable on the loans at June 30, 2014 are as follows:

| | |
|------------|----------------------|
| 2015 | \$ 693,698 |
| 2016 | 957,738 |
| 2017 | 996,625 |
| 2018 | 1,037,095 |
| 2019 | 1,079,203 |
| Thereafter | <u>42,118,296</u> |
| Total | <u>\$ 46,882,655</u> |

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, 2014 and 2013 are as follows:

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Revenues | | |
| Management fees | \$ 3,845,059 | \$ 3,901,393 |
| Contribution for related party expense | <u>3,361,471</u> | <u>3,452,763</u> |
| | <u>\$ 7,206,530</u> | <u>\$ 7,354,156</u> |
| Expenses | | |
| Management fees | \$ 320,429 | \$ 318,034 |
| Management agreement expenses | 3,361,471 | 3,452,763 |
| Pension | 3,359,447 | 2,691,701 |
| Insurance | <u>6,796,342</u> | <u>8,256,184</u> |
| | <u>\$ 13,837,689</u> | <u>\$ 14,718,682</u> |

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. The terms of the agreement mature June 30, 2016. The line of credit bears interest monthly on the effective interest rate of the Borrowers. No amounts have been drawn upon as of June 30, 2013.

CHCS has receivables from related parties of \$685,252 and \$1,616,199 and payables of \$5,787 and \$842,978 at June 30, 2014 and 2013, respectively. Receivables include \$500,434 and \$1,384,989 due from Archdiocese of Philadelphia related entities at June 30, 2014 and 2013, respectively. The remaining related party balances are the result of cash management arrangements between CHCS and other related entities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE P - FAIR VALUE MEASUREMENTS

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.
- 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.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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.

The fair value of certain investments is estimated using the NAV per share. These investments are classified as either Level 2, if CHCS's investment can be redeemed at the reporting date or within the near term, or Level 3, if its investment is not redeemable at the NAV per share at or near the consolidated balance sheet date.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE P - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in entities that calculate NAV per share or its equivalent as of June 30, 2014 are as follows:

| | <u>Fair value</u> | <u>Unfunded commitment</u> | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|---------------------------------|----------------------|--------------------------------|---------------------------------|---|
| Archdiocese NPAP ^(a) | \$ <u>26,515,039</u> | \$ <u>-</u> | daily | 1 day |

- ^(a) A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the NPAP is preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the NPAP takes into consideration the specific spending requirements and the present and future needs of the Archdiocese of Philadelphia and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index ("CPI") plus three percent (3%) on an annualized basis. The fair values are estimated using the NAV per share of the investments.

Following is a description of CHCS's valuation methodologies for assets and liabilities measured at fair value that are not part of the NPAP. The Other Investments consist of the individual trusts held by third parties in perpetuity.

Fair value for Level 3 is based on valuation techniques that use significant inputs, as they trade infrequently or not at all.

The following table presents the fair values of the investments held by CHCS by level within the fair value hierarchy, as of June 30, 2014:

| | <u>Quoted prices in active markets (Level 1)</u> | <u>Significant other observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> | <u>Total fair value</u> |
|---|--|--|--|-----------------------------|
| <u>2014</u> | | | | |
| Assets | | | | |
| Archdiocese NPAP | \$ - | \$ 26,515,039 | \$ - | \$ 26,515,039 |
| Unemployment insurance fund (invested in NPAP) | 2,692,723 | - | - | 2,692,723 |
| Funds held by third parties | <u>-</u> | <u>-</u> | <u>1,993,868</u> | <u>1,993,868</u> |
| Total of assets at June 30, 2014 | \$ <u>2,692,723</u> | \$ <u>26,515,039</u> | \$ <u>1,993,868</u> | \$ <u>31,201,630</u> |

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE P - FAIR VALUE MEASUREMENTS - Continued

The table below sets forth a summary of changes in the fair value of CHCS's Level 3 assets for the year ended June 30, 2014:

| | |
|-----------------------------|---------------------|
| Balance as of June 30, 2013 | \$ 1,876,723 |
| Unrealized gains | <u>117,145</u> |
| Balance at end of year | <u>\$ 1,993,868</u> |

The following table presents the fair values of the investments held by CHCS by level within the fair value hierarchy, as of June 30, 2013:

| | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
|---|--|---|--|----------------------|
| <u>2013</u> | | | | |
| Assets | | | | |
| Archdiocese NPAP | \$ - | \$ 23,195,880 | \$ - | \$ 23,195,880 |
| Unemployment insurance fund (invested in NPAP) | 2,721,438 | - | - | 2,721,438 |
| Funds held by third parties | <u>-</u> | <u>-</u> | <u>1,876,723</u> | <u>1,876,723</u> |
| Total of assets at June 30, 2013 | <u>\$ 2,721,438</u> | <u>\$ 23,195,880</u> | <u>\$ 1,876,723</u> | <u>\$ 27,794,041</u> |

The table below sets forth a summary of changes in the fair value of CHCS's Level 3 assets for the year ended June 30, 2013:

| | |
|-----------------------------|---------------------|
| Balance as of June 30, 2013 | \$ 2,046,782 |
| Unrealized losses | <u>(170,059)</u> |
| Balance at end of year | <u>\$ 1,876,723</u> |

NOTE Q - FUNCTIONAL EXPENSES

CHCS provides a variety of services, as described in Note B. Expenses related to providing these services are as follows for the years ended June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|-----------------------|-----------------------|
| Health care | \$ 119,212,441 | \$ 117,921,958 |
| Housing and community-based services | 2,253,160 | 1,832,095 |
| Administrative | <u>21,146,049</u> | <u>19,860,662</u> |
| | <u>\$ 142,611,650</u> | <u>\$ 139,614,715</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE R - AGREEMENT OF SALE

On June 27, 2014, the Archdiocese of Philadelphia entered into an agreement of sale with Center Management Group ("CMG") for certain assets of the following CHCS organizations: Immaculate Mary Home, Saint Francis Country House, Saint John Neumann Home, Saint Monica Manor, Saint Mary Manor, Saint Martha Manor and Villa Saint Martha. Those assets include all real property, tangible personal property, contracts relating to the businesses, resident funds and assets, security deposits and prepayments, accounts receivable and other assets. The assets which are subject to this sale are classified on the consolidated balance sheet as assets held for sale.

The net proceeds from the sale which are available will be reduced by CMG's retention of accounts receivable, the paying down of CHCS's external debt, the setting aside of certain amounts for ongoing ministries of Catholic Human Services of the Archdiocese of Philadelphia, and closing costs. The funds received by the Archdiocese of Philadelphia will be used toward various existing liabilities. This transaction was executed on November 3, 2014.

NOTE S - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2014, the date of the consolidated financial statements, through November 14, 2014, 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 noted below:

On July 1, 2014, the Archdiocese of Philadelphia and related entities refinanced the Term Loan Agreement referenced in Note O.

The Archdiocese of Philadelphia froze the Lay Employees' Retirement Plan ("LERP") effective June 30, 2014. All current employees will retain benefits they have earned through the effective date of the freeze. After the date of the freeze, accrued pension benefits under the LERP will not increase for current employees with additional service or increases in pay after the freeze date. Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan for all eligible employees.

As described in Note R, the agreement of sale with CMG was executed on November 3, 2014.

SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET

June 30, 2014

| ASSETS | | | | | | | | | | | Consolidated totals |
|---|-----------------|---------------|------------------|------------------|----------------|------------------|------------------|---------------------|---------------|----------------|---------------------|
| | Immaculate Mary | Saint Francis | St. John Neumann | St. Monica Manor | St. Mary Manor | St. Martha Manor | Villa St. Martha | Community Based Soc | CHCS | Subtotal | |
| Current assets | | | | | | | | | | | |
| Cash and cash equivalents | \$ 2,700 | \$ 1,300 | \$ 1,045 | \$ - | \$ 49,116 | \$ 1,350 | \$ 289,585 | \$ 400 | \$ 11,687,853 | \$ 12,026,349 | \$ 12,119,250 |
| Short-term investments - temporarily restricted | - | - | - | - | 18,229 | - | 59,034 | - | 236 | 236 | 236 |
| Reserve and escrow accounts | - | - | - | - | - | - | - | - | - | 77,263 | 489,157 |
| Patient accounts receivable | - | - | - | - | - | - | - | 13,887 | - | 13,887 | 13,887 |
| Self-pay | - | - | - | - | - | - | - | - | - | - | - |
| Third-party payors | - | - | - | - | - | - | - | - | - | - | - |
| Allowance for doubtful accounts | - | - | - | - | - | - | - | - | - | - | - |
| Net patient accounts receivable | - | - | - | - | - | - | - | - | - | - | - |
| Other receivables | - | - | - | - | - | - | - | 13,887 | - | 13,887 | 13,887 |
| Related party receivables | - | - | - | - | - | - | - | - | - | - | - |
| Related party receivable reserve | 131,009 | 108,569 | 76,917 | 73,059 | 253,616 | 72,777 | 34,344 | 59,241 | 735,854 | 795,095 | 795,095 |
| Due to/from CHCS (entire) | - | - | - | 16,463,457 | - | - | 749,783 | 72,021 | 11,215,438 | 12,037,750 | (11,352,498) |
| Related party loans receivable | - | - | - | - | - | - | - | - | (12,291,098) | (12,291,098) | 12,291,098 |
| Intercompany loans receivable | - | - | - | - | - | - | - | - | - | 17,213,240 | (17,213,240) |
| Inventories | - | - | - | - | - | - | - | - | 693,698 | 693,698 | 693,698 |
| Prepaid expenses | - | - | - | - | - | - | - | - | 181,865 | 181,865 | (181,865) |
| Assets held for sale | - | - | - | - | - | - | - | 15,129 | 407,337 | 422,466 | - |
| Patient accounts receivable | - | - | - | - | - | - | - | - | - | - | - |
| Self-pay | 1,441,356 | 1,440,878 | 697,445 | 683,987 | 1,015,207 | 263,375 | 13,588 | 5,555,836 | - | 5,555,836 | 5,555,836 |
| Third-party payors | 2,483,132 | 2,014,013 | 1,475,445 | 1,582,912 | 1,082,823 | 1,164,586 | - | 9,802,911 | - | 9,802,911 | 9,802,911 |
| Allowance for doubtful accounts | (119,528) | (114,495) | (50,038) | (60,515) | (97,924) | (21,578) | - | (434,078) | - | (434,078) | (434,078) |
| Net patient accounts receivable | 3,694,960 | 3,340,396 | 2,122,852 | 2,206,384 | 2,030,106 | 1,406,383 | 13,588 | 14,924,669 | - | 14,924,669 | 14,924,669 |
| Other receivables | 154,068 | 135,624 | 158,198 | 147,307 | 88,019 | 40,591 | 11,170 | 734,977 | - | 734,977 | 734,977 |
| Inventories | 34,264 | 36,544 | 24,889 | 27,754 | 28,054 | 26,626 | 57,804 | 150,177 | - | 150,177 | 150,177 |
| Prepaid expenses | 442,698 | 408,481 | 339,123 | 272,754 | 359,402 | 205,283 | 6,658,018 | 2,085,545 | - | 2,085,545 | 2,085,545 |
| Property, plant and equipment, net | 5,664,337 | 10,875,660 | 3,267,606 | 21,484,483 | 5,703,444 | 4,595,513 | 340,093 | 58,249,061 | - | 58,249,061 | 58,249,061 |
| Resident funds escrow | 181,257 | 214,498 | 206,671 | 173,732 | 25,193 | 33,472 | - | 1,174,916 | - | 1,174,916 | 1,174,916 |
| Total current assets | 10,415,293 | 15,120,872 | 6,197,301 | 40,821,176 | 8,555,179 | 6,381,995 | 8,206,419 | 160,678 | 12,631,183 | 108,490,096 | 92,541,155 |
| Investments | | | | | | | | | | | |
| Unrestricted | - | - | - | - | 9,108,027 | - | - | - | 16,542,358 | 25,650,385 | 25,650,385 |
| Temporarily restricted | 1,474,757 | 1,901,091 | - | - | - | - | - | - | - | 3,375,848 | 3,375,848 |
| Permanently restricted | - | 181,529 | - | - | - | - | - | - | - | 181,529 | 181,529 |
| Total investments | 1,474,757 | 2,082,620 | - | - | 9,108,027 | - | - | - | 16,542,358 | 29,207,762 | 29,207,762 |
| Property, plant and equipment, net | - | - | - | - | - | - | - | - | 488,662 | 1,362,320 | 15,175,330 |
| Funds held by third parties | - | 1,695,543 | 150,894 | - | 147,431 | - | - | - | - | 1,993,868 | 1,993,868 |
| Resident funds escrow accounts | - | - | - | - | - | - | - | - | - | 38,545 | 38,545 |
| Deferred financing costs, net | - | - | - | - | - | - | - | - | - | 100,233 | 100,233 |
| Related party loans receivable | - | - | - | - | - | - | - | - | 46,188,957 | 46,188,957 | 46,188,957 |
| Intercompany loan receivable | - | - | - | - | - | - | - | - | 12,109,233 | 12,109,233 | (12,109,233) |
| Total assets | \$ 11,890,050 | \$ 18,899,035 | \$ 6,348,195 | \$ 40,921,176 | \$ 17,810,637 | \$ 6,381,995 | \$ 8,206,419 | \$ 1,034,336 | \$ 87,960,393 | \$ 199,352,236 | \$ 185,245,850 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | |
| Accounts payable | \$ 743,921 | \$ 641,578 | \$ 540,922 | \$ 613,180 | \$ 422,494 | \$ 576,070 | \$ 102,616 | \$ 9,141 | \$ 392,178 | \$ 4,042,100 | \$ 4,046,304 |
| Accrued salaries | 1,751,164 | 1,618,575 | 1,459,822 | 699,674 | 1,024,093 | 854,268 | 225,434 | 86,159 | 1,295,653 | 8,984,852 | 8,984,852 |
| Accrued expenses | 237,732 | 177,807 | 128,951 | 331,575 | 524,338 | 94,947 | 58,809 | 7,212 | 59,823 | 1,621,994 | 4,330,394 |
| Related party payables | 319,494 | 350,654 | 261,727 | 9,234,933 | 207,420 | 187,769 | 129,204 | 83,754 | 583,330 | 11,358,385 | (11,352,498) |
| Due to/from CHCS (entire) | 1,517,281 | 1,242,100 | 355,602 | - | 601,892 | 39,956 | 278,963 | 1,921,299 | 11,353,110 | 17,213,240 | (17,213,240) |
| Deferred revenue | 107 | - | 6,000 | - | 46,305 | - | - | 9,172 | 8,500 | 349,047 | 349,047 |
| Current portion of loan payable | - | - | - | 177,818 | - | - | 181,865 | - | - | 177,818 | 177,818 |
| Intercompany loan payable | - | - | - | - | - | - | - | - | - | 181,865 | (181,865) |
| Total current liabilities | 4,569,699 | 4,030,714 | 2,723,024 | 11,056,980 | 2,826,542 | 1,753,010 | 977,891 | 2,116,737 | 13,874,604 | 43,929,201 | 17,896,202 |
| Resident funds escrow accounts | - | - | - | - | - | - | - | - | - | - | - |
| Loan payable | 181,257 | 214,498 | 206,671 | 173,732 | 25,193 | 33,472 | 340,093 | 1,174,916 | - | 1,174,916 | 1,213,461 |
| Intercompany loan payable | - | - | - | 8,105,981 | - | - | 12,109,233 | - | - | 12,109,233 | 8,105,981 |
| Mortgage payable | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 4,750,956 | 4,245,212 | 2,929,695 | 19,336,693 | 2,851,735 | 1,786,482 | 13,427,217 | 2,116,737 | 13,874,604 | 65,319,331 | 32,173,644 |
| Net assets | | | | | | | | | | | |
| Unrestricted | - | - | - | - | - | - | - | - | - | - | - |
| Parent | 5,664,337 | 10,875,660 | 3,267,606 | 21,484,483 | 14,811,471 | 4,595,513 | (5,220,798) | (1,082,401) | 74,085,789 | 128,481,660 | 140,772,738 |
| Non-controlling interest | - | - | - | - | - | - | - | - | - | - | 6,746,203 |
| Total unrestricted | 5,664,337 | 10,875,660 | 3,267,606 | 21,484,483 | 14,811,471 | 4,595,513 | (5,220,798) | (1,082,401) | 74,085,789 | 128,481,660 | 147,518,961 |
| Temporarily restricted | 1,474,757 | 1,901,091 | - | - | - | - | - | - | - | 3,375,848 | 3,375,848 |
| Permanently restricted | - | 1,877,072 | 150,894 | - | 147,431 | - | - | - | - | 2,175,397 | 2,175,397 |
| Total net assets | 7,139,094 | 14,653,823 | 3,418,500 | 21,484,483 | 14,958,902 | 4,595,513 | (5,220,798) | (1,082,401) | 74,085,789 | 134,032,905 | 153,070,206 |
| Total liabilities and net assets | \$ 11,890,050 | \$ 18,899,035 | \$ 6,348,195 | \$ 40,821,176 | \$ 17,810,637 | \$ 6,381,995 | \$ 8,206,419 | \$ 1,034,336 | \$ 87,960,393 | \$ 199,352,236 | \$ 185,245,850 |

CONSOLIDATING BALANCE SHEET

June 30, 2013

| ASSETS | | Immaculate Mary | Saint Francis | St. John Neumann | St. Monica Manor | St. Mary Manor | St. Martha Manor | Villa St. Martha | Community Based Soc | CHCS | Subtotal | St. John Neumann Place | Elimination | Consolidated totals |
|------------------------------------|---|-----------------|---------------|------------------|------------------|----------------|------------------|------------------|---------------------|---------------|----------------|------------------------|-----------------|---------------------|
| Current assets | Cash and cash equivalents | \$ 2,700 | \$ 1,300 | \$ 1,045 | \$ 1,269,082 | \$ 57,680 | \$ 1,350 | \$ 209,347 | \$ - | \$ 3,824,765 | \$ 5,367,269 | \$ 77,954 | \$ - | \$ 5,445,223 |
| | Short-term investments - temporarily restricted | - | - | - | - | 18,165 | - | 52,562 | - | 236 | 236 | 375,890 | - | 236 |
| | Reserve and escrow accounts | - | - | - | - | - | - | - | - | - | 70,727 | - | - | 446,617 |
| | Patient accounts receivable | 1,565,361 | 634,128 | 957,258 | 634,196 | 921,249 | 265,512 | 8,968 | 7,180 | - | 4,993,852 | - | - | 4,993,852 |
| | Self-pay | 3,102,133 | 3,209,986 | 2,110,976 | 1,857,840 | 1,303,994 | 1,017,800 | - | - | - | 12,602,729 | - | - | 12,602,729 |
| | Third-party payors | (123,468) | (121,682) | (50,755) | (62,522) | (164,384) | (14,878) | - | - | - | (537,689) | - | - | (537,689) |
| | Allowance for doubtful accounts | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Net patient accounts receivable | 4,344,026 | 3,722,432 | 3,017,479 | 2,429,514 | 2,060,859 | 1,268,434 | 8,968 | 7,180 | - | 17,058,892 | - | - | 17,058,892 |
| | Other receivables | 107,627 | 185,358 | 159,309 | 117,547 | 58,318 | 39,743 | 1,863 | - | 1,290,029 | 1,959,794 | - | - | 1,959,794 |
| | Related party receivables | 96,713 | 46,058 | 16,558 | 95,604 | 25,594 | 47,468 | (686,689) | 99,182 | 12,096,272 | 13,209,938 | - | (11,593,739) | 1,616,199 |
| Current liabilities | Due to/from CHCS (entities) | 551,179 | - | 220,576 | 16,175,004 | - | 933,145 | 63,111 | - | 888,825 | 17,953,015 | - | (17,953,015) | - |
| | Related party loans receivable | - | - | - | - | - | - | - | - | 888,825 | 888,825 | - | (233,021) | 888,825 |
| | Intercompany loans receivable | - | - | - | - | - | - | - | - | 233,021 | 233,021 | - | - | - |
| | Inventories | 33,285 | 28,270 | 22,155 | - | 19,922 | 28,324 | - | - | 131,956 | 131,956 | - | - | 131,956 |
| | Prepaid expenses | 31,895 | 279,623 | 20,273 | 20,746 | 24,285 | 71,262 | 30,355 | - | 202,459 | 681,298 | 2,597 | - | 683,895 |
| | Total current assets | 5,367,425 | 4,263,041 | 3,467,195 | 20,107,497 | 2,264,823 | 2,389,726 | 1,053,295 | 106,362 | 18,535,607 | 57,554,971 | 456,441 | (29,779,775) | 29,231,657 |
| Investments | Unrestricted | - | - | - | - | 8,002,217 | - | - | - | 14,507,690 | 22,509,907 | - | - | 22,509,907 |
| | Temporarily restricted | 1,354,623 | 1,740,011 | - | - | - | - | - | - | 144,503 | 3,239,137 | - | - | 3,239,137 |
| | Permanently restricted | - | 168,274 | - | - | - | - | - | - | - | 168,274 | - | - | 168,274 |
| Total investments | | 1,354,623 | 1,908,285 | - | - | 8,002,217 | - | - | - | 14,652,193 | 25,917,318 | - | - | 25,917,318 |
| Property, plant and equipment, net | Funds held by third parties | 6,375,732 | 11,871,172 | 3,815,257 | 22,909,792 | 6,325,469 | 4,273,186 | 6,900,076 | 2,095 | 1,547,452 | 64,020,231 | 14,294,370 | - | 78,314,601 |
| | Resident funds escrow accounts | - | 1,603,674 | 140,890 | - | 133,159 | - | - | - | - | 1,876,723 | 41,541 | - | 1,876,723 |
| | Deferred financing costs, net | 187,522 | 240,868 | 241,503 | 150,860 | 30,003 | 45,049 | 339,995 | - | - | 1,253,800 | 117,644 | - | 1,277,341 |
| | Related party loans receivable | - | - | - | - | - | - | - | - | 47,110,444 | 47,110,444 | - | - | 47,110,444 |
| | Intercompany loan receivable | - | - | - | - | - | - | - | - | 12,550,816 | 12,550,816 | - | (12,350,816) | - |
| | Total assets | \$ 13,285,302 | \$ 19,887,040 | \$ 7,664,845 | \$ 43,168,149 | \$ 16,754,671 | \$ 6,707,961 | \$ 8,293,366 | \$ 108,457 | \$ 94,196,512 | \$ 210,066,303 | \$ 14,909,996 | \$ (42,130,591) | \$ 182,845,708 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | | | | |
| Current liabilities | Accounts payable | \$ 667,344 | \$ 635,707 | \$ 642,520 | \$ 574,459 | \$ 416,145 | \$ 456,196 | \$ 111,798 | \$ - | \$ 228,752 | \$ 3,732,921 | \$ 5,753 | \$ - | \$ 3,738,674 |
| | Accrued salaries | 1,607,438 | 1,674,654 | 1,500,026 | 650,030 | 955,996 | 799,831 | 229,922 | - | 1,226,410 | 8,644,307 | - | - | 8,644,307 |
| | Accrued expenses | 587,406 | 528,276 | 418,870 | 2,723,171 | 347,485 | 198,122 | 86,039 | - | 139,040 | 5,028,409 | 2,272,960 | - | 7,301,369 |
| | Related party payables | 348,588 | 321,230 | 251,855 | 9,189,851 | 186,533 | 160,611 | 234,637 | 606,739 | 1,046,673 | 12,436,717 | - | (11,593,739) | 842,978 |
| | Due to/from CHCS (entities) | 2,156,542 | 1,103,173 | 647,924 | 9,189,851 | 259,990 | 774,966 | - | - | 13,010,420 | 17,953,015 | - | (17,953,015) | - |
| | Deferred revenue | 107 | - | 6,000 | - | 98,674 | - | 206,598 | - | 8,500 | 319,879 | - | - | 319,879 |
| | Current portion of loan payable | - | - | - | 169,873 | - | - | - | - | - | 169,873 | - | (233,021) | 169,873 |
| | Intercompany loan payable | - | - | - | - | - | - | 233,021 | - | - | 233,021 | - | - | - |
| | Total current liabilities | 5,367,425 | 4,263,040 | 3,467,195 | 13,307,384 | 2,264,823 | 2,389,726 | 1,102,015 | 606,739 | 15,659,795 | 48,518,142 | 2,278,713 | (29,779,775) | 21,017,080 |
| Net assets | Resident funds escrow accounts | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Bond payable | 187,522 | 240,868 | 241,503 | 150,860 | 30,003 | 45,049 | 339,995 | - | - | 1,235,800 | 41,541 | - | 1,277,341 |
| | Loan payable | - | - | - | 8,300,111 | - | - | - | - | - | 8,300,111 | - | - | 8,300,111 |
| | Intercompany loan payable | - | - | - | - | - | - | 12,350,816 | - | - | 12,350,816 | - | (12,350,816) | - |
| | Mortgage payable | - | - | - | - | - | - | - | - | - | - | 4,900,000 | - | 4,900,000 |
| | Deferred developers fee | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Total liabilities | 5,554,947 | 4,503,908 | 3,708,698 | 21,758,355 | 2,294,826 | 2,434,775 | 13,792,826 | 606,739 | 15,659,795 | 70,404,869 | 7,280,254 | (42,130,591) | 35,554,532 |
| Net assets | Unrestricted | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Parent | 6,375,732 | 11,871,172 | 3,815,257 | 21,409,794 | 14,327,686 | 4,273,186 | (5,499,460) | (588,282) | 78,591,978 | 134,377,063 | - | - | 134,377,063 |
| | Non-controlling interest | - | - | - | - | - | - | - | - | - | - | 7,629,742 | - | 7,629,742 |
| | Total unrestricted | 6,375,732 | 11,871,172 | 3,815,257 | 21,409,794 | 14,327,686 | 4,273,186 | (5,499,460) | (588,282) | 78,591,978 | 134,377,063 | 7,629,742 | - | 142,006,805 |
| | Temporarily restricted | 1,354,623 | 1,740,011 | - | - | - | - | - | - | 144,739 | 3,239,373 | - | - | 3,239,373 |
| Total net assets | Permanently restricted | - | 1,771,949 | 140,890 | - | 132,159 | - | - | (588,282) | 78,536,717 | 139,661,434 | - | - | 2,044,998 |
| | Total net assets | 7,730,355 | 15,383,132 | 3,956,147 | 21,409,794 | 14,459,845 | 4,273,186 | (5,499,460) | (588,282) | 78,536,717 | 139,661,434 | 7,629,742 | - | 147,291,176 |
| | Total liabilities and net assets | \$ 13,285,302 | \$ 19,887,040 | \$ 7,664,845 | \$ 43,168,149 | \$ 16,754,671 | \$ 6,707,961 | \$ 8,293,366 | \$ 108,457 | \$ 94,196,512 | \$ 210,066,303 | \$ 14,909,996 | \$ (42,130,591) | \$ 182,845,708 |

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended June 30, 2014

| | Immaculate Mary | Saint Francis | St. John Neumann | St. Monica Manor | St. Mary Manor | St. Martha Manor | Villa St. Martha | Community Based Soc | CHCS | Subtotal | St. John Neumann Place | Elimination | Consolidated totals |
|---|-----------------|---------------|------------------|------------------|----------------|------------------|------------------|---------------------|---------------|----------------|------------------------|---------------|---------------------|
| Change in unrestricted net assets | | | | | | | | | | | | | |
| Operating revenues | | | | | | | | | | | | | |
| Net resident revenue, net of contractual allowances | \$ 29,580,443 | \$ 26,437,677 | \$ 20,375,963 | \$ 19,305,235 | \$ 15,765,194 | \$ 12,933,590 | \$ 5,362,134 | \$ - | \$ - | \$ 129,760,236 | \$ 497,038 | \$ - | \$ 130,257,274 |
| Bad debt expense | (47,502) | (44,603) | (21,653) | (43,265) | 64,415 | (16,262) | - | - | - | (108,932) | - | - | (108,932) |
| Net resident revenue, net of bad debt | 29,532,881 | 26,393,074 | 20,354,308 | 19,261,970 | 15,829,609 | 12,917,328 | 5,362,134 | - | - | 129,651,304 | 497,038 | - | 130,148,342 |
| Other operating revenue | 832,244 | 739,691 | 1,008,202 | 148,920 | 591,649 | 303,206 | 11,167 | 685,164 | 13,419,519 | 17,739,762 | - | (6,212,990) | 11,526,772 |
| Net assets released from restrictions | 93,235 | 126,907 | - | - | - | - | - | - | 134,596 | 374,738 | - | - | 374,738 |
| Total operating revenues | 30,458,360 | 27,259,672 | 21,362,510 | 19,410,890 | 16,421,258 | 13,220,534 | 5,373,301 | 685,164 | 13,574,115 | 147,765,804 | 497,038 | (6,212,990) | 142,049,852 |
| Operating expenses | | | | | | | | | | | | | |
| Administration | 2,805,292 | 2,731,776 | 2,230,382 | 2,131,600 | 2,078,753 | 1,474,227 | 812,862 | 249,723 | - | 14,514,615 | 217,472 | (6,212,990) | 8,519,097 |
| Auxiliary services | 193,752 | 156,771 | 912,490 | 102,055 | 127,659 | 45,260 | 32,064 | - | - | 1,570,051 | - | - | 1,570,051 |
| Loan interest and fees | - | - | - | 382,667 | - | - | 497,557 | - | - | 880,224 | 464,732 | (497,557) | 847,399 |
| CHCS administration | - | - | - | - | - | - | - | - | 4,936,469 | 4,936,469 | - | - | 4,936,469 |
| CHCS finance | - | - | - | - | - | - | - | - | 2,787,670 | 2,787,670 | - | - | 2,787,670 |
| CHCS community-based services | - | - | - | - | - | - | - | 872,583 | - | 872,583 | - | - | 872,583 |
| CHCS information technology services | - | - | - | - | - | - | - | 3,522,095 | 3,522,095 | 3,522,095 | - | - | 3,522,095 |
| Depreciation and amortization | 966,788 | 1,220,242 | 603,401 | 1,626,528 | 719,433 | 450,074 | 423,102 | 56,977 | 268,510 | 6,334,855 | 477,944 | - | 6,812,799 |
| Dietary | 2,158,135 | 2,011,209 | 1,603,308 | 1,423,853 | 1,575,847 | 1,027,094 | 693,558 | - | - | 10,493,004 | - | - | 10,493,004 |
| Housekeeping and laundry | 1,002,462 | 879,550 | 762,688 | 682,649 | 532,966 | 429,044 | 174,088 | - | - | 4,463,447 | - | - | 4,463,447 |
| Nurse administration | 1,378,920 | 1,258,033 | 959,535 | 987,890 | 790,957 | 729,469 | - | - | - | 6,104,624 | - | - | 6,104,624 |
| Pastoral care | 77,411 | 73,311 | 75,311 | 40,882 | 72,220 | 91,412 | 7,774 | - | - | 492,877 | - | - | 492,877 |
| Plant operation and maintenance | 1,436,466 | 1,430,838 | 1,140,933 | 949,382 | 1,412,738 | 929,180 | 691,635 | - | - | 7,991,162 | 157,561 | - | 8,148,723 |
| Professional care of residents | 9,903,152 | 10,096,267 | 7,257,894 | 6,951,831 | 5,083,913 | 4,974,835 | 991,705 | - | - | 45,319,597 | - | - | 45,319,597 |
| Recreation | 316,115 | 371,094 | 290,133 | 233,014 | 300,532 | 168,730 | 115,311 | - | - | 1,795,129 | - | - | 1,795,129 |
| Social services | 413,033 | 294,402 | 282,507 | 289,989 | 127,024 | 220,339 | - | - | - | 1,637,314 | 62,868 | - | 1,700,182 |
| Therapy services | 1,653,561 | 1,484,651 | 1,040,485 | 1,777,736 | 927,359 | 1,150,345 | - | - | - | 8,033,137 | - | - | 8,033,137 |
| Fringe benefits | 5,194,682 | 4,774,579 | 3,754,088 | 3,248,335 | 2,931,474 | 2,266,767 | 661,352 | - | - | 22,831,297 | - | - | 22,831,297 |
| Management agreement expenses | - | - | - | - | - | - | - | - | 3,361,471 | 3,361,471 | - | - | 3,361,471 |
| Total operating expenses | 27,664,224 | 26,731,834 | 20,912,975 | 20,828,431 | 16,680,875 | 13,966,776 | 5,101,208 | 1,179,283 | 14,876,615 | 147,994,621 | 1,380,577 | (6,710,547) | 142,611,651 |
| Operating income (loss) | 2,794,136 | 527,838 | 449,535 | (1,417,541) | (259,617) | (746,242) | 272,093 | (494,119) | (1,301,900) | (17,817) | (883,539) | 497,557 | (361,799) |
| Nonoperating revenues | | | | | | | | | | | | | |
| Contributions and bequests | 44,223 | 8,908 | 17,594 | 248,622 | 74,166 | 10,736 | 176 | - | 16,413 | 420,838 | - | - | 420,838 |
| Interest and investment income | 5,021 | 85,533 | 7,114 | 1,533 | 122,112 | 94 | 1,611 | - | 2,589,445 | 2,812,463 | - | (497,557) | 2,314,906 |
| Realized gain on sale of investments | - | - | - | 638,713 | 638,713 | - | - | - | 1,038,445 | 1,676,858 | - | - | 1,676,858 |
| Unrealized gains in fair value of investments | - | - | - | - | 534,369 | - | - | - | 1,041,813 | 1,576,182 | - | - | 1,576,182 |
| Change in fair value of interest rate swap | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net assets released from restrictions | 54,655 | - | 7,781 | 1,773 | 15,246 | 934 | 4,782 | - | - | 85,171 | - | - | 85,171 |
| Miscellaneous income | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total nonoperating revenues | 103,899 | 94,441 | 32,489 | 251,928 | 1,394,606 | 11,764 | 6,569 | - | 4,685,816 | 6,571,512 | - | (497,557) | 6,073,955 |
| Excess of (deficiency in) revenues over expenses | 2,898,035 | 622,279 | 482,024 | (1,165,613) | 1,124,989 | (734,478) | 278,662 | (494,119) | 3,383,916 | 6,395,695 | (883,539) | - | 5,512,156 |
| Excess attributable to non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | 883,539 | 883,539 |
| Excess of (deficiency in) revenues over expenses attributable to parent | 2,898,035 | 622,279 | 482,024 | (1,165,613) | 1,124,989 | (734,478) | 278,662 | (494,119) | 3,383,916 | 6,395,695 | - | - | 6,395,695 |
| Other changes in unrestricted net assets | | | | | | | | | | | | | |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | (883,539) | (883,539) |
| Change in party bad debt | - | - | - | - | - | - | - | - | (12,291,098) | (12,291,098) | - | 12,291,098 | - |
| Affiliate transfers | (3,609,430) | (1,617,792) | (1,029,675) | 1,240,304 | (641,204) | 1,056,805 | - | - | 4,600,992 | - | - | - | - |
| (Decrease) increase in unrestricted net assets | (771,395) | (995,513) | (547,651) | 74,691 | 483,785 | 322,327 | 278,662 | (494,119) | (4,306,190) | (5,895,403) | (883,539) | 12,291,098 | 5,512,156 |
| Change in temporarily restricted net assets | | | | | | | | | | | | | |
| Interest and investment income | 18,711 | 25,522 | - | - | - | - | - | - | 938 | 45,171 | - | - | 45,171 |
| Realized gain on sale of investments | 118,696 | 159,285 | - | - | - | - | - | - | 23,287 | 301,268 | - | - | 301,268 |
| Unrealized gains (losses) in fair value of investments | 75,962 | 100,887 | - | - | - | - | - | - | (14,566) | 162,481 | - | - | 162,481 |
| Net assets released from restrictions | (93,235) | (124,614) | - | - | - | - | - | - | (154,596) | (372,445) | - | - | (372,445) |
| Increase in temporarily restricted net assets | 120,134 | 161,080 | - | - | - | - | - | - | (144,739) | 136,475 | - | - | 136,475 |
| Change in permanently restricted net assets | | | | | | | | | | | | | |
| Change in value of permanently restricted funds | - | 107,416 | 10,004 | - | 15,272 | - | - | - | - | 132,692 | - | - | 132,692 |
| Net assets released from restrictions | - | (2,293) | - | - | - | - | - | - | - | (2,293) | - | - | (2,293) |
| Increase in permanently restricted net assets | - | 105,123 | 10,004 | - | 15,272 | - | - | - | - | 130,399 | - | - | 130,399 |
| (Decrease) increase in net assets | (591,261) | (729,310) | (537,647) | 74,691 | 499,057 | 322,327 | 278,662 | (494,119) | (4,450,929) | (5,628,529) | (883,539) | 12,291,098 | 5,779,030 |
| Net assets | | | | | | | | | | | | | |
| Beginning of year | 7,730,355 | 13,383,133 | 3,956,147 | 21,409,792 | 14,459,845 | 4,273,186 | (5,499,460) | (588,282) | 78,536,718 | 139,661,434 | 7,629,742 | - | 147,291,176 |
| End of year | \$ 7,139,094 | \$ 14,653,833 | \$ 3,418,500 | \$ 21,484,483 | \$ 14,958,902 | \$ 4,595,513 | \$ (5,220,798) | \$ (1,082,401) | \$ 74,085,789 | \$ 134,032,905 | \$ 6,746,203 | \$ 12,291,098 | \$ 153,070,206 |

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended June 30, 2013

| | Immaculate Mary | Saint Francis | St. John Neumann | St. Monica Manor | St. Mary Manor | St. Martha Manor | Villa St. Martha | Community Based Svc | CHCS | Subtotal | St. John Neumann Place | Elimination | Consolidated totals |
|---|-----------------|---------------|------------------|------------------|----------------|------------------|------------------|---------------------|---------------|----------------|------------------------|-------------|---------------------|
| Change in unrestricted net assets | | | | | | | | | | | | | |
| Operating revenues | | | | | | | | | | | | | |
| Net resident revenue, net of contractual allowances | \$ 28,254,958 | \$ 26,445,121 | \$ 20,167,702 | \$ 17,811,918 | \$ 15,488,414 | \$ 12,017,720 | \$ 5,257,147 | \$ - | \$ - | \$ 125,442,980 | \$ 481,034 | \$ - | \$ 125,924,014 |
| Bad debt expense | (78,372) | (50,469) | 10,000 | 53,623 | (29,674) | (2,045) | (395) | - | - | (97,332) | - | - | (97,332) |
| Net resident revenue, net of bad debt | 28,176,586 | 26,394,652 | 20,177,702 | 17,865,541 | 15,458,740 | 12,015,675 | 5,256,752 | - | - | 125,345,648 | 481,034 | - | 125,826,682 |
| Other operating revenue | 867,818 | 636,270 | 791,575 | 182,835 | 584,667 | 310,605 | 9,678 | - | - | 17,243,819 | - | (6,258,414) | 10,985,405 |
| Net assets released from restrictions | 89,165 | 121,583 | - | - | - | - | - | - | - | 210,748 | - | - | 210,748 |
| Total operating revenues | 29,133,569 | 27,152,505 | 20,969,277 | 18,048,376 | 16,043,407 | 12,326,280 | 5,266,430 | 26,133 | 13,834,238 | 142,800,215 | 481,034 | (6,258,414) | 137,022,835 |
| Operating expenses | | | | | | | | | | | | | |
| Administration | 2,595,145 | 2,931,774 | 2,310,722 | 1,970,425 | 2,145,040 | 1,457,166 | 1,054,926 | 28,066 | - | 14,493,264 | 214,345 | (6,258,414) | 8,449,195 |
| Auxiliary services | 331,545 | 167,996 | 398,020 | 98,017 | 136,297 | 52,013 | 28,345 | - | - | 1,212,233 | - | - | 1,212,233 |
| Loan interest and fees | - | - | - | - | - | - | 507,512 | - | - | 507,512 | 473,330 | (507,512) | 473,330 |
| CHCS administration | - | - | - | - | - | - | - | - | - | 3,630,036 | - | - | 3,630,036 |
| CHCS finance | - | - | - | - | - | - | - | 240,183 | - | 2,911,711 | - | - | 2,911,711 |
| CHCS community-based services | - | - | - | - | - | - | - | - | - | 261,301 | - | - | 501,484 |
| CHCS information technology services | - | - | - | - | - | - | - | - | - | 3,394,778 | - | - | 3,394,778 |
| Depreciation and amortization | - | - | - | - | - | - | - | 2,219 | 332,827 | 5,567,601 | 453,655 | - | 6,021,256 |
| Dietary | 1,037,079 | 1,270,343 | 661,234 | 599,693 | 777,103 | 463,908 | 429,195 | - | - | 10,388,119 | - | - | 10,388,119 |
| Housekeeping and laundry | 2,114,474 | 1,979,688 | 1,682,997 | 1,394,814 | 1,560,633 | 1,004,069 | 651,444 | - | - | 4,551,425 | - | - | 4,551,425 |
| Nurse administration | 978,448 | 914,018 | 812,863 | 685,843 | 526,742 | 466,782 | 167,197 | - | - | 5,797,104 | - | - | 5,797,104 |
| Pastoral care | 1,226,388 | 1,270,698 | 1,008,756 | 956,677 | 680,269 | 654,156 | 160 | - | - | 524,565 | - | - | 524,565 |
| Plant operation and maintenance | 132,716 | 77,234 | 76,615 | 410,714 | 99,548 | 90,814 | 6,564 | - | - | 7,939,841 | 126,647 | - | 8,066,488 |
| Professional care of residents | 1,438,077 | 1,477,394 | 1,226,720 | 912,097 | 1,341,136 | 895,931 | 648,486 | - | - | 45,485,498 | - | - | 45,485,498 |
| Recreation | 10,082,618 | 10,130,881 | 7,620,108 | 6,805,227 | 5,115,447 | 4,699,733 | 940,184 | - | - | 1,808,379 | 62,634 | - | 1,808,379 |
| Social services | 377,929 | 334,316 | 302,632 | 230,480 | 281,532 | 179,285 | 111,205 | - | - | 1,425,490 | - | - | 1,488,124 |
| Therapy services | 319,423 | 344,436 | 242,193 | 216,939 | 128,440 | 173,945 | 114 | - | - | 7,325,561 | - | - | 7,325,561 |
| Fringe benefits | 1,486,383 | 1,391,118 | 1,157,512 | 1,606,573 | 823,109 | 861,866 | - | - | - | 24,132,666 | - | - | 24,132,666 |
| Management agreement expenses | 5,682,881 | 5,065,436 | 4,136,411 | 3,210,690 | 3,031,275 | 2,382,139 | 623,834 | - | - | 3,452,763 | - | - | 3,452,763 |
| Total operating expenses | 27,803,106 | 27,555,332 | 21,636,783 | 18,807,849 | 16,651,611 | 13,372,299 | 5,169,166 | 270,468 | 13,983,416 | 145,050,030 | 1,330,611 | (6,765,926) | 139,614,715 |
| Operating income (loss) | 1,330,463 | (202,827) | (667,506) | (759,473) | (608,204) | (1,046,019) | 97,264 | (244,335) | (49,178) | (2,249,815) | (849,577) | 507,512 | (2,591,880) |
| Nonoperating revenues | | | | | | | | | | | | | |
| Contributions and bequests | 26,795 | 20,340 | 14,725 | 7,041 | 11,019 | 22,549 | - | - | 473 | 102,942 | - | - | 102,942 |
| Interest and investment income | 57 | 52,669 | 7,310 | 6,501 | 134,810 | 28 | 827 | - | - | 2,934,729 | - | (507,512) | 2,427,217 |
| Realized gain on sale of investments | - | - | - | - | 157,126 | - | - | - | - | 453,785 | - | - | 453,785 |
| Unrealized gains in fair value of investments | - | - | - | - | 610,454 | - | 4,041 | - | 1,102,819 | 1,713,273 | - | - | 1,713,273 |
| Miscellaneous income | 51,416 | - | 7,725 | 1,916 | 20,864 | 884 | - | - | - | 86,846 | - | - | 86,846 |
| Total nonoperating revenues | 78,268 | 73,009 | 29,760 | 15,458 | 934,273 | 23,461 | 4,868 | - | 4,132,478 | 5,291,575 | - | (507,512) | 4,784,063 |
| Excess of (deficiency in) revenues over expenses | 1,408,731 | (129,818) | (637,746) | (744,015) | 326,069 | (1,022,558) | 102,132 | (244,335) | 3,983,300 | 3,041,760 | (849,577) | - | 3,041,760 |
| Excess attributable to non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | 849,577 | 849,577 |
| Excess of (deficiency in) revenues over expenses attributable to parent | 1,408,731 | (129,818) | (637,746) | (744,015) | 326,069 | (1,022,558) | 102,132 | (244,335) | 3,983,300 | 3,041,760 | (849,577) | - | 3,041,760 |
| Other changes in unrestricted net assets | | | | | | | | | | | | | |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | - | (997,301) | - | (849,577) | (158,967) |
| Asset transfers | (2,156,542) | (371,376) | 230,576 | 2,506,881 | (143,383) | 933,145 | - | - | - | 3,041,760 | - | - | 2,192,183 |
| Affiliate transfers | (747,811) | (501,194) | (407,170) | 1,762,866 | 180,886 | (89,413) | 102,132 | (244,335) | 2,985,099 | - | (849,577) | - | - |
| (Decrease) increase in unrestricted net assets | | | | | | | | | | | | | |
| Change in temporarily restricted net assets | | | | | | | | | | | | | |
| Interest and investment income | 22,483 | 30,014 | - | - | - | - | - | - | 2,330 | 55,027 | - | - | 55,027 |
| Realized gain on sale of investments | 33,926 | 45,520 | - | - | - | - | - | - | 2,556 | 82,002 | - | - | 82,002 |
| Unrealized gains in fair value of investments | 99,640 | 132,999 | - | - | - | - | - | - | 11,244 | 243,883 | - | - | 243,883 |
| Net assets released from restrictions | (89,165) | (119,175) | - | - | - | - | - | - | - | (208,340) | - | - | (208,340) |
| Increase in temporarily restricted net assets | 66,884 | 89,358 | - | - | - | - | - | - | 16,330 | 172,572 | - | - | 172,572 |
| Change in permanently restricted net assets | | | | | | | | | | | | | |
| Change in value of permanently restricted funds | - | (171,243) | 3,725 | - | 8,551 | - | - | - | - | (158,967) | - | - | (158,967) |
| Net assets released from restrictions | - | (2,408) | - | - | - | - | - | - | - | (2,408) | - | - | (2,408) |
| (Decrease) increase in permanently restricted net assets | | | | | | | | | | | | | |
| (Decrease) increase in net assets | (680,927) | (585,487) | (403,445) | 1,762,866 | 189,237 | (89,413) | 102,132 | (244,335) | 3,002,229 | 3,052,957 | (849,577) | - | 2,203,380 |
| Net assets | | | | | | | | | | | | | |
| Beginning of year | 8,411,282 | 15,068,620 | 4,359,592 | 19,646,926 | 14,270,608 | 4,362,599 | (5,601,592) | (343,947) | 75,534,389 | 136,608,477 | 8,479,319 | - | 145,087,796 |
| End of year | \$ 7,730,355 | \$ 15,383,133 | \$ 3,956,147 | \$ 21,409,792 | \$ 14,459,845 | \$ 4,273,186 | \$ (5,499,460) | \$ (588,282) | \$ 78,536,718 | \$ 139,661,434 | \$ 7,629,742 | \$ - | \$ 147,291,176 |