Consolidated Financial Statements and Report of Independent Certified Public Accountants

Catholic Health Care Services of the Archdiocese of Philadelphia

June 30, 2015 and 2014

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, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, 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, 2015 and 2014, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 27, 2015

CONSOLIDATED BALANCE SHEETS

June 30,

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,932,001	$ 12,119,250
Short-term investments - temporarily restricted	236	236
Reserve and escrow accounts	525,410	489,157
Self-pay patient accounts receivable	3,354	13,887
Other receivables	1,433,455	795,095
Related party receivables	1,350,429	685,252
Related party loans receivable	721,865	693,698
Prepaid expenses	192,408	425,235
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	22,159,158	92,541,155
Investments		
Unrestricted	25,664,333	25,650,385
Temporarily restricted	3,216,401	3,375,848
Permanently restricted	181,602	181,529
Total investments	29,062,336	29,207,762
Property, plant and equipment, net	14,782,937	15,175,330
Funds held by third parties	1,930,313	1,993,868
Resident funds escrow accounts	294,123	38,545
Deferred financing costs, net	82,821	100,233
Related party loans receivable	45,231,219	46,188,957
Total assets	$ 113,542,907	$ 185,245,850

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

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

	2015	2014
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 400,710	$ 4,048,304
Accrued salaries	1,028,048	8,984,852
Accrued expenses	5,608,516	4,330,394
Related party payables	404,672	5,787
Deferred revenue	280,139	349,047
Current portion of loan payable	-	177,818
Total current liabilities	7,722,085	17,896,202
Resident funds escrow accounts	38,689	1,213,461
Loan payable	-	8,105,981
Mortgage payable	4,960,000	4,960,000
Related party payables	2,800,000	-
Other long-term liabilities	3,200,000	-
Total liabilities	18,720,774	32,175,644
Net assets		
Unrestricted		
Parent	83,634,377	140,772,758
Non-controlling interest	5,859,440	6,746,203
Total unrestricted	89,493,817	147,518,961
Temporarily restricted	3,216,401	3,375,848
Permanently restricted	2,111,915	2,175,397
Total net assets	94,822,133	153,070,206
Total liabilities and net assets	$ 113,542,907	$ 185,245,850

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,

	2015	2014
Change in unrestricted net assets		
Operating revenues		
Net resident revenue, net of contractual allowances	$ 45,128,390	$ 130,257,274
Bad debt expense	-	(108,932)
Net resident revenue, net of bad debt	45,128,390	130,148,342
Other operating revenue	10,603,310	11,526,772
Net assets released from restrictions	226,601	374,738
Total operating revenues	55,958,301	142,049,852
Operating expenses		
Administration	4,364,766	8,519,097
Auxiliary services	702,749	1,570,051
Loan interest and fees	593,144	847,399
CHCS administration	5,257,696	4,936,469
CHCS finance	2,454,804	2,787,670
CHCS community-based services	3,090,881	872,583
CHCS information technology services	3,284,914	3,522,095
Depreciation and amortization	2,938,637	6,812,799
Dietary	3,761,453	10,493,004
Housekeeping and laundry	1,630,308	4,463,447
Nurse administration	2,736,881	6,104,624
Pastoral care	165,473	492,877
Plant operation and maintenance	3,323,640	8,148,723
Professional care of residents	16,753,679	45,319,597
Recreation	691,816	1,795,129
Social services	862,588	1,700,182
Therapy services	2,716,003	8,033,137
Fringe benefits	11,336,589	22,831,297
Management agreement expenses	3,565,659	3,361,471
Total operating expenses	70,231,680	142,611,651
Operating loss	(14,273,379)	(561,799)

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Year ended June 30,

	2015	2014
Nonoperating revenues		
Contributions and bequests	$ 80,603	$ 420,838
Interest and investment income	2,404,693	2,314,906
Realized gain on sale of investments	4,682,018	1,676,858
Unrealized (losses) gains in fair value of investments	(4,512,694)	1,576,182
Gain on sale of facilities	59,161,694	-
Distributions to related parties	(105,600,000)	-
Miscellaneous income	31,921	85,171
Total nonoperating revenues	(43,751,765)	6,073,955
(Deficiency in) excess of revenues over expenses	(58,025,144)	5,512,156
Excess attributable to non-controlling interest	886,763	883,539
(Deficiency in) excess of revenues over expenses attributable to parent	(57,138,381)	6,395,695
Other changes in unrestricted net assets		
Change in non-controlling interest	(886,763)	(883,539)
(Decrease) increase in unrestricted net assets	(58,025,144)	5,512,156
Change in temporarily restricted net assets		
Interest and investment income	44,311	45,171
Realized gain on sale of investments	692,894	301,268
Unrealized (losses) gains in fair value of investments	(672,176)	162,481
Net assets released from restrictions	(224,476)	(372,445)
(Decrease) increase in temporarily restricted net assets	(159,447)	136,475
Change in permanently restricted net assets		
Change in value of permanently restricted funds	(61,357)	132,692
Net assets released from restrictions	(2,125)	(2,293)
(Decrease) increase in permanently restricted net assets	(63,482)	130,399
(Decrease) increase in net assets	(58,248,073)	5,779,030
Net assets		
Beginning of year	153,070,206	147,291,176
End of year	$ 94,822,133	$ 153,070,206

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,

	2015	2014
Cash flows from operating activities and gains		
Change in net assets	$ (58,248,073)	$ 5,779,030
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Provision for bad debt	-	108,932
Unrealized losses (gains) in fair value of investments	5,246,227	(1,871,355)
Realized gain on sale of investments	(5,374,912)	(1,978,126)
Depreciation and amortization	2,938,637	6,812,799
Gain on sale of facilities	(59,161,694)	-
Change in funds held by third parties	63,555	(117,145)
Changes in working capital which provided (or used) cash		
Accounts receivable, net	(2,851,356)	2,011,404
Reserve and escrow accounts	(36,253)	(42,540)
Resident fund cash accounts	919,338	-
Related party receivables	(665,177)	930,947
Other receivables	96,617	429,722
Inventories	150,177	(18,221)
Prepaid expenses	2,398,238	(1,826,885)
Accounts payable	(3,647,594)	309,630
Accrued salaries	(2,381,268)	340,545
Accrued expenses	(1,298,959)	(2,970,975)
Resident fund liability	36,711	-
Related party payables	3,198,885	(837,191)
Deferred revenue	80,773	29,168
Net cash (used in) provided by operating activities before trading securities	(118,536,128)	7,089,739
Change in investments trading securities, net	274,111	559,037
Net cash (used in) provided by operating activities	(118,262,017)	7,648,776
Cash flows from investing activities		
Capital expenditures	(1,049,009)	(1,905,178)
Proceeds from sale of facilities	124,241,316	-
Payments received on related party loan	929,571	1,116,614
Net cash provided by (used in) investing activities	124,121,878	(788,564)
Cash flows from financing activities		
Repayment of loan	(47,110)	(186,185)
Net cash used in financing activities	(47,110)	(186,185)
Net increase in cash and cash equivalents	5,812,751	6,674,027
Cash and cash equivalents		
Beginning of year	12,119,250	5,445,223
End of year	$ 17,932,001	$ 12,119,250
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 130,087	$ 386,773
Non-cash investing activities:		
Closing costs related to sale of facilities	$ 5,505,429	$ -
Liabilities transferred as part of sale of facilities	$ 15,253,255	$ -

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 supportive independent housing and community-based services for seniors in Philadelphia and surrounding counties.

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.

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.

For the period July 1, 2014 through November 2, 2014, Catholic Health Care Services of the Archdiocese of Philadelphia was the sole corporate member of the following entities: St. John Neumann Nursing Home, Immaculate Mary Home, St. Mary Manor, St. Martha Manor, Villa St. Martha, St. Francis Country House and St. Monica Manor (collectively, the "Facilities"). Each of these long-term care facilities were owned and operated by Catholic Health Care Services. Skilled nursing care, personal care, and independent living services were rendered to the 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. On November 3, 2014, the Facilities were sold to Center Management Group LLC ("CMG"), headquartered in Flushing, New York (Note C).

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 in exchange for management services rendered. The fees from the Facilities are eliminated in the consolidation.

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 (through November 2, 2014) and its controlled entity and are collectively referred to as "CHCS."

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

2. Basis of Presentation

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

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

3. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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, 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. 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

On April 30, 2015, various funds previously held in the Non-Pension Asset Portfolio (the "NPAP") were liquidated and re-invested with a newly hired investment company, SEI, a provider of institutional asset management services. SEI 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 Note E. Investment allocation decisions are the responsibility of CHCS's finance committee.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2015 and 2014.

9. 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.

10. Deferred Financing Costs

As of June 30, 2015 and 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 debt agreements, 10 - 15 years. Amortization expense was $17,412 for each of the years ended June 30, 2015 and 2014.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Resident Service Revenues and Allowances

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

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

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

For receivables associated with services provided to residents or patients who have third-party coverage, CHCS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad 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, 2015 and 2014, 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:

Net resident revenue	Third-party payors	Self-pay	Total all payors
2015	$ 35,192,509	$ 9,935,881	$ 45,128,390
2014	$ 101,732,440	$ 28,524,834	$ 130,257,274

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, 2015 and 2014.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Nursing Home Assessment and Other Revenue

The Pennsylvania Nursing Facility Assessment Program was finalized in January 2005 and is effective July 1, 2003 through July 1, 2012. The assessment program was reauthorized by Act 80 of 2012 through FY 2013-2016. The program, approved by the Centers for Medicare and Medicaid Services, authorized the collection of an assessment from all non-governmental licensed nursing facilities for the purpose of maintaining Medicaid Assistance ("MA") rates and providing additional reimbursements to MA participating facilities. Quarterly assessment and supplemental calculations are based on resident days by payor type. For the years ended June 30, 2015 and 2014, the net nursing home assessment was $583,083 and $2,708,079, respectively, and is recognized within other operating revenue.

13. 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.

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. (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, gain on sale of the Facilities and change in fair value of funds held by third parties.

15. Classification of Statement of Operations and Changes in Net Assets Related to Operations of Facilities

Operating activities of the Facilities which were sold on November 3, 2014 (Note C), are presented in detail on the statement of operations and changes in net assets as they represent the primary portion of activities of CHCS.

NOTE C - AGREEMENT OF SALE

On November 3, 2014, CMG acquired the operating assets and real property of the following CHCS facilities: St. Monica Manor, St. John Neumann Nursing Home, Immaculate Mary Home, St. Francis Country House, St. Martha Manor, Villa St. Martha and St. Mary Manor. The purchase price paid by CMG was $145 million. Subsequent to the closing of the transaction, the proceeds were allocated as follows:

Purchase price	$ 145,000,000
Closing costs	(5,505,429)
Payoff of Catholic Health Care Services external debt	(8,271,691)
Amounts retained by Catholic Health Care Services to satisfy working capital obligations and other items	(25,622,880)
Proceeds transferred from Catholic Health Care Services	$ 105,600,000
Proceeds transferred to Archdiocesan entities via Office for Financial Services ("OFS")	
Distributions to Catholic Health Care Services for ongoing ministry support	$ 3,500,000
Distributions to Catholic Social Services for ongoing ministry support	5,000,000
Distributions to certain parishes for ongoing ministry support	5,700,000
Distribution to Priests' retirement plans	62,500,000
	76,700,000
Proceeds transferred to OFS	
Distribution to the Risk Insurance Trust	19,600,000
Distribution to OFS	9,300,000
	28,900,000
Proceeds transferred from Catholic Health Care Services	$ 105,600,000

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. The amounts retained by CHCS includes $3.7 million for the estimated future liability related to this agreement. The consolidated financial statements reflect an estimated future liability of $3.7 million, $3.2 million of which is classified as other long-term liabilities in the accompanying consolidated balance sheet.

NOTE D - 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:

	2015	2014
Charitable services		
Unpaid cost of state programs to the financially disadvantaged (e.g., Medicaid)	$ 8,711,038	$ 21,079,253
Unpaid cost of services to other financially disadvantaged persons	420,584	1,082,787
Total community care at cost	$ 9,131,622	$ 22,162,040

NOTE E - INVESTMENTS

The investment in the Trustee Account and other investments 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 equity 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 fixed income 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.

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, 2015, CHCS's investments are summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2015				
Investment in SEI Catholic Values Funds	$ 25,664,333	$ 3,216,401	$ 181,602	$ 29,062,336

(Continued)

NOTE E - INVESTMENTS - Continued

Prior to April 30, 2015, the investment in the Trustee Account consisted of investments in the Archdiocese of Philadelphia Non-Pension Assets Portfolio ("NPAP") and other investment accounts. For administrative and other needs, the Archdiocese of Philadelphia formed 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 were held by a custodian and were managed based on sub-accounts as follows:

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

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

Liquidity Sub-Account (or "fund") - Investments were liquid in nature and were used to buy and sell units of the equity and fixed income funds or for expected short-term needs.

The Trustee Account was unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. CHCS's investment in the Trustee Account is stated at unit value.

The Investment Committee has primary responsibility for determining the asset investment allocations to be used. Management is responsible for ensuring that asset investment allocations among the funds are maintained as determined by the Investment Committee.

At June 30, 2014, CHCS's investments are summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2014				
Investment in Trustee Account	$ 22,957,662	$ 3,375,848	$ 181,529	$ 26,515,039
Unemployment insurance fund	2,692,723	-	-	2,692,723
	$ 25,650,385	$ 3,375,848	$ 181,529	$ 29,207,762

At June 30, 2015, CHCS held the following categories of investments:

Catholic Values Equity Fund	$ 18,754,835
Catholic Values Fixed Income Fund	10,307,501
Total ownership	$ 29,062,336

(Continued)

NOTE E - INVESTMENTS - Continued

At June 30, 2014, CHCS held the following categories of investments:

Equity sub-account	$ 16,496,060
Fixed income sub-account	12,711,702
Total ownership	$ 29,207,762

NOTE F - FUNDS HELD BY THIRD PARTIES

CHCS is the beneficiary of individual trusts held in perpetuity by third parties. At June 30, 2015 and 2014, the allocable fair value of these trusts was $1,930,313 and $1,993,868, respectively, and is recorded as funds held by third parties in the accompanying consolidated balance sheets. During fiscal year 2015, CHCS recognized unrestricted income of $74,642 and permanently restricted depreciation of $63,556 related to these trusts. During fiscal year 2014, CHCS recognized unrestricted income of $93,973 and permanently restricted appreciation of $117,146 related to these trusts.

NOTE G - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation at June 30, 2015 and 2014 consist of:

	2015	2014
Land	$ 974,991	$ 1,650,825
Land improvements	10,700	4,030,355
Buildings and improvements	16,613,222	135,458,610
Furniture and equipment	3,635,952	23,363,024
Construction in progress	-	1,099,259
	21,234,865	165,602,073
Accumulated depreciation	(6,451,928)	(92,177,682)
Property, plant and equipment, net	$ 14,782,937	$ 73,424,391

Depreciation expense was $2,921,225 and $6,795,387 for the years ended June 30, 2015 and 2014, respectively.

NOTE H - 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 Archdiocese of Philadelphia Lay Employees' Retirement Plan (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 5.75% and 6.25% of the salaries of eligible employees for the years ended June 30, 2015 and 2014, respectively. The amount expensed by CHCS for contributions to the Plan was $2,878,782 and $3,359,447 for the years ended June 30, 2015 and 2014, 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.

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 2015, CHCS's contribution rate was 4.5% of base salary for eligible employees. The contributions into the 403(b) plan totaled $1,618,555 for the year ended June 30, 2015.

NOTE I - DEBT

1. 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, 2015 and 2014. 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 debt was paid off from the proceeds of the sale of the nursing homes. The amount outstanding at June 30, 2015 is $-0-.

2. 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.

NOTE J - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	2015	2014
Residential services	$ 1,406,733	$ 1,474,757
Maintenance of the facilities	1,809,668	1,901,091
	$ 3,216,401	$ 3,375,848

(Continued)

NOTE J - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS - Continued

Permanently restricted net assets at June 30, 2015 and 2014 are restricted to:

	2015	2014
Investments to be held in perpetuity, the income from which is expendable to support operations of the organization (reported as other operating income)	$ 2,111,915	$ 2,175,397
	$ 2,111,915	$ 2,175,397

During 2015 and 2014, 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 $226,601 and $374,738, 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.

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.

(Continued)

NOTE K - ENDOWMENTS - Continued

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, 2015 and 2014 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, 2015 and 2014, there were no deficiencies of this nature.

(Continued)

NOTE K - ENDOWMENTS - Continued

5. Endowment Balances

As of June 30, 2015 and 2014, $181,602 and $181,529, 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, 2015, delineated by net asset class. All endowment activities were donor-restricted.

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	$ 3,375,848	$ 181,529	$ 3,557,377
Investment income	44,311	1,593	45,904
Net appreciation (realized and unrealized gains)	20,718	605	21,323
Total investment return	65,029	2,198	67,227
Distributions	(224,476)	(2,125)	(226,601)
Endowment net assets, June 30, 2015	$ 3,216,401	$ 181,602	$ 3,398,003

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, June 30, 2013	$ 3,239,137	$ 168,274	$ 3,407,411
Investment income	45,171	1,296	46,467
Net appreciation (realized and unrealized gains)	463,985	14,252	478,237
Total investment return	509,156	15,548	524,704
Distributions	(372,445)	(2,293)	(374,738)
Endowment net assets, June 30, 2014	$ 3,375,848	$ 181,529	$ 3,557,377

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, 2015, the CHCS tax years ended June 30, 2012 through June 30, 2014 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.

NOTE N - 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. As of June 30, 2015, CHCS had recorded a provision of $1,080,000 for such contingencies.

NOTE O - 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, 2015 and 2014 was as follows:

	2015	2014
Private pay	100%	37%
Medical Assistance	-	38
Medicare	-	13
Insurance and other	-	12
	100%	100%

NOTE P - 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.

The future principal amounts receivable on the loans at June 30, 2015 are as follows:

2016	$ 721,865
2017	996,626
2018	1,037,093
2019	1,079,203
2020	1,123,023
Thereafter	40,995,274
Total	$ 45,953,084

(Continued)

NOTE P - RELATED PARTY TRANSACTIONS - Continued

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, 2015 and 2014 are as follows:

	2015	2014
Revenues		
Management fees	$ 3,784,304	$ 3,845,059
Contribution for related party expense	3,565,659	3,361,471
	$ 7,349,963	$ 7,206,530
Expenses		
Management fees	$ -	$ 320,429
Management agreement expenses	3,565,659	3,361,471
Pension	4,498,338	3,359,447
Insurance	2,286,017	6,796,342
	$ 10,350,014	$ 13,837,689

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, 2015.

CHCS has receivables from related parties of $1,350,429 and $685,252 and payables of $3,204,672 and $5,787 at June 30, 2015 and 2014, respectively. Receivables include $619,522 and $500,434 due from Archdiocese of Philadelphia related entities at June 30, 2015 and 2014, respectively. Payables include $3,150,000 due to Archdiocese of Philadelphia related entities at June 30, 2015. The remaining related party balances are the result of cash management arrangements between CHCS and other related entities.

NOTE Q - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("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.

Fair value measurements of investments in entities that calculate the net asset value ("NAV") per share or its equivalent are as follows:

Description	Fair value 2015	Fair value 2014	Unfunded commitments	Redemption frequency	Redemption notice period
Investment in the Trustee Account [a]	$ -	$ 29,207,762	$ -	Daily	1 day

[a] The Trustee Account, through April 30, 2015, was invested in the NPAP, a pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the Trustee Account was preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the Trustee Account took 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 were estimated using the NAV per share of the investments.

(Continued)

NOTE Q - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by CHCS by level within the fair value hierarchy, as of June 30, 2015:

2015	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	$ 29,062,336	$ -	$ -	$ 29,062,336
Funds held by third parties	-	-	1,930,313	1,930,313
Total of assets at June 30, 2015	$ 29,062,336	$ -	$ 1,930,313	$ 30,992,649

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, 2015:

Balance as of June 30, 2014	$ 1,993,868
Unrealized losses	(63,555)
Balance at end of year	$ 1,930,313

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:

2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets				
Investment in the Trustee Account	$ 2,692,723	$ 26,515,039	$ -	$ 29,207,762
Funds held by third parties	-	-	1,993,868	1,993,868
Total of assets at June 30, 2014	$ 2,692,723	$ 26,515,039	$ 1,993,868	$ 31,201,630

(Continued)

NOTE Q - 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	117,145
Balance at end of year	$ 1,993,868

NOTE R - 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, 2015 and 2014:

	2015	2014
Health care	$ 49,247,962	$ 119,212,442
Housing and community-based services	4,484,388	2,253,160
Administrative	16,499,330	21,146,049
	$ 70,231,680	$ 142,611,651

NOTE S - SUBSEQUENT EVENTS

Management has evaluated subsequent events for the year ended June 30, 2015, the date of the consolidated financial statements, through October 27, 2015, 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.